

RIIO - (Revenue = Incentives + Innovation + Outputs)

RIIO UPDATE

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£22 BILLION INVESTMENT PROPOSED TO UPGRADE BRITAIN'S PIPES AND WIRES

In the summer Ofgem announced Initial Proposals for National Grid's gas and electricity transmission networks and initial proposals for the gas distribution network operators. The proposals outlined around £22 billion of investment in the networks from 2013 to 2021.

This significant investment is required to replace ageing infrastructure, deliver secure energy supplies and meet environmental targets. Ofgem is currently considering the responses from the consultation and will publish the Final Proposals on 17 December.

As detailed in July's newsletter the Scottish electricity transmission companies achieved fast-track status and their proposals (totalling around £7 billion) were finalised in March this year. Below is a summary of those decisions alongside the Initial Proposals for National Grid.

Features in this issue include...

RIIO-T1 & GD1 at a Glance

RIIO-ED1 Strategy Consultation Proposals

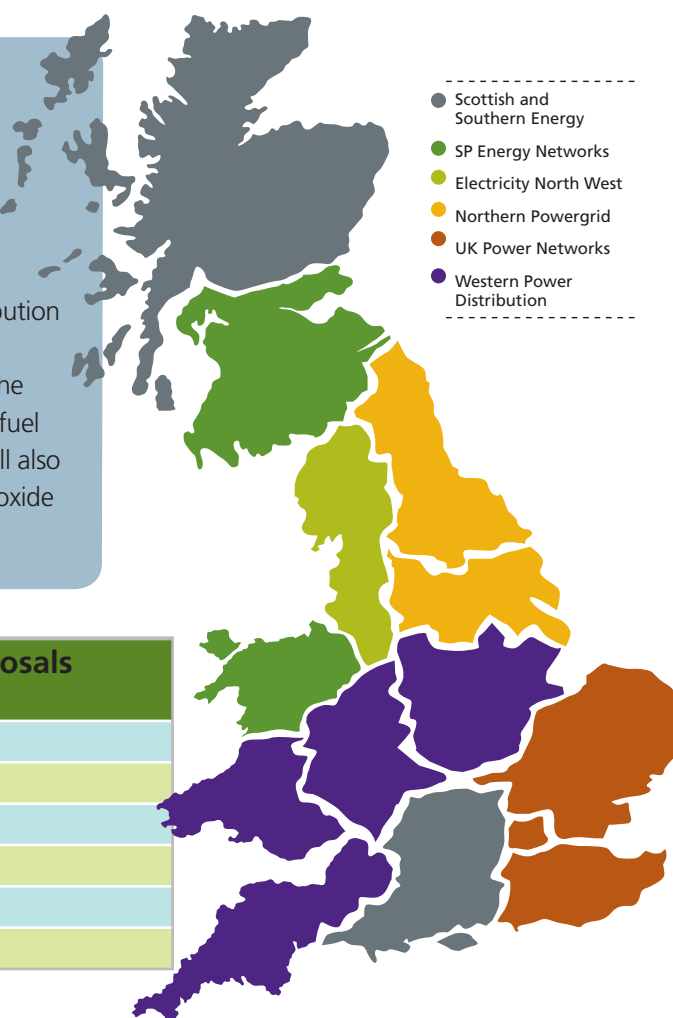
Meet the RIIO ED1 Consumer Challenge Group (CCG)

TRANSMISSION AT A GLANCE

Fast-tracked – Final Proposals	National Grid Initial Proposals
Around £7 billion investment	Around £15 billion investment
Key projects include potential new sub-sea links from Scotland's islands to the mainland	Major projects include a new sub-sea electricity cable linking England/Wales and Scotland.
Over 1,500 jobs are estimated to be created as a result of infrastructure upgrades	Around 7,000 jobs could be created, mainly in the construction supply chain.
£470 million available to help fund undergrounding & visual amenity measures for new electricity transmission infrastructure	
Introduced funding for improving visual amenity of existing electricity transmission infrastructure in National Parks and Areas of Natural Beauty (AONB)	
Estimated average annual cost to the consumer bill is an additional £15 compared to today	

Gas Distribution Overview

Ofgem's proposals include an estimated £7 billion of investment to help ensure that our low pressure gas networks, which deliver gas to homes and businesses, remain safe and reliable. The money would fund the continued maintenance across Britain of the gas distribution network, in particular the gas mains replacement programme. In addition, our proposals would enable the gas distribution companies to connect around 80,000 fuel poor households to the gas network. The proposals will also enable funding for companies to develop carbon monoxide awareness initiatives.



Company	Initial Proposals (£ billion)
National Grid Gas Distribution	6.2
Northern Gas Networks	1.6
Scotia Gas Networks	3.6
Wales and West Utilities	1.5
Total	12.9
Of which specifically for investment	7.6

RIIO-ED1 Strategy Proposals

RIIO-ED1, the electricity distribution price control that will run from 2015 – 2023, reached a significant milestone in September with the publication of the strategy consultation document. This sets out Ofgem's proposals for the framework on which the distribution network operators (DNOs) will have to base their business plans.

