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FRIDAY 8 MAY 2009

OFGEM CONSULTS ON NEXT ELECTRICITY PRICE CONTROLS

Energy regulator Ofgem today (8 May 2009) has published the third consultation document for the electricity distribution price control for 2010-2015. The price control sets the revenues for distribution network operators (DNOs) who run the regional electricity networks. Distribution charges currently stand at around £3.6 billion a year accounting for around 14 per cent of a typical domestic customer's electricity bill.

As part of the price control review process, the DNOs submit their view of the costs they need to recover over the next five year period. Ofgem then reviews what the DNOs have asked for and we propose cuts where we consider DNOs could deliver the service customers require at a lower cost. The Methodology and Initial Results Paper seeks views on the DNO cost forecasts, our methodology for assessing the DNO costs and initial results.

The DNOs have collectively bid for a very substantial increase in allowed revenues over the DPCR5 period. This would, before considering DNOs' arguments for a higher cost of capital, or other factors which might drive up costs, lead to increases of an average of around 12 per cent of the distribution element of customers' electricity bills, with the highest DNO seeking over 25 per cent, which equates to a 5 per cent increase in a typical domestic electricity bill.

At every price control review, Ofgem aims to challenge robustly but fairly the companies' requests. The scale of the proposed increases and the current economic climate, with many businesses and households feeling the strain, make it more important than ever to do this. However, there is also a need to recognise some of the drivers of these cost increases and to ensure that we allow the companies to continue to invest to maintain the high levels of network reliability that customers enjoy and expect.

The paper published today also presents some of the ways in which we propose to encourage the DNOs to improve quality of service. We set out details of a scheme aimed at encouraging DNOs to address the quality of service delivered to worst served customers and revisions to the unplanned interruptions incentive scheme to make sure that it closely reflects customers' willingness to pay for, and the cost of, improved performance.

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Notes to editors

1. This document is the final consultation before Ofgem publishes Initial Proposals on each company's revenue requirements in late July 2009. The Initial Proposals cannot be inferred from the figures contained in the Methodology and Initial Results Paper.
2. The consultation period will close on 5 June 2009.
3. 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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