ofgem Making a positive difference for energy consumers

Ofgem introduction

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Agenda

1. Ofgem overview – Andrew Flagg
2. RIIO Network Price Controls – Joseph Slater
3. GB Interconnector Policy – Okon Enenihi
4. Regulatory Energy Transition Accelerator – Andrew Flagg

Ofgem overview

Ofgem is Great Britain's independent energy regulator.

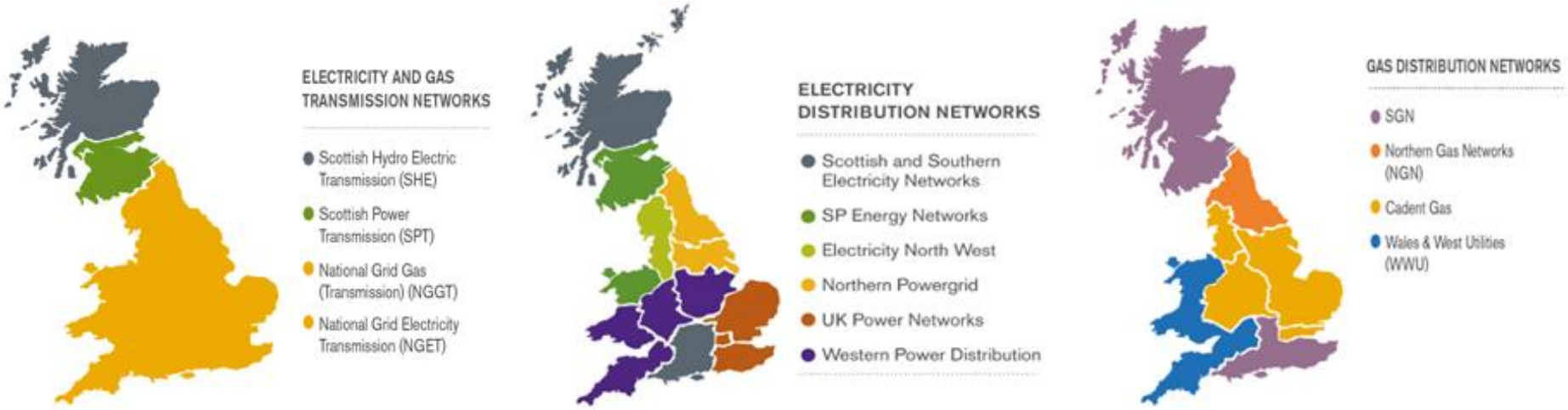
We work to protect energy consumers, especially vulnerable people, by ensuring they are treated fairly and benefit from a cleaner, greener environment.

We are responsible for:

- Working with government, industry and consumer groups to deliver a net zero economy, at the lowest cost to consumers.
- Stamping out sharp and bad practice, ensuring fair treatment for all consumers, especially the vulnerable.
- Enabling competition and innovation, which drives down prices and results in new products and services for consumers.

RIIO Network Price Controls

Who do we regulate in RIIO-2



- All of the network companies that we regulate through RIIO are natural monopolies in their region – their customers have no choice but to use them.
- RIIO was introduced as an 8-year price control in 2013 for the ET, GD and GT sectors, and in 2015 for the ED sector. RIIO-ET/GD/GT2 started last year.
- RIIO differed to previous price controls in that it's approach to incentives, financing and setting outputs looked to drive quality of service and specific company behaviours, rather than just cost efficiency.

