

Press Release

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OFGEM AWARDS £62 MILLION ACROSS FOUR PROJECTS IN FIRST LOW CARBON NETWORKS FUND COMPETITION

- **Four projects, sponsored by energy network companies, awarded a share of £62 million**
- **Projects funded through the £500 million Low Carbon Networks Fund**
- **Ofgem's flagship scheme helps network companies rise to the challenges of the low carbon transition**
- **Ofgem commends all the participating companies for high standard of entries to the competition**

Four innovative projects that will speed up the crucial development of smart grids to meet low carbon energy use, will share £62 million of funding from the £500 million Low Carbon Networks Fund, energy regulator Ofgem announced today.

Ofgem and an independent panel of energy experts were impressed by the overall quality of the 11 projects submitted by the network companies for funding. Both judged that the winning projects particularly demonstrated the potential to kick start the introduction of "smart grids" needed to help meet the Government's 2020 targets for reducing carbon emissions. The companies sponsoring the projects also demonstrated they can embrace new creative ways of working with suppliers, generators, universities, local councils and others.

The lessons learnt from these ground-breaking initiatives will be shared with all network companies and interested parties, potentially benefitting millions of energy consumers across Britain. The funding awarded today will inform the crucial investment needed in energy infrastructure to connect renewable generation and accommodate new technologies such as electric vehicles. It will also help the companies understand how to run their networks in a more intelligent way to meet changing needs quickly and efficiently.

Stuart Cook, Ofgem's Senior Partner for Smarter Grids and Governance said: "The first year of Ofgem's Low Carbon Networks Fund saw an enthusiastic response from all of Britain's electricity networks. Both Ofgem and the independent panel were impressed by the high standard of entries, and the level of ambition in the industry, and we wish to commend all the projects.

"Ofgem has identified that network companies will have to spend £32 billion on their pipes and wires over the next ten years to decarbonise the energy sector. The Low Carbon Networks Fund initiatives prove that the companies are grasping the nettle and seeking innovative ways to meet the challenges that lie ahead."

Ofgem's new RIIO model (Revenue=Incentives+Innovation+Outputs) for setting price controls will expand funding for innovation across all network sectors, not only electricity distribution.

The projects awarded funding are:

CE Electric: Customer-led network revolution (£26.8 million)

A project in the north east exploring how a combination of smart technologies and changes in customer behaviour can reduce the costs associated with low carbon technologies. The project uses British Gas' early roll out of smart meters and low carbon products such as solar panels and heat pumps. It also sees CE Electric working with a variety of partners, including Durham University.

UK Power Networks: Low carbon London – a learning journey (£24.3 million)

A "smart city" initiative for London that will explore how to best use new technologies and active network management. The project will also seek to understand when, how and why consumers use energy and how this can be influenced. This will work on the back of several existing low carbon projects, such as the Plugged in Places Scheme that encourages use of electric cars. The project will be carried out in partnership with a number of organisations throughout London, including EDF Energy, Imperial College, Logica and Transport for London.

Central Networks: Low carbon hub (£2.8 million)

This project in East Lincolnshire will investigate ways of increasing the amount of electricity generation - mainly wind - that can connect directly to the local electricity network. The project will monitor wind speed, generator output and network conditions and the knowledge will benefit small, renewable generators who want to connect directly to the distribution network. This will help deliver potential savings to customers by allowing more generation to connect at lower cost.

Western Power Distribution: Low voltage Network Templates for a low-carbon future (£7.8 million)

This project in South Wales will examine the effect that low carbon technologies have on the network. The trial will help other companies become more efficient by allowing them to anticipate network behaviour and know which solutions have already been proven to work well. It will work with existing Welsh Assembly Government and npower initiatives.

Although not among the winning four, Ofgem and the expert panel would like to note that several other submitted projects were judged to be of a high standard. The panel would be keen to see ideas in these projects reflected in future submissions.

SSE submitted a Northern Isles New Energy Solutions project (NINES) which primarily focussed on the challenges faced by Shetland. Ofgem and the expert panel concluded that the learning from the project would not be immediately applicable to other networks. However, SSE is required in any case to come forward with a proposal for meeting the energy needs of Shetland. Funding arrangements are already in place for this purpose. It is possible that many of the ideas in NINES may inform that proposal.

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1. Ofgem announced the Low Carbon Networks Fund (LCN Fund) in August 2009 as a fundamental part of the current price control regime for DNOs that runs from April 2010 to March 2015. The fund will allow up to £500 million over five years, encouraging and enabling the companies to trial new technology, operating and commercial arrangements which can aid the transition to a low carbon energy sector. £64 million funding is available each year in the competitive element of the fund and a further £80 million is available over the five years to help fund smaller scale projects. A further £100 million is available over the five years as a discretionary award to reward projects which bring particular value in helping the networks adapt to climate change while providing security of supply and value for money to consumers.

2. The projects were judged against the following criteria, and were also considered against the portfolio of projects submitted:

Degree to which the solution being trialled:

- accelerates the development of a low carbon energy sector;
- has a direct impact on the operation of the distribution network;
- has potential to deliver net benefits to existing and/or future customers; and
- generates new knowledge that can be shared amongst all network operators.

Degree to which the project:

- demonstrates a robust methodology and readiness of the project;
- involves other partners and external funding; and
- is relevant and timely.

3. Ofgem has produced a Factsheet giving details of the winning projects which can be accessed online here: <http://www.ofgem.gov.uk/Media/PressRel/Pages/PressRel.aspx>

4. Low Carbon Networks Fund's independent expert advisory panel bring knowledge and expertise covering energy network industries, environmental policy, technical and engineering issues, economics and finance, and consumer interests. The expert panel members are: Dr Robin Bidwell; Sharon Darcy; Prof. Nick Jenkins; Prof. David Newberry and Sean Sutcliffe. Each panel member is on a three-year contract.

5. Ofgem's press release announcing the RIIO model can be seen here: [http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=RIIO Oct Press notice.pdf&refer=Media/PressRel](http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=RIIO%20Oct%20Press%20notice.pdf&refer=Media/PressRel)

6. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002, the Energy Act 2004 as well as arising from directly effective European Community legislation.

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