

Press Release

Monday 6 February 2012

RIIO LOCAL NETWORKS REVIEW TO MEET LOW CARBON CHALLENGE

- **Successful RIIO price control model will be used to encourage smarter networks, delivering value for money and improved customer service**
- **Low carbon technology connections and continued increase in small scale generation could revolutionise the way the local network is run**

Ofgem has today launched the start of the price control review for Britain's 255,000 miles of low voltage electricity network (RIIO-ED1), requiring the distribution companies to consider the most efficient way to meet the low carbon challenge. The new price controls will run from 2015 until at least 2023.

Over this period there is expected to be an increased take up of low carbon technologies including heat pumps, solar panels as well as electric vehicles and small scale renewable generation. Ofgem will develop a suite of incentives, obligations and targets to ensure that distribution companies connect these low carbon technologies in a timely and cost effective way, utilising smart solutions where appropriate. Ofgem will also review the effectiveness of current incentives aimed at encouraging the network companies to provide a reliable network and improve their responsiveness to customer and other stakeholder needs.

Rachel Fletcher, in charge of distribution at Ofgem said: "The needs of consumers are changing, both in terms of how they use electricity and their role in its production. Conventional network investment may no longer always be the most efficient or flexible approach. As they develop their business plans for the next period, we expect the distribution companies to explore the role smarter solutions could play in supporting this change."

Smart solutions use real time information about the network and automation technology to make more efficient use of existing infrastructure. They also allow active management of consumption and generation patterns. These solutions can reduce the need for investment to accommodate new connections and mean that the network is more flexible to the changing patterns of consumption and generation. Ofgem has already started to promote smart solutions through its Low Carbon Network Fund. This funds trials and demonstration projects which help the industry as a whole understand how to use smart solutions to deliver a better service to consumers.

Ofgem's Project Discovery identified the need for energy companies to deliver over £30 billion of the £200 billion of energy investment needed in the next ten years to rewire Britain. The RIIO price control process aims to ensure companies deliver this investment in a way that delivers value for money for existing and future consumers.

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Notes to editors

1. RIIO

RIIO (Revenue=Incentives+Innovation+Outputs) is designed to incentivise companies to meet the unprecedented challenges they will face during the next decade: to find over £30 billion of investment needed to meet environmental targets and secure energy supplies, while delivering long-term value for money for consumers. This would double the rate of investment from the previous 20 years.

A strong emphasis of RIIO is stakeholder engagement and companies are expected to fully consult and incorporate the feedback from these groups into their business plans. This has been successfully demonstrated in the transmission companies' business plans already submitted to Ofgem as part of the earlier RIIO-T1 price control relating to the high voltage network.

The electricity distribution price control (RIIO-ED1) builds on the RIIO model and seeks views from stakeholders on the length of the price control and also on the potential outputs and incentives. All responses should be emailed to RIIO-ED1@ofgem.gov.uk by 2 April 2012.

2. RIIO T1 & GD1

Ofgem is currently in the process of two other price controls, for high voltage electricity network (RIIO-T1) and the gas distribution network (RIIO-GD1).

T1 fast track proposals have been announced for SPTL and SHETL. National Grid remain in the process and will submit business plans in April. All RIIO-T1 price controls will begin 1 April 2013.

Companies have submitted business plans for GD1 and following review, Ofgem has decided that none are suitable for fast-tracking. All companies remain within the RIIO process and will resubmit plans in April 2012, with final proposals published in July 2012. All RIIO-GD1 price controls will begin 1 April 2013.

3. ED1 Next Steps

Provisional timing	Milestone
February 2012	Publication of Open Letter Consultation
27 February 2012	Deadline to express interest in being involved in the PCRFB or any of the working groups
September 2012	Publication of Strategy Consultation
February 2013	Publication of Strategy Decision
End May 2013	DNOs submit business plans
September 2013	Publication of Initial Assessment of companies business

	plans
November 2013	Publication of Fast Track Proposals Consultation (Initial Proposals)
March 2014	Publication of Fast Track Decision (Final Proposals)
June 2014	Publication of Initial Proposals Consultation for non fast tracked companies
November 2014	Publication of Final Proposals for non fast tracked companies
December 2014	Issue statutory consultation on new licence conditions
1 April 2015	Price control commences

For further press information contact:

Lisa O'Brien: 020 7901 7426

Lydia Fitzpatrick 020 7901 7419

Chris Lock: 020 7901 7225

Mark Wiltsher: 020 7901 7006

Out of hours contact: 07774 728971 or 07766 511470