

Written Evidence submitted by Energy Networks Association (DGEB08)

Executive summary

1. The submission concerns the interaction between energy network costs passed through to energy bills and the proposed price cap on energy tariffs
2. Network costs to the consumer and returns to investors are regulated by Ofgem through the price control system. These are reported on publicly each year by the regulator
3. The price control system is the best way to monitor the impact of network related costs on energy bills and the price cap
4. This approach to addressing the interaction between the price cap and network costs is consistent with the scope and intention of Clause 7 of the Bill and its focus on competition in supply
5. Energy network companies have long supported increased transparency on the face of energy bills in the form of a line by line breakdown of costs, including network costs

Introduction

6. Energy Networks Association represents the companies that operate and maintain the gas and electricity grid infrastructure
7. Our members' purpose is to build a smarter, cleaner energy system fit for Britain's homes and businesses.
8. Strong regulation of energy networks is delivering cost benefits to consumers and should evolve to suit our changing needs.
9. Energy network companies operate 1 million km of electricity cabling and 272,000 km of gas pipelines, supporting Britain's economy and social priorities in every region of the country
10. The cost of delivering gas and electricity via the networks makes up about a quarter of the average energy bill¹
11. Network costs are currently either flat or falling². The following table, based on Ofgem data³, sets out these costs on the average Dual Fuel Bill in more detail:

	2015/16	2016/17	2017/18	2018/19
Electricity networks	£118.90	£131.20	£123.60	£120.00
Gas networks	£128.10	£129.70	£127.80	£127.80
Networks total	£247.00	£260.90	£251.40	£247.80
<i>Annual change</i>		<i>+£13.90</i>	<i>-£9.50</i>	<i>£-3.60</i>

12. Network costs in the UK are broadly in line with or lower than those of other major European economies (France, Germany & Italy)⁴

Management of network costs

13. Unlike other parts of an energy bill, the maximum revenue network companies can collect from customers are set by Ofgem through the price control framework.

¹ Source: Ofgem data, December 2017

² Source: Ofgem data, December 2017

³ Source: Ofgem Data Portal & RIIO Annual Reports 2016/7

⁴ Source: Aldegate Group/UCL, January 2018

14. Costs and returns are highly transparent, with Ofgem publishing annual reports on their levels.
15. These reports should act as the basis for assessing the interaction between the price cap and network costs
16. Ofgem sets and regulates investment by Distribution Network Operators (DNO) in infrastructure, the level of return allowed on investment and sets challenging incentive based performance targets. These together dictate the amount of network costs that can be charged to consumers
17. The price control operates with a two-year lag so that performance in one year will be reported in the next, and the reward or penalty will feed into charges the year after

Conclusion

18. Energy Networks Association believes that the price control system, rather than the price cap review mechanism, is the best way to assess the relationship between the price cap and network costs. This is consistent with the scope and intention of Clause 7 of the Bill and its focus on competition in supply.

March 2018