



Promoting choice and value  
for all gas and electricity customers

# Sustainable Development and Electricity Distribution

Ofgem has published its final proposals for the next electricity distribution price control (DPCR5) which will run from 2010 to 2015<sup>I</sup>.

This sets out the funds that the Distribution Network Operators (DNOs) are allowed to use in order to run their networks, as well as expectations about what the companies should deliver for that money. We have continued to insist on economic efficiency and value for money – distribution costs represent around 15 per cent of each domestic customer's bill – but we have also increased the incentives and obligations on the DNOs to play a greater role in delivering social and environmental benefits.

We have proposed a capital allowance that will see **£6.7 billion** invested in electricity distribution networks over the next five years. This complements the **£1 billion** of allowances that we recently proposed for additional investment in the electricity transmission network<sup>II</sup>. These large investments will allow the networks to make a significant contribution toward the achievement of sustainable development and meeting the 2020 carbon reduction and renewable electricity targets.

<sup>I</sup><http://www.ofgem.gov.uk/Networks/ElecDist/PriceCtrls/DPCR5/Pages/DPCR5.aspx>

<sup>II</sup><http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/tar/Pages/Traccrw.aspx>

# Transforming the network

## for a low-carbon future

We have given the DNOs clear incentives to play a greater role in tackling climate change and to do all that they can to facilitate the transition to a low-carbon economy. These measures include:

- creating the new Low-Carbon Networks Fund (LCNF) which will provide **£500 million** over five years to stimulate the DNOs to work with others to try out new technology and commercial arrangements that will be needed to service electric vehicles, greater use of electricity for space heating and more micro - and community - scale generation;
- retaining the **£20 million** Innovation Funding Incentive (IFI) for research and development at an early stage;
- strengthening the losses incentive to make it more effective and to encourage the networks to reduce energy losses as far as possible – electrical losses on the electricity distribution networks currently account for 1.5 per cent of total GB greenhouse gas emissions; and
- requiring the DNOs to report on their own “carbon footprints” on an annual basis.

There are also a number of measures which will help to support generation connected directly to the distribution network (known as distributed generation or DG) including:

- retaining incentives for DNOs to make investments needed to connect DG;
- equalising incentives on capital and operating expenditure to remove the previous bias towards capital investment and charging the DNOs the costs of linking to the transmission network – both of these should encourage the companies to consider using demand-side management or DG as a way of addressing capacity constraints;
- introducing cost-reflective charging that benefits DG which reduces the need for network reinforcement; and
- ensuring that the contracts and charging arrangements are clear and non-discriminatory.

We have also retained the allowance for laying cables underground in protected landscapes to help the DNOs to manage the local impacts of their networks in the most sensitive areas. As a result of this allowance, over 120km of cable have been put underground over the past four years.

# Improving the service

## for customers and vulnerable customers

As well as preparing to address the challenges of a low-carbon electricity system, we also want the DNOs to concentrate on their service to current customers, including the most vulnerable. To this end we have:

- introduced a worst-served customer fund of **£42 million** over the next five years to encourage DNOs to improve interruptions performance for those customers who experience the highest number of interruptions;
- revised the interruptions incentive scheme to reflect better customers' willingness to pay for further service improvements;
- refocused the annual £1million customer service reward scheme to include communication with worst-served customers, and assistance for certain groups, including vulnerable customers;
- introduced a new incentive, which will be worth a total of around £3.7 million each year, that is based upon a broad measure of customer satisfaction; and
- encouraged improvements to connections services by introducing new guaranteed standards and licence conditions, as well as incentives to encourage greater competition in connections.

This package of proposals reflects Ofgem's commitment to protecting the interests of current and future consumers by addressing the challenges of social responsibility and environmental protection while delivering value for money.

Looking forward, we will continue to build these themes into our approach to regulating networks through the findings of Ofgem's RPI-X@20 project<sup>III</sup>. This is the root - and - branch review of how we approach network regulation to transform the networks and will address issues such as the long-term framework for delivering innovation, the development of smarter networks and facilitating the deployment of low-carbon generation.

<sup>III</sup><http://www.ofgem.gov.uk/Networks/rpix20/Pages/RPIX20.aspx>