Revenue

Constraint set up front to ensure:

- Timely and efficient delivery
- Network companies are financeable
- Transparency and predictability
- Balance costs faced by current and future consumers

=

Incentives

Deliver outputs efficiently over time with:

- 5-year control
- Rewards/penalties for delivery
- Upfront efficiency rate

+

Innovation

Technical and commercial innovation encouraged through:

- Core price control incentives
- Option to give third parties a greater role in delivery
- Innovation stimulus package

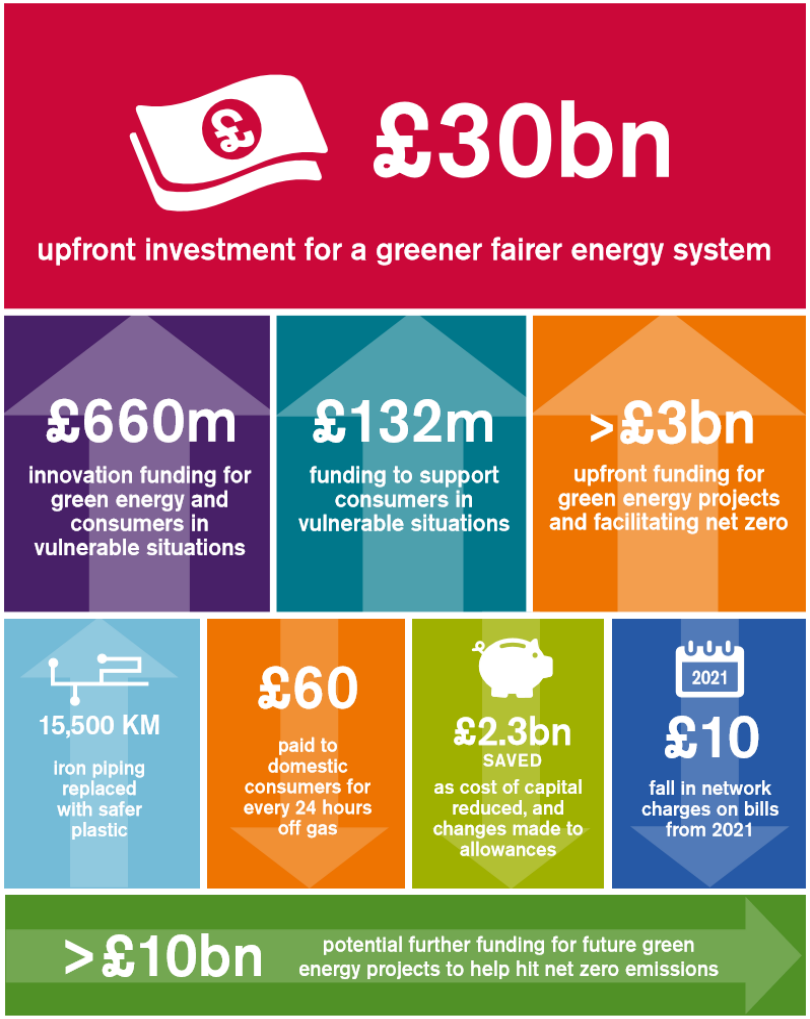
+

Outputs

Outputs set out in clear 'contract', reflecting expectations of current and future consumers

RIIO-ET2, GT2 and GD2 at a glance

- **Prepare the regulated network companies and ESO to deliver Net Zero at lowest cost to the consumer**, while maintaining world-class levels of system reliability
- We have added flexibility to the price control to **fund what is justified now, automatically adjust what it's proportionate to do so, and reopen what complex areas needed later**
- Challenging the companies to **be as efficient as possible in how they run and finance themselves**
- A **reasonable allowed return** reflecting current market rates
- **Expect the average company to outperform**, but modestly compared to the high levels of RIIO-1



GB Interconnector Policy

Contents:

GB's approach to interconnector development: Context

- GB traditionally an 'energy island' given geography. Historical barriers to interconnector development:
    - Technological development: HVAC vs HVDC
    - Cost and risk / Market design and integration.

