

31 May 2018. Judith Intro Points - final

A great cross-section of colleagues here to discuss a low carbon incentive – many thanks.

Others wanted to join – unable to make it. Including Scotland & Welsh governments.

Chatham House.

Many thks to WPD and the ENA for kindly enabling the room.

As Sarah said, Sustainability First is focused on practical ‘public interest’ outcomes for the energy and water sectors – to serve consumers, ‘future consumers’ and the environment fairly.

Since 2000, we have been close ‘followers’ of successive network price controls.

You all well-know that Ofgem’s RII02 regulatory framework will shape and endorse **many tens of billions** of new network investment in the period to 2028 : electricity and gas; national, regional and local.

For non-experts, the energy network price-control process is both technical and drawn-out. But, the outcomes are fundamental - for consumers, network users of all kinds, ‘future consumers’ - and for low carbon.

Just as most of you - Sustainability First has made its RII02 submissions.

So, leaving aside the critical question of network returns, we have flagged three other major public interest outcomes we are looking for in the RII02 Framework.

First, for **energy customers who are vulnerable** - a clear focus within **approaches to innovation funds - and in future network incentives** - to deliver better services to customers with additional needs.

Second, along with many others, we expect **meaningful approaches by the networks to stakeholder involvement**. Not just during the price control negotiation, but **also afterwards in ‘business-as-usual’**.

And third, today's topic, the **case for a new and explicit low carbon incentive - common across all of the energy networks** – to encourage them in becoming – lets call it - more 'fit for the future'.

First some background to our proposal.

In our recent SF New-Pin project – we looked at how best to deliver **seven public interest outcomes for the energy and water sectors**

– value for money; quality service ; a clean environment –including low carbon ; resilience in all its guises ; a greater sense of place and localism ; and last but not least - fairness – both within generations - & between generations.

New-Pin tested how far **market-led approaches** alone might successfully deliver these outcomes.

And then - we looked at outcomes where both government - and regulators – **may still need to intervene to achieve change – including to speed it up.**

One acknowledged obstacle was the relative rigidity of current licences. Both for retail – and for the networks.

This led to a next question. How might one start to give a freer hand to networks ***within the current licence framework*** to innovate and evolve.

One notable gap – and therefore a worthwhile start-point – even with access to big innovation funds – plus a number of environmental incentives - was lack of an **explicit** incentive to shape network outcomes on low carbon - in business-as-usual - ***in the round.***

So, this seemed to us at least - a 'do-able' practical step. To stimulate networks within their current licence framework for the decade ahead - to deliver greater low carbon impact - in the most efficient way - but - without being overly prescriptive.

In theory – and this would test network ambition - such an incentive could help *interested* networks engage more with whole-system and cross-vector initiatives.

We flew this kite at several RII02 stakeholder events – and elsewhere.

But, we also knew that our thinking needed more work.

So, a big thank you to Maxine – who has brought her expertise and regulatory depth to help us think through the proposition in a systematic and practical way.

The discussion paper published in early May has attracted quite some interest.

Also, as with any good idea, nothing is wholly new. We found that for RIIO1 Renewable UK had proposed a similar measure. But this disappeared into the long grass.

Just to stress too.

Sustainability First would see any new low-carbon incentive **sitting alongside other price-control drivers - for economic and operational efficiency, for resilience, and for good customer service.**

So, why is a low carbon incentive a good idea ? We will come back to this. But, here are our headlines. We believe a new incentive could :

- Give a **strong signal - about regulatory backing for low carbon** - across the full energy system
– and important -
- **Align the business-drivers of the network companies – with national carbon reduction goals.** And therefore drive a sharper **low-carbon ‘mind-set’** - deep into business-as-usual - for DSO development too.
- **Free-up networks to facilitate and to innovate more** – so, if you like, a move towards a more ‘principles based’ approach to network regulation.
- and - as mentioned - allowing the networks – *should they so wish* - to
- **Support whole-system thinking - and cross-vector** – so, to support **wider** solutions - for energy efficiency, local bio-gas, low-carbon heat and transport, new partnerships & collaborations.

- it could also –

- **Send a more visible signal on partnership working** – to the regions, cities, communities, innovators. So a better alignment of third-party interests on low carbon - with those of the networks.
- Last and not least, - **for current environmental incentives in RIIO1** – to help clarify and simplify these - and improve visibility and reporting.

Encouragingly, we have found little serious push-back. There are self-evident challenges around implementation – to which we will come later. And – **important** - we would, of course, need to better understand the overall cost implication for customers and end-bills. On balance, our view is that it is better to try - than not. In itself, an incentive is not ‘shape-shifting’ – but it is a start. One aim would be to build an ability to address any serious mis-steps.

So, what are we hoping for from colleagues today ? We should like to focus on three questions to test our proposition – set out here on the agenda :

1. **Whether a new Low Carbon Incentive in RIIO2 - common to all energy networks - would be desirable ‘in principle’.**
2. **What do the lessons of RIIO1 environmental incentives tell us to inform a new low carbon incentive in RIIO2**
3. **The likely scope - and possible pros and cons – of different approaches to the design of any new incentive.** SF has sketched out a favoured approach – but we are keen for your thoughts.

There will be plenty of opportunity to input as we go. And we are sure you will.

Towards the end of the afternoon, we would like your take on how you might see any next steps.

Last, if after today, the general feeling is that a new low carbon incentive *would* be of value in principle - then - of necessity – we in SF will very much depend on all of you here – including Ofgem – to help take this discussion to a next stage – within the RIIO2 process and timebale.

Now hand over to Maxine – who will take us thro the detailed thinking behind our paper.

