

ofgem

Biogas workshop

**Overview of Innovation Stimulus
Package and other RPI-X@20
recommendations**

Friday 6 August 2010

What is RPI-X@20?

- RPI-X@20 is Ofgem's comprehensive review of how we regulate energy network companies, announced March 2008
- Set to conclude in Autumn 2010

Review drivers

**Good
housekeeping**

New and emerging challenges
Contribute to reducing industry
carbon emissions while
maintaining safe, secure
affordable system

Simplification?

- Recently set out for consultation 12 recommendations for a new regulatory framework, Sustainable Network Regulation
- New regulatory framework would be based on the RIIO model – Revenue set to deliver strong Incentives, Innovation and Outputs

The background of the slide features a large, semi-transparent white arrow pointing to the right. Behind the arrow, there is a blurred image of a modern building with a glass facade and a large, glowing light fixture with multiple circular elements. The overall color palette is light and airy, with soft blues, whites, and yellows.

Overview of innovation stimulus package and other RPI-X@20 recommendations

What are we seeking to achieve?

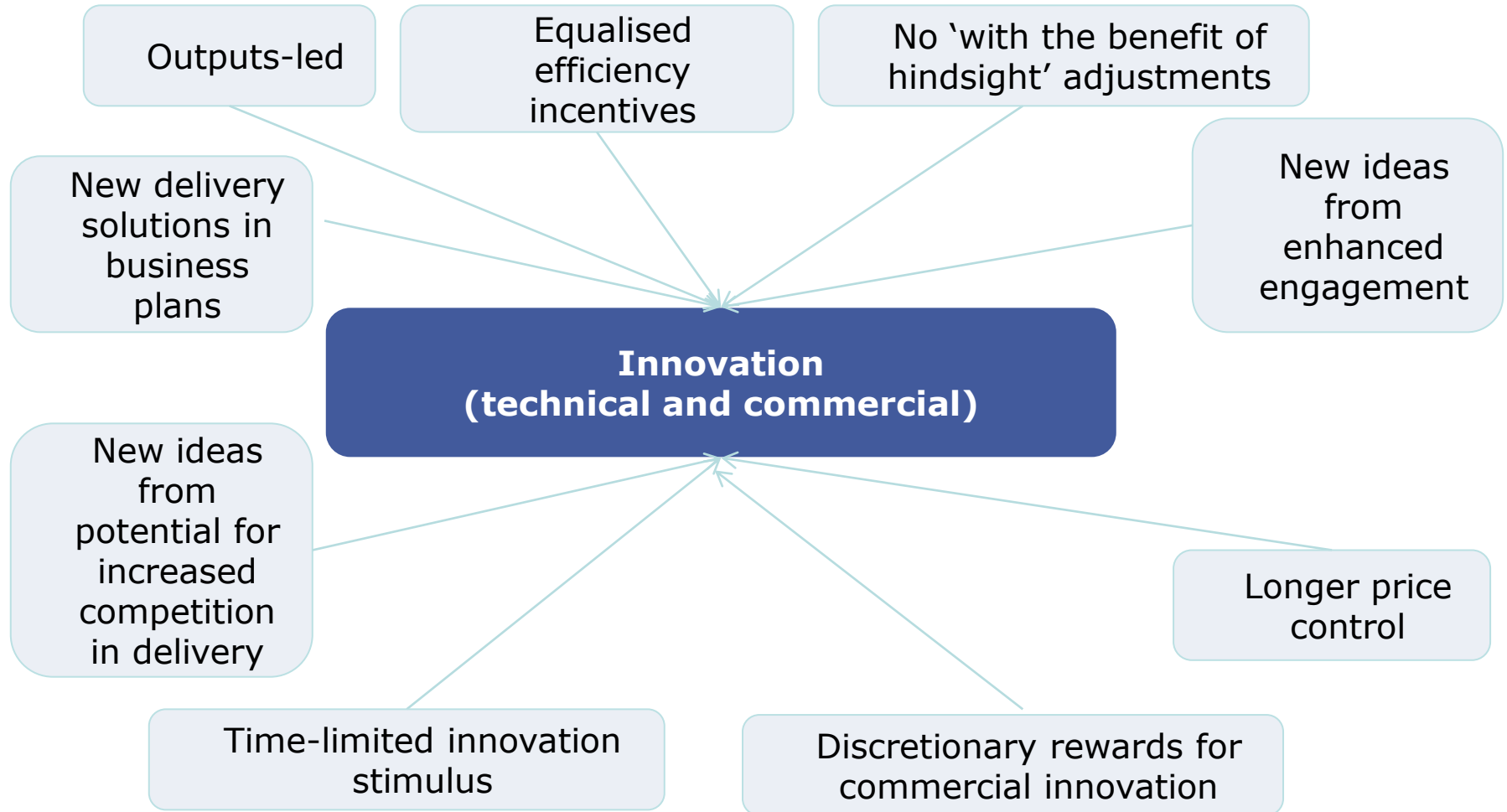
Desired outcomes

Energy networks companies play a full role in the delivery of a sustainable energy sector

Delivery of long-term value for money network services for existing and future consumers

Overview of RPI-X@20 recommendations

Number of aspects of the new framework would encourage innovation



Innovation Stimulus Package Recommendations

- We recognise incentives in the price control may not be sufficient to deliver the type and scale of innovation needed to deliver desired outcomes
- Sustainable Network Regulation designed to include a time-limited innovation stimulus for gas networks and time-limited innovation stimulus for electricity networks
- Aim of stimuli: to encourage innovation in the provision of network-services related to delivery of a sustainable energy sector that may not develop in the absence of the innovation stimulus package

Key elements of the innovation stimulus package

- Open to projects relating to the provision of network services that have as their intent delivery of a sustainable energy sector
- Two separate funding mechanisms; one for gas networks sector one for electricity
- Open to network and non-network parties (holding an appropriate licence)
- Open to projects at any stage of innovation, from R&D to trials and pilot schemes
- Specific rewards for network companies and third parties that successfully implement new commercial and charging arrangements to help deliver a sustainable energy sector