- First link: Interconnexion France-Angleterre (IFA), 1986

- Only 3 additional projects in next 30 years:
    - Moyle (GB-Northern Ireland), 2001 / BritNed (GB-Netherlands), 2011 / East-West Interconnector (GB-Republic of Ireland), 2012

- Focus on energy market integration in GB and in Europe:
    - Second Energy Package, 2003 / Third Energy Package, 2009

- To date, we have approved up to a maximum of 15.9GW capacity
    - Four projects up to 2012 (total capacity of 4GW)
    - Ten new interconnectors following that (total capacity of 11.9GW)
    - Exemption (1GW) / Cap and floor regime (10.9GW)
    - New application round for more interconnectors in Q4 2022

Electricity interconnectors are a key tool in helping to deliver UK energy policy goals – affordability, security of supply and decarbonisation.

Non-regulated (merchant) model: Exemptions from Third Package (2009) requirements

- Developers can apply for exemptions from certain conditions of European legislation. The only route to realise investment in GB until 2014.
- BritNed (GB-Netherlands) - operational since 2011
- ElecLink interconnector (GB-France) - operational in 2022

Regulated model: Cap and floor regime

- Developed to reduce risk in long-term investments and to enable developers to identify and deliver new infrastructure projects (developer-led approach).
- Cap and floor regime provides developers with a minimum return (floor) and a limit on the potential upside (cap) for a 25-year period.

Split-regulation model:

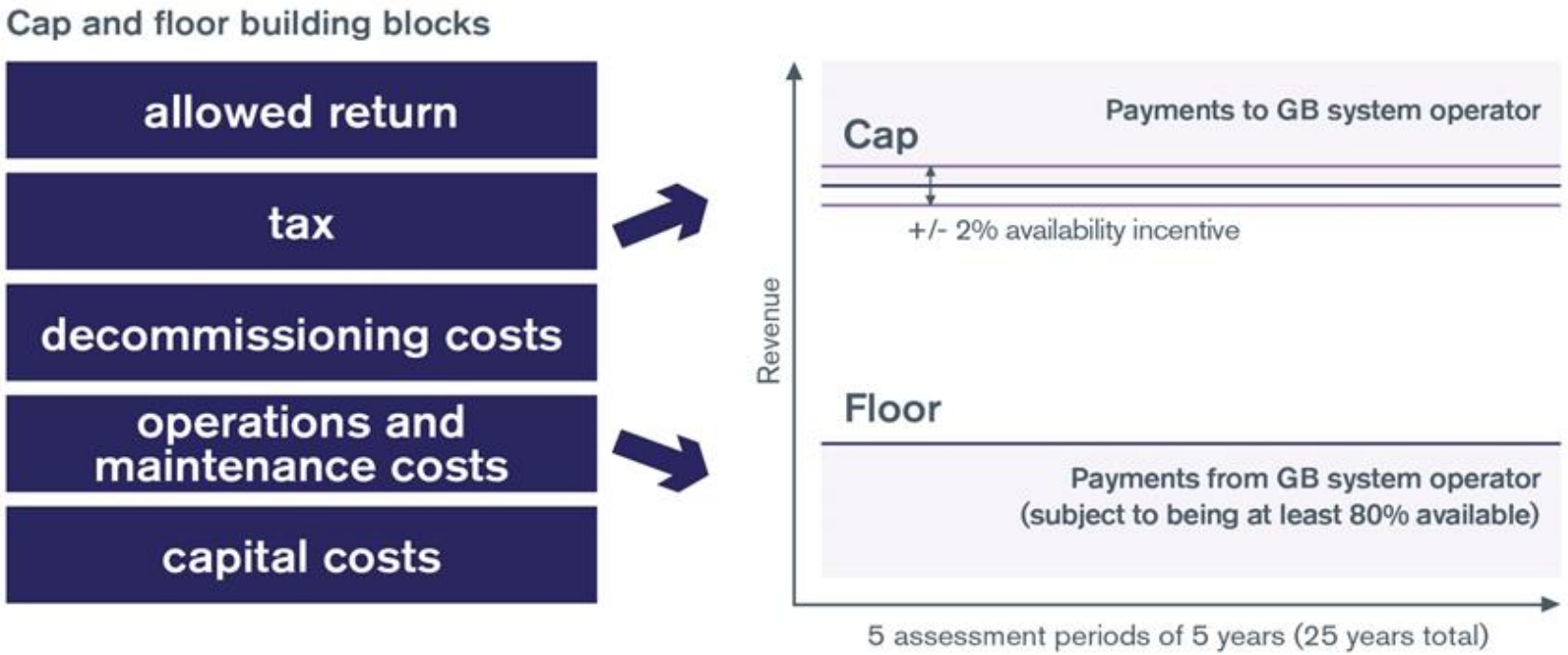
- Allows different approaches to be adopted in each country.
- Default cost and revenue split of 50:50.

