

Electricity  
Transmission

# Ofgem's RIIO-2 draft determination: Incentives

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# Weaker incentives to deliver for stakeholders

Incentives are a vital part of Ofgem's framework. It's called RIIO-2 and one of the "I"s stands for incentives. Incentives can encourage companies to deliver more and better services for consumers and stakeholders. Over the last 8 years incentives have encouraged us to improve customer satisfaction, reduce leakage of insulation gases and reduce the amount of energy not supplied.

Ofgem has nearly quartered the size of our incentives for the next 5-year period. We consider this large reduction acts against the interests of consumers and our stakeholders by weakening our incentive to innovate and improve our services. In particular, in the following 3 areas:

- **Saving consumers money through SO:TO optimisation**
- **Accelerating low-carbon connections**
- **Customer satisfaction with the quality of connections**

# Incentives – Possible Impacts

## SO:TO optimisation Incentive

Ofgem has rejected our proposal for an incentive to encourage us to offer flexible services to the electricity system operator (ESO) that we estimated in our business plan could save consumers up to £188m per year. We can address Ofgem's concerns and will be asking for Ofgem to approve the incentive in its final determination in December.

## Accelerating low-carbon connections

Ofgem has rejected our proposed incentive to encourage us to reduce the connection time for low-carbon generators to reduce greenhouse gas emissions. We consider the incentive helps support the delivery of the UK's target of achieving net-zero greenhouse gas emissions by 2050. We can address Ofgem's concerns and will be asking for Ofgem to approve the incentive in its final determination in December.

## Customer satisfaction with the quality of connections

Ofgem is proposing to halve the size of this incentive and switch it off in the first year of the five-year price control period. This incentive has helped fund investments to improve our customer service in recent years and we think it is vital to support our continuing journey of service improvement. We will be asking Ofgem to turn on this incentive in year one of the price control period (as it is for the other energy sectors) and to increase its strength back to its current level.



**Weaker incentives could lead to lower levels of service and higher cost for our customers and consumers**

# Other impacts on Stakeholders

- NGET has a license obligation to connect customers where it is economic and efficient to do so. However, the Uncertainty Mechanisms (UM's) proposed for Generation is likely to mean that NGET will be delivering many connections at a loss as in lots of cases, the allowance does not even cover the asset costs to connect. This will inhibit our risk appetite and our ability to provide flexibility at the very time of significant and structural change in the energy market.
- The DDs will jeopardise investment by low carbon users of electricity. We are already under financial pressure when considering connecting new sources of demand. The impact of RIIO-2 will force us to delay further the pipeline of 1.5 GW of new data centres and potential future gigafactories that are desperate to access new connections.
- For larger projects (for example boundary re-enforcements), NGET will be required to undertake pre-construction activities at risk, with the opportunity to recoup monies towards the end of the 2026. Additionally, in order to facilitate competition for Onshore Transmission connections (which NGET support the concept), there will be delays added into the programme of around 2 years which, will not only increase constraint costs to the end consumer, may also delay certain connections (eg for Interconnectors).

# Next steps

▶ The consultation period for draft determinations ends on 4 Sept



In our response we'll be strongly arguing the case for a better final determination that:

- delivers for our stakeholders' priorities;
- supports the path to net zero emissions; and
- supports the economic recovery from Covid-19.

▶ Ofgem's open meetings for stakeholders in October

▶ Final determinations in December 2020

▶ RIIO-2 period starts on 1 April 2021

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