



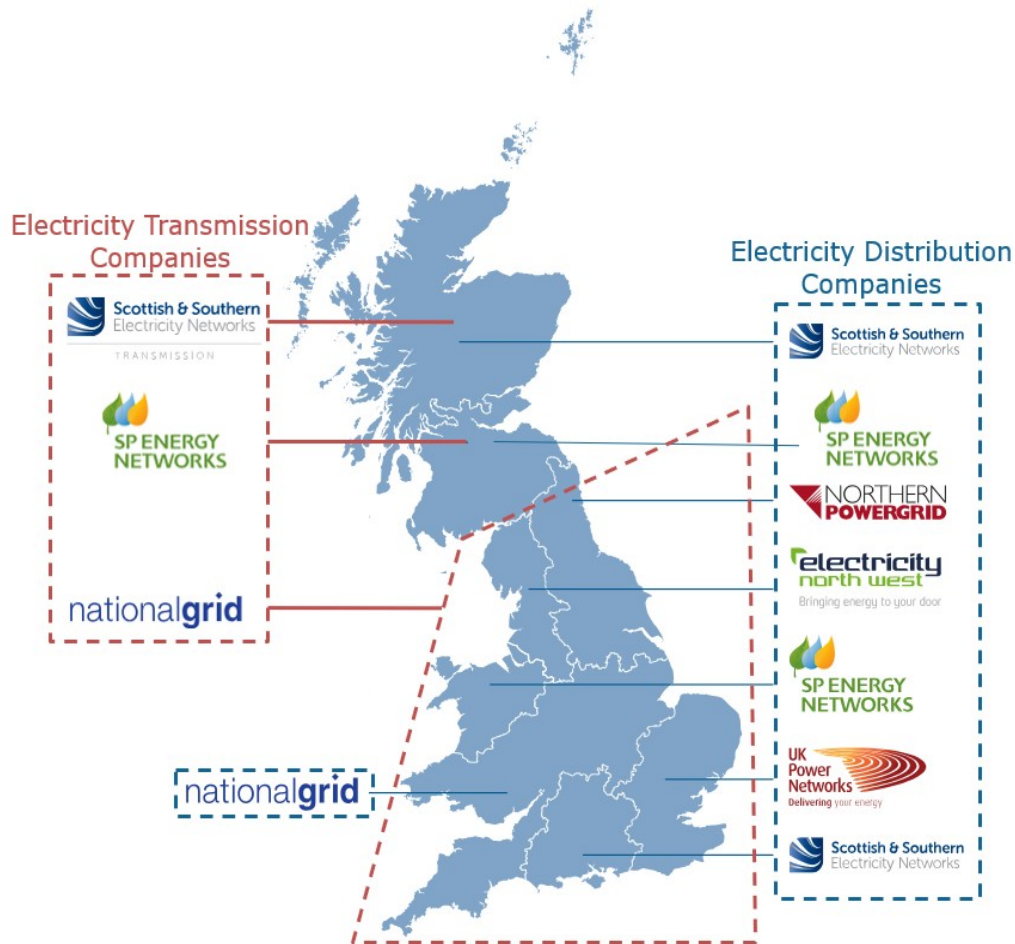
Making a positive difference
for energy consumers



Regulating networks for net zero

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Who do we regulate through network price controls (RIIO)?












- Since privatisation in the late 1980s we have regulated the onshore network companies by setting price controls to limit how much they charge their customers for network services.
- The GB model of network regulation has evolved since privatisation from the initial “RPI-X” model at privatisation to the “RIIO” model that was first introduced in 2013; RIIO-2 is currently in operation.
- We’re in the process of redesigning our network regulation to ensure it remains fit for purpose; new controls will start from 2026.
- Current framework was designed to reduce costs and increase quality in a predictable world where we can learn from the past – **we still care about cost and quality**, but the world will change, and in uncertain ways, making the design of incentives more difficult
- Scale of change we need to see has only really been matched by the pace of investment when the national energy grid was first created. We need a regulatory model that **protects consumers but promotes pace in delivery**

Significant reconfiguration of energy system means we must adapt how we regulate the electricity and gas networks

Infrastructure challenge: Government has clear targets and ambitions which will shape our future energy system

Government has a long-term target of 'Net Zero' emissions by 2050, with interim milestones set in 5-yearly budgets (currently until 2037).

There are also a series of interim targets and political commitments made by government:

-  Achieve a **zero carbon power** sector by 2035
-  Increase our **solar capacity** x5 from current levels by 2035
-  Enable and increase GB **interconnector capacity** x2-3 from current levels by 2030
-  Reduce **building and industry energy consumption** by 15% by 2030.
-  Increase **offshore wind** capacity and production x5 from today's infrastructure by 2030
-  Increase GB **blue/green hydrogen production** capacity 100x by 2030
-  Mobilise **zero emission vehicles** by 18x from today's levels by 2030
-  Increase annual **heat pump installations** in GB by 9x by 2028
-  Increase GB **nuclear capacity** x4 by 2050

Potential 60% increase in electricity demand to 2035, and doubling or trebling of demand by 2050. **Impact on the electricity networks will be massive, and they have catching up to do...**

Two-fold impact of failing to support a significant build out of the network in a timely way

1) Failure to meet net zero targets



2) Higher costs to consumers



To provide **timely decisions** to deliver **earlier certainty** and **encourage pace of build on the big new projects**, our regulatory approach will prioritise:

- Utilising a **more strategic, holistic and anticipatory approach to network planning**;
- Providing **certainty to market as early as possible** to help remedy supply chain constraints;
- **Automatic funding for 'pre' and 'early' construction** works, allowing network companies to progress projects quickly.
- **Rewards and penalties for early and late delivery** in order to reduce network costs as soon as possible
- **The use of competition, where appropriate**

We plan to run a detailed assessment of project costs to scrutinise and retain an incentive on cost efficiency, but we are working to streamline that assessment significantly relative to those done in the past.

Connections reform – Ofgem, Gov't and companies working together

The total volume of contracted connections across Tx & Dx is at record levels with many connection offers having dates in the late 2030s

Ofgem, Gov't and companies are pushing **short term initiatives**

- Creation of capacity through TEC Amnesty, Dx Queue Management, Transmission Works Review. Some 'shovel ready' are now being accelerated, with earlier connections dates
- Non-firm capacity is being more widely offered to embedded generation at Dx, on a 'first ready, first connect' basis, reducing dependency on Tx reinforcement works.
- Impact of new battery storage applications is very significant – non-firm offers are being developed by ESO and DNOs
- Potential inclusion of milestones in Tx contracts (CMP 376) with Ofgem for decision

....and **longer-term reforms** to resolve this issue

- ESO has recently concluded its consultation reforms to the connection process with preferred options including connection 'windows' and new 'gates'. Recommendations expected in November.
- Ofgem and Gov't to publish 'Connections Action Plan' in the Autumn



Thank you for listening

5-10 mins for questions