Joint-regulation model:

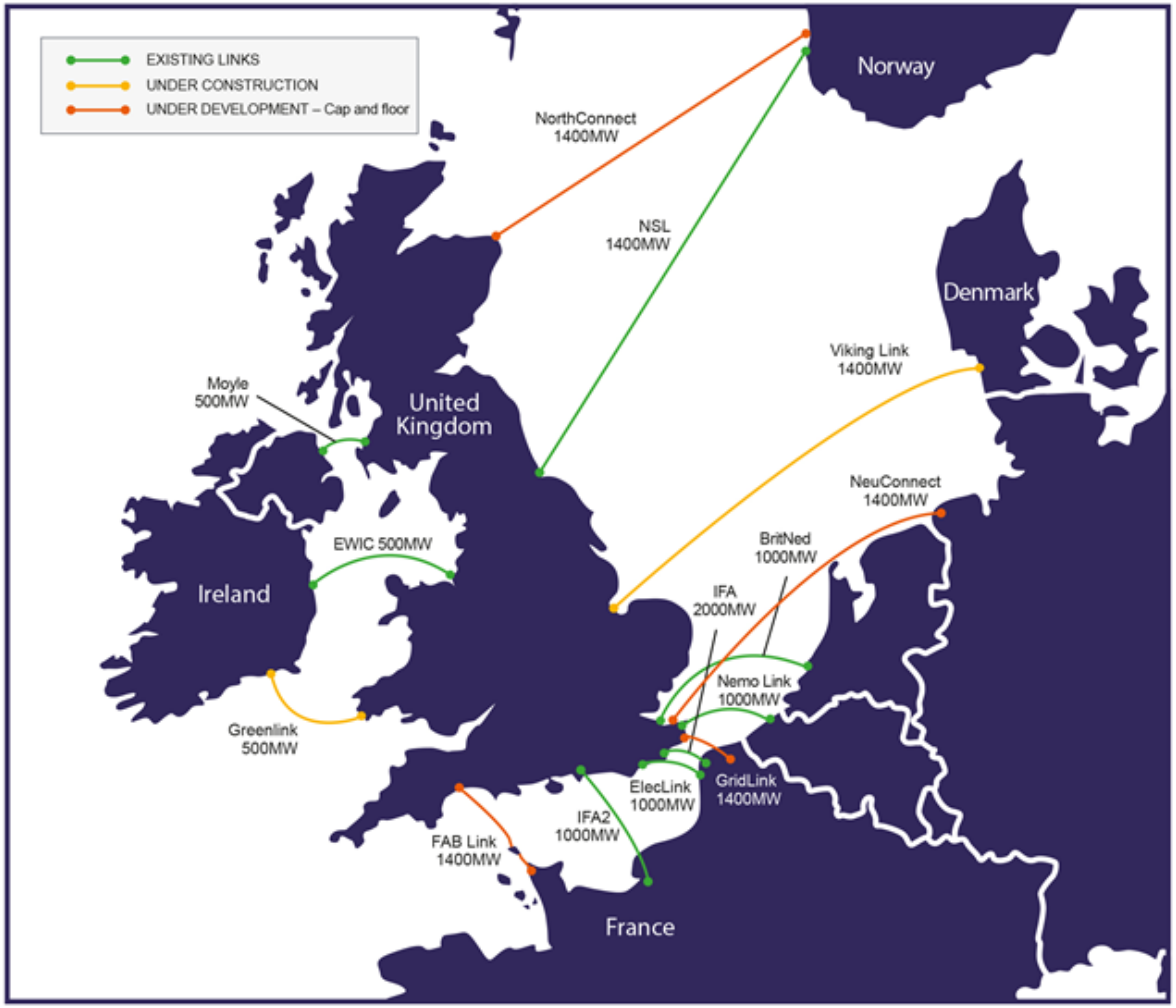
- Cap and floor regime applied to 100% of investment
- Jointly regulated by both countries.

