

## Ofgem's RIIO2 Draft Determinations for gas and electricity transmission, gas distribution and the Electricity System Operator

### Sustainability First Statement

On 9<sup>th</sup> July Ofgem published Draft Determinations for the gas and electricity transmission (T2), gas distribution (GD2) and Electricity System Operator (ESO) RIIO2 price controls.<sup>1</sup>

All economic regulators need to do their job of ensuring that the monopoly companies that they regulate do not abuse their position. At the current time, a focus on bills and affordability is particularly important, but that is not the only consideration.

There is a lot to digest in the Draft Determination documents. Sustainability First will submit a response to the consultation on these in due course.

Our response will be guided by the following five principles:

1. **Net Zero and decarbonisation** - The need for RIIO2 to drive a strategic, timely and whole system approach to net zero delivery, appropriate decarbonisation trajectories and more immediate actions on decarbonisation.
2. **Outcomes** - The importance of taking a genuine outcomes-based approach, especially with respect to vulnerability, but also around environmental outcomes beyond decarbonisation, including climate adaptation. Clarity is needed on where the Draft Determinations leave the 'catalyst role' of incentive regulation, be this reputational or financial.
3. **Engagement** - Consumer and stakeholder engagement is vital to ensure that monopoly services meet consumer and community needs, for procedural justice and for a 'just transition'. To build confidence in engagement, this principle needs to be reflected in the final determination and the reasons for accepting or not accepting stakeholder views (particularly in terms of the input from the formal Consumer Engagement Groups and User Groups) need to be clearly articulated – along with an explanation as to how these decisions align with current good practice in the sectors.
4. **Corporate purpose** – A focus on corporate purpose needs to be recognised as a way of creating the right culture to deal with uncertainty and to ensure ongoing focus on delivering beneficial economic, social and environmental outcomes. Where a company genuinely seeks to be a purposeful business that should be acknowledged, encouraged and incentivised.
5. **Adaptive regulation** - These price controls are the first real test of Ofgem's approach to adaptive regulation and to how uncertainty mechanisms, net zero re-openers and Strategic Innovation Funding will together provide the flexibility needed for an uncertain future. The extent to which Ofgem reflects on and takes account of responses to the draft determinations in these areas (for both T2, GD2 and the ESO – but also crucially in terms of the approach to the ED2 methodology) is important.

---

<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/riio-2-draft-determinations-transmission-gas-distribution-and-electricity-system-operator>