

**Unite the Union response to the Office Of Gas And Electricity
Markets Consultation on the RIIO-2 Informal Re-opener
Application Guidance Consultation for Transmission, Gas
Distribution and Electricity System Operator Licences**



1. Introduction

- 1.1. This submission is made by Unite, the UK's largest trade union with over one million members across all sectors of the economy, including manufacturing, financial services, transport, food and agriculture, construction, energy and utilities, information technology, service industries, health, local government and the not for profit sector. Unite also organises in the community, enabling those who are not in employment to be part of our union.
- 1.2. Of particular relevance to this submission, Unite represents over 35,000 energy and utility workers.

2. Background summary

- 2.1. The second round of the Revenue=Incentives+Innovation+Outputs (RIIO) framework of price control periods or RIIO-2 cover different periods depending on what part of the industry you are looking at:
 - RIIO-T2 covers the Transmission between April 2021 and 2026,
 - RIIO-ED2 covers Electrical Distribution between 2023 and 2028,
 - RIIO-GD2 covers natural Gas Distribution between 2021 and 2026 &
 - RIIO-ESO2 covers Electricity System Operator licences between April 2021 and 2026.
- 2.2. The subject of this consultation covers gas and electricity transmission network companies, gas distribution network companies and the guidance and application requirements document and the mechanisms that will allow Ofgem to adjust a network company's allowances (either up or down) in response to changing developments in the sector.

3. In Response

- 3.1. Unite has previously stressed the need for a change to previous decisions in previously submitted consultations¹ where we have stressed Unite agrees with the UK's Committee on Climate Change (CCC) that the challenges we face now are an opportunity to make faster progress towards meeting the net zero challenge. Unite strongly believes that future-proofing the network is one of the top five priorities we should be accelerating now, not at some point nearer the UK's net zero target date of 2050. Any additional funding should be regarded as a 'low regrets' investment. Unite

¹ The Unite response to RIIO-ED2 for example https://www.politicshome.com/ugc-1/1/4/0/unite_response_to_ofgem_consultation.pdf

believes that the current position of Ofgem's view puts the UK at a strategic competitive disadvantage.

- 3.2. Unite believes that with an aging workforce, so many out of work as a result of the Covid-19 pandemic, displacement from highly polluting industrial practices and the need for swift adaptation to combat the worst that the environment can throw at us, there could not be a better time than now to invest more in training and investments for the future. Instead, Ofgem is suggesting a tightening of financial outgoings which could risk delays in the battle toward an economic and environmentally sustainable recovery.
- 3.3. The consultation discusses re-opener mechanisms which will allow individual companies to apply for a more favourable outcome and more relaxed price controls during the RIIO-2 price control period. Unite would argue that should the price controls be varied for one company, they should equally be applied to others in order to maintain the market based approach that is favoured by the Government where no one company has a competitive edge over its rival with a more favourable regulatory decision.
- 3.4. Unite recognises that there are regional disparities across the country where costs are higher in one area than they are in another but had assumed that these regional factors would equally apply to rivals and hence a level playing field had been maintained. That said, Unite recognises that where there are significant national interest investments, there should be recognition for these that provides the companies involved with some incentive and reward within the RIIO-2 structure.
- 3.5. Unite would argue that the battle towards net zero and beyond should be included in the list of sector specific re-openers along with the need to improve the security of the network and its supply.
- 3.6. Unite is concerned that within the gas transmission sector there is no provision for efforts to add hydrogen to the natural gas network in order to raise the calorific value of the gas, which will in turn reduce gas consumption by customers and in turn reduce their carbon footprint. Unite would argue that if the hydrogen is to be added from a green hydrogen source (where the hydrogen is extracted from water, ammonia or some other substance where no greenhouse gasses are liberated), that is one thing but if the hydrogen is extracted from natural gas (blue hydrogen), such recognition of these efforts should only be rewarded if the resultant CO₂ released in the process is captured and either utilised sustainably or stored in places like disused gas wells in a method commonly referred to as Carbon Capture Utilisation and Storage (CCUS). If any CO₂ created during the extraction of hydrogen is allowed to vent into the atmosphere or used in a fashion which will not reduce overall emissions, Unite would oppose its inclusion as a potential re-opener.
- 3.7. Equally if an energy supplier invested in a CCUS pipeline large enough to accommodate additional captured CO₂ from industry, then it should equally be rewarded. In this, Unite specifically refers to the Cadnet Hynet project².

