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NETWORK PRICE CONTROL SCHEMES TO PROMOTE RESEARCH AND INVESTMENT EXTENDED TO £180 MILLION

- **Ofgem extends incentive scheme for network companies to invest in innovation**
- **Around £180 million of funding available for investment and research to help connect low carbon generation between 2005-2015**
- **More than 150 innovative engineering schemes underway**
- **Three registered power zones set up to connect low carbon generation innovatively**

Energy regulator Ofgem has today (Thursday) given a boost to electricity network companies by extending a scheme to encourage research and development which helps connect low carbon generation.

When Ofgem set price controls for the regional networks for 2005-2010 it introduced two schemes to encourage research, development and deployment of innovation. These included incentives for the companies to investigate and develop innovative engineering to enable them connect more wind farms without the need for additional pylons and infrastructure.

Since April 2005, three areas have been designated Registered Power Zones (RPZs) where the companies are using inventive methods to connect more low carbon generation. And more than 150 research and development projects are being undertaken under the Innovation Funding Incentive (IFI). The aims of these projects include reducing the number of supply interruptions and shortening the time it takes to restore supplies.

David Gray, Managing Director for Networks, said: "The Government has made it clear that it wants to see more low carbon generation connecting to the local networks because of the environmental gains it brings. Ofgem implemented incentives to encourage those connections, including the schemes to encourage innovation, when it set the electricity distribution price controls for 2005-2010.

"Under the current arrangements these incentives would cease in 2010, but we recognise that some larger, more strategic research and development initiatives have timescales of five years or more. So we have decided now to extend the scheme into the next price control period (2010-2015) so that there is no loss of momentum in this important work. Together both schemes will give companies the opportunity to access funding of £180 million for investment and research."

Ofgem has also agreed to remove a cap on the internal costs that the network companies can incur under the IFI. This is because Ofgem recognises that this may be a hindrance to the companies adopting a wide range of projects.

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Notes to editors

1. If the 14 distribution network operators (DNOs) take their full entitlements, they will be permitted to spend approximately £62m under IFI and could gain £29m under RPZ during the 2005-2010 price control. Similar levels of funding will now be available for 2010-2015 bringing the total up to around £180 million. The primary aim of these two incentives is to encourage the DNOs to apply technical innovation in the way they pursue investment in, and operation of, their networks. An incentive package of a maximum of £500,000 per year during the price control period was allowed to each DNO for RPZ projects. Under the IFI, the companies are allowed to pass through an average of 80 per cent of costs to customers. Ofgem is proposing to keep this pass through rate in place in the next price control (2010-2015).

2. Under the IFI the companies' expenditure is set at 0.5 per cent of turnover (an average of £1.2m per licensee for each year of the price control). The scheme currently places a cap on a DNO's internal expenditure at 15 per cent of total expenditure on a project. Ofgem is proposing the removal of this cap as it may act as a constraint. For example if a DNO outsources a large project to a third party (such as an academic institution) the DNO's costs as a proportion of the total project costs will be low. However, where a DNO is actively involved in the project, perhaps hosting a pilot installation, the proportion will, and should, be much higher.

3. Three RPZs have been registered by Ofgem:

- Central Networks – connection of wind generation in the East Midlands without the need to rebuild existing power lines.
- Scottish & Southern Energy – connection of renewable generation on the Orkney Islands using active network management. This maximises the amount of renewables that can be connected using the existing under-sea network cable linking the islands to the Scottish mainland.
- EDF Energy – connection of wind generation in the East of England without major network upgrading by using voltage control technology

4. 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 functions are set out mainly in the Gas Act 1986, the Electricity Act 1989, the Competition Act 1998 and the Utilities Act 2000. In this note, the functions of the Authority under all the relevant Acts are, for simplicity, described as the functions of Ofgem.

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