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for all gas and electricity customers

RIIO|GD1|RIIO|T1

Press Release

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Ofgem consults on new rules of the game for RIIO-T1 and RIIO-GD1

Ofgem has today launched the first major consultation on implementing its new RIIO model for regulating energy networks. The consultation sets out the key elements of the framework for the gas and electricity transmission (RIIO-T1) and gas distribution (RIIO-GD1) price controls. Both price controls will run from 2013 to 2021.

Ofgem estimates that Britain's gas and electricity network companies will need to invest over £30 billion over the next decade to develop smarter networks and ensure security of supply while meeting environmental challenges.

To ensure this investment is delivered, all new price controls using the RIIO model will reward network companies that are responsive to the needs of present and future consumers, that innovate and that are efficiently run and financed. Companies that do not deliver will be penalised.

A key feature of RIIO involves the companies taking responsibility for stepping up their engagement with customers, and developing a long-term strategy for delivering network services that is justified by their customers' needs and preferences. Today's consultation sets out the key elements of the framework the companies need to understand in developing their business plans. This includes the outputs they should deliver, the shape of the incentives, Ofgem's approach to financial issues and the scope and the level of funding available for innovation.

Stuart Cook, Senior Partner, Smarter Grids and Governance, said: "RIIO-T1 and GD1 will provide strong incentives for companies to invest a significant chunk of the more than £30 billion needed to meet the challenges of delivering a low carbon, sustainable energy sector at value for money. The consultation process that starts today marks a critical moment in the implementation of the new RIIO model of energy network regulation. We encourage all interested parties to contribute to the debate."

Ofgem has been, and is committed to continue, engaging with all stakeholders throughout the price control process and is seeking views to inform its Strategy Decision Document in March 2011.

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Notes to editors

- 1 The unprecedented challenges of making the transition to a low carbon economy and securing supplies as efficiently as possible has led Ofgem to introduce the biggest change to the regulatory framework for energy networks in 20 years. Ofgem's new performance-based model, RIIO (Revenue = Innovation + Incentives + Outputs), seeks to ensure consumers get the necessary investment in Britain's pipes and wires for a fair price. It replaces the RPI-X formula which was previously used. A fact sheet setting out the RIIO model is available here:
<http://www.ofgem.gov.uk/Media/FactSheets/Documents1/re-wiringbritainfs.pdf>
- 2 The Strategy Decision Document in March 2011 will then be used by the network companies to develop their business plans for the period 2013-2021, to be submitted in the summer 2011. Initial and final proposals on the regulatory package will be published in summer and December 2012, respectively. However, companies that meet our conditions for fast-tracking the regulatory process, could be able to settle in 2011.
- 3 The RIIO-T1 documents can be found here:
<http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Pages/ConRes.aspx>
- 4 The RIIO-GD1 documents can be found here :
<http://www.ofgem.gov.uk/Networks/GasDistr/RIIO-GD1/ConRes/Pages/ConRes.aspx>
- 5 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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