

The (r)evolution of network price determination processes

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Disclaimers



Architect of the RIIO model but left Ofgem 6 years ago...

What I will cover....

To boldly go....



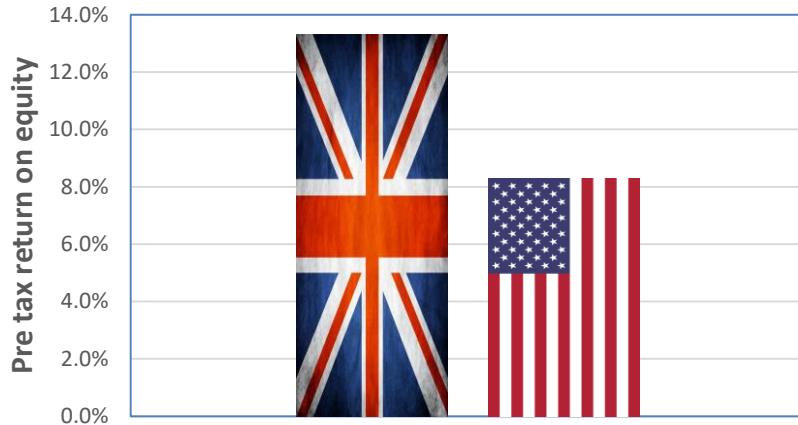
The final frontier

What I will cover....

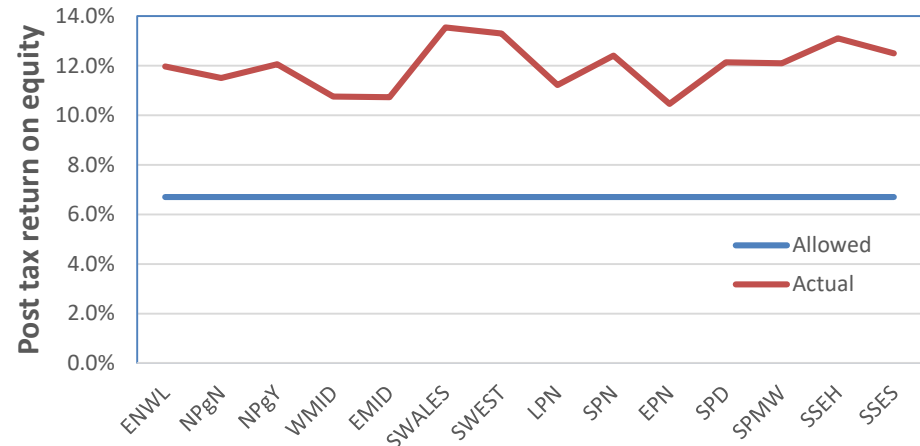
1. The "**excess profits**" we should worry about are in networks not retail supply
2. The **real** and most important **monopoly** in networks is monopoly of the *plan and ideas*
3. Consumer engagement should mean **local, community engagement**
4. Implications for network regulation

“Excess profits” in energy?

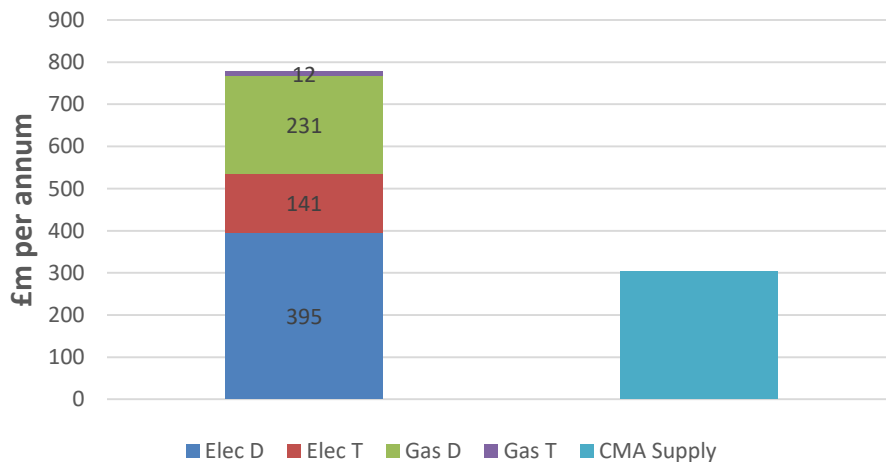
National Grid UK v US returns



Electricity Distribution returns DPCR5



Estimates of annual "excess profits"



1. Can **all** networks really be **outperforming** to this extent?
2. *Do customers really value this to the tune of £800m p.a. ?*
3. Base level returns **acceptable** given NG US?
4. Any "excess profits" in retail supply **dwarfed** by networks and **will** be competed away

The real monopoly in networks

- Much of debate on **scope** and **extent** of monopoly *misses the point*
- **Option value** of more *ideas increases* with *uncertainty* and the world of networks is increasingly uncertain
- Two examples: **transmission to connect and manage renewables** and **Thames Tideway**
- Contracting out/competition for build is valuable but *not the big prize*
- Competition in ideas on **how to meet demand** and **what to build** not explored

Customer engagement

- Sympathetic but replacing **judgement of regulator** with **professional consumer representatives** not attractive
- ***Local, community based engagement*** much more interesting e.g.
 1. Scottish networks
 2. Freeing land for schools
 3. Severn Trent: Birmingham resilience

Implications for regulation: the final frontier

1. Greater focus on **RoRE ex ante/ex post**: reset returns and expectations and stop *over paying for mediocrity*
2. Introduce **competition** into **network planning**, design and charging through use of **prize funds**
3. Promote **local, community based engagement** and role of regulator to ensure correct framing of questions
4. Why don't **energy networks** more meaningfully **contribute** to tackling **fuel poverty**?