The cap and floor set a minimum (floor) and maximum (cap) revenue that developers can earn in an assessment period. Our regulatory model has a duration of 25 years.

The cap and floor levels are based on efficient costs set by Ofgem (regulated asset base model):



GB electricity interconnectors (15.9GW)



2010: 1st policy paper on cap and floor regulatory model

2014: Cap and floor regime confirmed

10 new interconnectors approved to date (9 C&F, 1 exemption)

£20bn+ in consumer welfare as shown by our economic modelling

£9-10bn in new capital investment (£4bn spent to date)

2 new projects under construction – and Nemo Link, IFA2 and NSL online – means a minimum of 11.7GW (Eleclink 1GW) in total capacity, up from 4GW

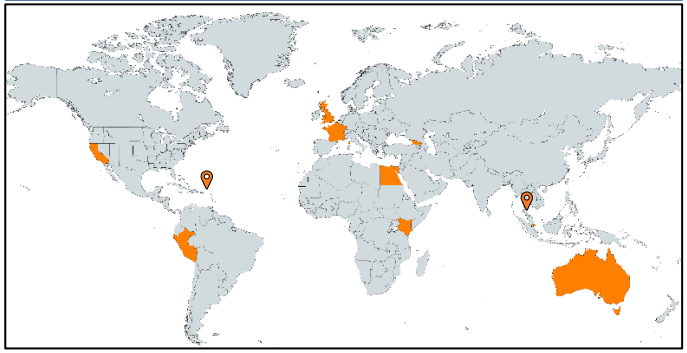
Regulatory Energy Transition Accelerator

RETA Regulatory Energy Transition Accelerator

RETA partners

IEA
IRENA International Renewable Energy Agency
THE WORLD BANK IBRD • IDA | WORLD BANK GROUP
ENERGY INNOVATION POLICY & TECHNOLOGY LLC
RAP
RMI

RETA Steering Committee members



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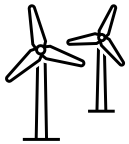
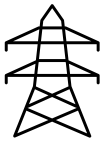
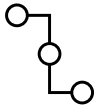
Five Goals




1. **Flexible**, renewable-based systems

2. **Regulatory frameworks** to deliver the energy transition

3. Network **planning** for widescale electrification

4. Regional **interconnection**

5. A **fair and inclusive** energy transition

Four Delivery Modes

1. Dissemination workshops	3. Ad-hoc technical assistance
2. Regulator to regulator exchange	4. Knowledge products

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ofgem Making a positive difference for energy consumers

Ofgem is the Office of Gas and Electricity Markets. We are a non-ministerial government department and an independent National Regulatory Authority, recognised by EU Directives. Our role is to protect consumers now and in the future by working to deliver a greener, fairer energy system.

We do this by:

- **working with Government, industry and consumer groups to deliver a net zero economy at the lowest cost to consumers.**
- **stamping out sharp and bad practice, ensuring fair treatment for all consumers, especially the vulnerable.**
- **enabling competition and innovation, which drives down prices and results in new products and services for consumers.**

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