

Information Note

THURSDAY APRIL 1 2010

NEW ELECTRICITY DISTRIBUTION PRICE CONTROL GOES LIVE

Today marks the start of the new price control energy regulator Ofgem has set for the electricity distribution companies for 2010-2015.

Under the new electricity distribution price control, the seven distribution network operators (DNOs) can invest a total of £7.2 billion - an increase of 40 per cent on the previous five years. The benefits for customers will include improved service and continued security of supply.

£6.7 billion of the total allowed will go towards maintaining high levels of reliability on the local grids by replace ageing equipment – some of which is more than 50 years old. It will also pay for connecting more distributed generation, and providing more capacity where there are network constraints.

All DNOs have been set targets for reducing supply interruptions and will face penalties if these are not achieved. Customers that experience frequent interruptions (more than 15 over 3 years) could benefit from a new scheme which makes £42m available to improve the reliability of their electricity supply.

The investment package includes the ground-breaking £500 million Low Carbon Networks Fund. The DNOs and partner organisations can bid into this fund to trial the sort of technology, commercial and operating arrangements that are needed to facilitate local power generation, increased use of electric vehicles and other initiatives to reduce Britain's carbon emissions.

DNOs must also step up customer service. For example, new licence obligations require DNOs to provide distributed generators with simple, accessible information to help them connect quickly and efficiently. New standards for DNOs to meet when dealing with connection requests and completing associated works also take effect on October 1. They will apply to distributed generators as well as demand customers.

Alongside the price control a new common DNO charging methodology for lower voltages goes live today which will better reflect the costs of running the networks. The methodology, which is revenue neutral for the DNOs, will see distributed generators being paid to use the networks (instead of the generator having to pay the DNO to transmit power) if they help the DNO to avoid or delay having to build extra capacity.

It is up to suppliers to decide how to pass on the impacts of the price control and common charging methodology to customers. Ofgem calculates that the average impact of the price control is an increase of around £4.30 per year on a typical domestic electricity bill between April 1 2010 and March 31 2015. The effect of the common charging methodology is a one off rise taking this increase to £9 over the next year for a typical

customer. As both these figures are averages they will be subject to variations across the regions.

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Notes to editors

1. The 14 local electricity networks are regional monopolies owned by seven distribution network operator (DNO) groups. Customers rely on regulation by Ofgem, rather than normal competition, to get the service they require at a reasonable price. We set the total revenues that DNOs can collect from customers and we place incentives on DNOs to innovate and find new ways to improve their efficiency and quality of service. This is achieved through a price control which we set every five years. The current price control expired on 31 March 2010 and the fifth distribution price control will run from April 1 2010 to 31 March 2015.

2. Improvements to the connections service provided by DNOs:

New standards introduced through the price control require DNOs to meet specified timeframes for each step of the connections process, from initial quote to energisation. Each time a DNO fails to meet these standards, they will have to compensate the customer. A DNO will be in breach of their licence and subject to a fine of up to 10 per cent of annual turnover if they do not meet these new standards in at least 90 per cent of all cases.

3. Electricity customers pay around £3.6 billion annually for the distribution of electricity from the high voltage national grid to homes and businesses. This accounts for approximately 16 per cent of domestic customer electricity bills.

4. Further information about the price control is available on this press release <http://www.ofgem.gov.uk/Media/PressRel/Documents1/DP5%20Sundayv1.pdf>

5. Further information about the sustainability elements of the new distribution price control is available on this fact sheet:
<http://www.ofgem.gov.uk/Media/FactSheets/Documents1/SD%20and%20Electricity%20Distribution%20Factsheet.pdf>

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