² For more details of the project go to <https://hynet.co.uk/>

- 3.8. Similarly, Unite would suggest that electrical generators should be provided with a re-opener opportunity if they invest in the generation of hydrogen from electrical over generation beyond the immediate needs of the national grid. Doing so provides a method to store electrical energy as the hydrogen can be passed through a series of fuel cells to create electricity at a time of need or sold on to gas networks, transport or industry, causing a subsequent reduction in demand and reductions in the footprint of UK plc.
- 3.9. During the pandemic not every pension investment has gone to plan with some pension pots losing millions as the markets crashed with the sector. Consequently, Unite would argue that if changes in pension schemes are allowable as a re-opener in one part of the energy sector, then it should equally apply to others.
- 3.10. Unite sees the trade in waste heat as a major step in reducing the nation's carbon footprint. Heavy industry and in particular, the nuclear energy generators often struggle to reduce the amount of heat produced in their production processes, yet many consumers struggle to heat their homes. The development of a heat policy and heat distribution network can therefore, have wide ranging benefits enabling both industry and consumers in the regions near such facilities to reduce their bills. Such developments should equally be recognised as expenditure and warrants the reopening of the RIIO-2 framework for the company investing in it.
- 3.11. Finally, as highlighted previously, there is a clear and present need to aid in the just transition of individuals from any industry into the sector, especially where these individuals bring with them transferable skills. Even if there are no transferable skills, any new intake of staff can enable the sector to move faster towards net zero, reducing the burden on it in the second half of the century. The commitment to green the industry and build in resilience by providing more trained individuals should equally be considered as a re-opener for all parts covered by a RIIO-2 framework. The industry excuse for not investing in people has always been one of "why should we invest in the individuals training when they can just leave and take all that investment with them". If there was a monetary incentive to change, then perhaps there could be enough for the parties covered by the RIIO-2 framework to invest in its personnel.
- 3.12. Throughout, Unite recognises there is a clear need to set boundaries but feels that the current boundaries are too strict and are in need of adjustment. Whilst the reopening of the RIIO-2 framework may deliver and focus these changes, Unite believes that the areas permitted for a reopening are too strict and there needs to be more consideration for what is needed to achieve net zero by 2050 or sooner.
- 3.13. At the Paris COP 21 on 12 December 2015, parties to the UNFCCC reached a landmark agreement to combat climate change and to accelerate and intensify the actions and investments needed for a sustainable low carbon future³. The central aim was to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. Additionally, the agreement aims to increase the ability of countries to deal with the impacts of climate change, and to make finance flows consistent with

³ <https://unfccc.int/process-and-meetings/the-paris-agreement/what-is-the-paris-agreement>

low GHG emissions and a climate-resilient pathway. In response to this, the UK set a target to reach net zero emissions by 2050.

- 3.14. Since then, the understanding of the situation has become more troubling, highlighting that we have now already surpassed a 1 degree Celsius increase in global temperature and accelerating toward 1.5 degrees Celsius. As such it is wildly felt that unless there are drastic measures taken, we will sail past 1.5 degrees and continue on to 4 degrees by the end of the century. It is therefore, thought that when the COP 26 met in Glasgow in 2020 and the first five year review was taken, that the parties to the UNFCCC would need to insist on a swifter path to net zero and beyond far sooner than 2050. It is for this reason that Unite would strongly stress the need for additional ways to reopen the RIIO-2 framework. Due to the Covid-19 pandemic, the COP has been postponed until 2021 but the need to instigate a tougher stance on the release of greenhouse gasses has only intensified.

4. Conclusion

- 4.1. Unite believes that tightening of financial outgoings threatens how the networks can deliver the work required. Without investment in the future, the networks will not have a trained, skilled and work experienced workforce when they need them to carry out the maintenance and upgrades. Unite would therefore ask Ofgem to relax its grip a little in order for such futureproofing to take place.
- 4.2. Equally, Unite recognises the need to invest in the infrastructure and energy delivery network to future-proof the industry throughout the RIIO-2 period until either 2026 or 2028 and beyond, so that the nation can achieve net zero by no later than 2050. Given the scientific evidence, Unite would argue that in an ideal world this goal should be moved to a sooner more challenging goal to reduce the burden on the planet in the second half of the century.

Peter McIntosh
National Officer for the Energy and Utilities Sector
Unite the Union, Unite House
128 Theobalds Road
Holborn London
WC1X 8TN

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For further information please contact Colin Potter, Research Officer in the Unite the Union Research Department on 0207 611 2591, colin.potter@unitetheunion.org