

Charles Hendry MP

Minister of State

Department of Energy & Climate Change

3 Whitehall Place

London

SW1A 2AW

www.decc.gov.uk

Hannah Nixon
Senior Partner
Smarter Grids and Governance/Distribution
Ofgem - London
9 Millbank,
London,
SW1P 3GE

Dear Hannah Nixon

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Ofgem's open letter consultation on the way forward for the next electricity distribution price control review – RIIO-ED1

I welcome the opportunity to offer my Department's views on the launch of your forthcoming electricity distribution price control review, RIIO ED1.

Electricity distribution companies play a crucial role in providing the secure, affordable and low carbon electricity we all need. The Carbon Plan, which my Department published last year, envisages a significant increase in the uptake of low carbon technologies, such as electric vehicles, heat pumps and distributed generation, as part of our strategy to decarbonise the power sector. We will rely on network companies, guided by your regulation, to be in a position to connect these low carbon technologies to the network in a timely and affordable way, whilst maintaining the secure electricity supply that we have all come to depend on.

I therefore welcome your proposals for RIIO-ED1, which build on the successful launch of reviews for electricity transmission and gas (RIIO T1 and GD1). In particular, I welcome your emphasis on requiring network companies to develop, through stakeholder engagement and detailed analysis, well-justified investment plans that allow them to deliver the outputs their customers most value.

There are some areas on which I would place a specific emphasis:

- Customer focus. Building on the improvements introduced for the on-going price control, network companies should place their customers at the heart of their operations, driving the delivery of better service for all. This will be key to ensure new demand (including electric vehicles and heat pumps) and distributed generation is connected in a cost effective and timely manner;

- Innovation. New technologies, approaches and business models are needed to ensure network companies are “smart” and reduce or defer the need for reinforcement. Innovation, its deployment, and the sharing best practice will be key;
- Wider synergies. Network companies should explore and maximise wider electricity system and environmental benefits. It should also look to capture benefits of synergies between different infrastructure systems to support wider government objectives and policies, such as networks and broadband rollout. This is set out in the National Infrastructure Plan 2011 and regulatory framework aspects are being taken forward by the Joint Regulators Group.

I welcome your proposals under “Business Plans and Proportionate Treatment” which offers a transparent and proportionate approach to assessing business plans, with a timescale of assessment which will reflect the quality of individual business plans, and which contributes usefully to the Government’s regulatory reform agenda.

Finally, I trust the Review will draw on the valuable outputs of industry forums, including the Smart Grid Forum, the Microgeneration Government and Industry Contact Group and your Distributed Generation Forum.

My officials look forward to participating in the Price Control Review Forum and relevant working groups as appropriate.

Yours sincerely,

Charles Hendry

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