



Promoting choice and value
for all gas and electricity customers

Wanted: Your views on energy networks

Factsheet 95

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www.ofgem.gov.uk

RIIO|T1 RIIO|GD1

To protect consumers, Ofgem is now consulting on the first two price controls which will implement its new RIIO model for network regulation.

This leaflet provides a summary of this work and details of how you can get involved.

► Background: The Energy Networks

Ofgem regulates the monopoly companies which operate the electricity and gas networks. These companies run the pipes and wires which move energy from gas fields or power stations to homes and workplaces across Britain. These companies play a critical role in facilitating the transition to the low carbon economy.

Households and businesses look to these companies for secure, reliable energy supplies.

Power generators also rely on the companies to connect them efficiently to the grid. A large number of renewable generators are waiting to connect, particularly in remote areas.

On the gas distribution side, the companies also provide an emergency service where there are gas escapes. And they are responsible for ensuring customers get a good service when they request a connection.

The transmission systems are like motorways taking high pressure gas or high voltage electricity around the country. The distribution systems are the smaller roads taking gas or electricity to peoples' homes.

► Background: RIIO

In October 2010 we introduced a change to the way we set the revenues for Britain's transmission and distribution companies. The new regime, called RIIO, stands for Revenue = Incentives + Innovation + Outputs. It replaces a 20-year-old approach we have used which served customers well in driving efficiency, and in bringing forward the investment required to keep our networks in good working order.

The transition to a low carbon economy will mean radical changes to the way energy is produced and consumed and the networks will need to adapt accordingly. RIIO encourages the companies to meet the challenges of

delivering a sustainable energy sector at a lower cost than under our previous approach. The new approach pushes the companies to put customers and sustainability at the heart of what they do. It requires them to be accountable for the services they provide. It provides the certainty needed to encourage the investment the sector needs. And it also ensures customers do not pay any more for network services than they need to.

RIIO will reward companies that are efficient, innovative and respond to the needs of their customers. However, companies which fail to live up to expectations will be penalised with reduced revenue.

► Background: RIIO continued

Investment in our networks is vital, but it is not just a matter of doing more. We are looking to the companies to make more use of innovative techniques so that they can respond to changing needs quickly and efficiently. The networks themselves need to be smarter, for example, so that larger amounts of electricity generation can be connected. We are

helping to kick-start the revolution through funding for innovative projects. Providing funds for innovation now will help the networks adapt and it will also help to cut the eventual bill to consumers. This is why promoting and encouraging innovation is at the heart of RIIO.

► Getting 'Outputs' right

RIIO requires the companies to be transparent about what they will deliver, holding the companies accountable for these outputs. We have proposed outputs for the transmission companies and the gas distribution companies to deliver over the 2013 to 2021 period. We will review the outputs for the electricity distribution companies in 2012.

We have identified six key output categories: environment, customer satisfaction; connections; social objectives; safety; reliability and availability. For each category there are a number of behaviours which we want to encourage. More details of these are in the consultation documents. Some of the key deliverables we are looking to incentivise are highlighted below.

Environment:

We are encouraging companies to work with the wider industry to play a full role in reducing carbon emissions and to minimise their own environmental impact.

Measures we are proposing include:

- incentives to reduce network losses and to reduce gases such as methane and sulphur hexafluoride
- a requirement on companies to report the proportion of renewable energy they transport on their network. We are consulting on whether there should be a financial

incentive for performance in this area, or a further reward for overall contribution to meeting GB's environmental objectives

- a requirement to report on their own carbon footprint.

Customer satisfaction

Companies should look to achieve high-levels of customer satisfaction, and to take into consideration stakeholders' views in their day-to-day operation of their business.

We are looking to introduce financial rewards for companies that:

- do well in a customer satisfaction survey

- are effective in handling complaints
- have effective and meaningful stakeholder engagement.