Here are a few highlights from the document, but there is much more and we would invite you to read the documents.¹ If you want to have your say please respond to our consultation documents or send us an email at RIIO.ED1@ofgem.gov.uk

Reliability and Availability:

- » We propose to retain the existing interruptions incentive scheme. This encourages the DNOs to reduce the time and number of power outages.
- » We plan to maintain a specific requirement for 'worst served' customers in terms of interruptions. We are considering whether a financial incentive would be preferable or whether to retain the current 'use it or lose it' allowance.
- » Currently, a customer is entitled to compensation if they are without power for a period of 18 hours or more. We propose reducing this to 12 hours, and removing regional exemptions (so that the Highlands and Islands are also included).
- » We are consulting on plans for an incentive target for flood mitigation measures.

¹ <http://www.ofgem.gov.uk/Networks/ElecDist/PriceCntrl/riio-ed1/consultations/Pages/index.aspx>



“ We believe our proposals on connections, customer satisfaction and reliability will drive the DNOs to think innovatively about what they need to do to connect new low carbon technology (such as heat pumps and electric vehicles) at a reasonable cost and without causing supply problems ”

Hannah Nixon, Senior Partner Distribution

Environment:

- » We propose to retain the allowance for undergrounding existing overhead lines in Areas of Outstanding Beauty and in National Parks.
- » We are proposing a new approach to reducing losses on the network, involving a licence obligation and reporting requirements.
- » We plan to improve the quality of reporting under the existing requirement for DNOs to report their business carbon footprints and continue to publish a league table of reductions.

Customer Satisfaction:

- » We plan to build on the current Broad Measure of Customer Satisfaction (BMCS) and increase the associated incentive to reflect our enhanced understanding of its effectiveness and benefit to consumers. As part of the improvements we propose to run separate satisfaction surveys for large and small connection customers. We also have an additional focus on providing customers with good quality information.

Connections:

- » We propose introducing a new average time to connect output and incentive. This will encourage DNOs to move beyond the standards for maximum connection time and consider how they can better plan and process connections to reduce the overall time taken. Some of the customer satisfaction proposals will also ensure the DNOs improve the connecting customer's experience.

Social Obligations:

- » The depth and quality of information DNOs hold on consumers is key to ensuring vulnerable consumers are identified and their needs met. We want DNOs to outline how they intend to improve their understanding of consumer vulnerability and how they will work in partnership with others (eg suppliers, other distributors, local authorities) to share and use their information more strategically during RIIO-ED1.
- » We are also looking at strengthening incentives to reward DNOs that demonstrate a commitment to better understanding social issues and work with others to address them.



Stakeholder Engagement

Ofgem places stakeholder engagement at the heart of RIIO, and we are committed to complementing the engagement that we expect companies to carry out. We have set up a Price Control Review Forum that is made up of representative stakeholders to provide input at key points in the process. Ofgem have benefitted from feedback from our Consumer First Panel of 100 everyday customers. We have a range of working groups where Ofgem, the DNOs and other stakeholders can discuss specific issues in depth and have discussed our price control proposals with our Sustainable Development Advisory Group.

RIIO-ED1 Consumer Challenge Group (CCG)

Additionally, we have a Consumer Challenge Group to act as 'critical friend' in the process. The Group is made up of a small number of consumer experts acting in an individual capacity who challenge Ofgem and the DNOs on areas of policy development, DNO business plans and stakeholder engagement processes. This helps ensure that the overall price control settlement is in the best interest of consumers.

The Consumer Challenge Group has met with Ofgem three times since the start of the RIIO-ED1 process to discuss the draft strategy. Issues the Group has raised so far include:

- **Flexibility** – the importance of DNOs demonstrating how they will adapt successfully to a more data-rich environment to deliver consumer benefits;
- **Business Plans and Scenarios** – that scenarios based on stakeholder evidence will be key to successful business plans;
- **Innovation** – DNOs should demonstrate that innovation benefits are mainstreamed in their businesses – not seen as stand alone innovation funded activity;
- **Social issues** – how costs may be socialised given that consumers are becoming increasingly alive to network charges as part of rising bills and that DNOs recognise that they have a role to play in helping to deliver social obligations given their current services and responsibilities;
- **Development of customer insight** – the importance of DNOs developing their use of data to inform a more sophisticated understanding of who is attached to their wires and underpin business planning.

Members of the Group are: Linda Lennard (Visiting Fellow at the Centre for Consumers and Essential Services at the University of Leicester), Sharon Darcy (Board member of Consumer Focus), Simon Roberts (Chief Executive of the Centre for Sustainable Energy), Paul Smith (Managing Director of Ctrl-Shift), Heather Brash (Former Convener of Waterwatch Scotland and former vice-chair Scottish Consumer Council); David Leam (Executive Director for Infrastructure Policy at London First); Gill Owen (Former Chair, Public Utilities Access Forum – up to August 2012)

Your feedback

We hope that stakeholders have found the third RIIO Update useful. If you would like to send any feedback to help us make the next RIIO Update even better, please email:
lisa.o'brien@ofgem.gov.uk