Key elements of the innovation stimulus package (cont.)

Form of mechanism would be expected to share similarities with the Low Carbon Networks (LCN) Fund, established as part of DPCR5:

- Partial project funding
- Competitions for funding, with bids assessed by independent panel but final decisions taken by Authority on award of funding
- Financing recouped from consumers through use of system charges, with decisions on funding cap made at each review
- Sharing of intellectual property, information and lessons learned

Principles for removal

- Package would be reviewed at regular intervals but would remain in place until incentives inherent in Sustainable Network Regulation found to be encouraging innovation themselves or there was a reduction in innovation required
- Any decision to remove following review would be consulted on

The background of the slide is a composite image. On the left, there is a large white arrow pointing to the right, overlaid on a blue-tinted image of solar panels. On the right, there is a close-up image of a white ceramic coffee cup on a saucer, with a blurred background of green grass. A thin blue horizontal line is positioned below the text "Next steps".

Next steps

Next steps

RPI-X@20 Recommendations consultation period

26 July to 6 September 2010



Decision document

Autumn 2010



Implementation as part of forthcoming price reviews

Next steps

- If GEMA approves recommendations, set of governance arrangements would be developed, setting out detail of eligibility criteria for participation in the innovation stimuli
- Designing a programme of development (will include consultations and working groups)
- Assuming recommendations stand, we intend to set up stimuli, including creating a new licensable activity (through an order from the Secretary of State) and governance arrangements and documents so that stimuli can go live from 1 April 2013 when the new gas distribution and transmission price controls will be implemented

Key references

Consultation document and detailed supporting paper available on RPI-X@20 website:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=81&refer=Networks/rpix20/ConsultDocs>

Consultation open until 6th September 2010

For formal responses:
RPI-X20@ofgem.gov.uk

The logo for Ofgem, consisting of the word "ofgem" in a white, lowercase, sans-serif font, centered within an orange rounded rectangle. The background of the slide features a collage of images: solar panels on the left, a large white arrow pointing right, and a close-up of a gas meter on the right.

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Promoting choice and value
for all gas and electricity customers