Connections

Network companies will be required to connect customers in a timely and efficient way, including responding to the specific needs of renewable generation and bio-methane customers. They will face penalties where they do not meet specified timeframes for connection. They will also be required to provide timely and accessible information to renewable energy producers looking for a connection.

Social objectives

Companies should provide benefits to society as a whole. We are proposing to:

- require the gas distribution networks to connect deprived communities and fuel-poor customers where it is efficient to do so. Where it is not, we are exploring how they can work with other parts of the energy industry to meet the needs of the fuel poor.
- require the companies to improve information about the risks of carbon monoxide (CO) poisoning, including providing CO alarms to those at risk, subject to trials held over the next few months.

Safety

We will ensure customers are provided with a safe network that meets Health and Safety Executive safety standards.

Reliability and availability

We are ensuring the network companies give long term reliability, as well as minimising the number and duration of interruptions experienced customers experience.

Ofgem wants views on these outputs from consumers and environmental groups. This will help us develop the best mix

of outputs for all stakeholders and build the right type of incentives to encourage delivery.

► RIIO: The wider benefits

Environmental improvements are embedded throughout the RIIO framework. Outputs such as the timely connection of generation, or effective stakeholder engagement are very important if the companies are to make the profound changes needed in the transition to a low carbon energy sector.

We also recognise the need to encourage innovation if we are to help deliver a low carbon future. RIIO aims to do this through an Innovation Stimulus. The Innovation Stimulus is

an extension to the Low Carbon Network Fund we have put in place for the electricity distribution networks. That fund provides £500 million to enable the companies to trial new technology, operating and commercial arrangements which can aid the transition to a low carbon energy sector. We are proposing to make £280 million available for projects relating to electricity transmission over the next eight years, with a fund worth £400 million available for both gas transmission and gas distribution projects.

► What is happening now?

We are now consulting on our initial views on the outputs and other aspects of the price control framework for the gas and electricity transmission companies (RIIO-T1) and for the gas distribution companies (RIIO-GD1). These are the first two reviews to apply the RIIO framework. They cover the period 2013 to 2021 for both transmission and gas distribution.

It is very important that all interested parties, particularly those representing consumer and environmental groups, engage fully in the consultative process. One of the best

ways to get involved is by responding to our consultation documents which can be found at <http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Pages/ConRes.aspx> and <http://www.ofgem.gov.uk/Networks/GasDistr/RIIO-GD1/ConRes/Pages/ConRes.aspx>. Our overall aim is to get views on whether we have got the right balance of outputs and policies in RIIO, to deliver a sustainable energy sector and long-term value for money network services for current and future consumers.

► Stakeholder Engagement

Stakeholder engagement is vital to the development of these arrangements. We welcome the views of interested parties on any of the issues set out in this fact sheet. As well as responding to consultation documents there are various ways for stakeholders to share their views including:

- Workshops: we will run open workshops to bring stakeholders together to discuss the issues
- Bilateral meetings: Ofgem is happy to meet with stakeholders for one to one meetings
- The Price Control Review Forum: This forum will meet regularly during the reviews to inform our work. The group includes a cross section of stakeholder

representatives, and those wishing to join should get in contact with Ofgem.

More information on Ofgem's stakeholder engagement process is available here:

www.ofgem.gov.uk/Networks/PriceControls/Pages/PriceControls.aspx

If you would like to discuss how you can get involved with the price control reviews, or have any questions, please email RIIO.T1@ofgem.gov.uk (for electricity and gas transmission) or RIIO.GD1@ofgem.gov.uk (for gas distribution).

► Next Steps

In late March 2011 we will confirm the strategy for the next phases for RIIO-T1 and RIIO-GD1. The companies will be required to submit their business plans to us by the end of July 2011. Under RIIO we expect the network companies to take the lead in engaging with their stakeholders, including

consumer groups. This is so the network companies can understand what it is that their customers value. This will help the companies develop their business plans for the 2013 to 2021 period.

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