



Making a positive difference
for energy consumers

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Dear Secretary of State,

An assessment of the energy efficiency potential of Great Britain's gas and electricity infrastructure

Please find attached a report which contains our assessment of the energy efficiency potential of the gas and electricity infrastructure in Great Britain (GB) required under the Energy Efficiency Directive (EED). This information is required to be submitted to the Secretary of State.

About the EED

The EED was agreed by Member States in 2012 and covers multiple aspects of the energy system from supply, transformation, transmission and distribution to consumption. In June 2014 the UK implemented certain provisions of the EED through The Energy Efficiency (Encouragement, Assessment and Information) Regulations 2014. Regulation 6 established an obligation on the Gas and Electricity Markets Authority (GEMA) to report to the Secretary of State on GB's energy network's energy efficiency potential, and the cost-effective measures that are already in place to improve it.

Our approach to fulfilling the assessment requirement

A key way to improve the energy efficiency of network infrastructure is to reduce wasted energy and the amount of energy used to run the networks. In the gas sector, this is known as shrinkage and in the electricity sector as losses. Our assessment has focused on the potential for shrinkage and loss reduction.

The report describes what measures are being adopted by the network companies, covering distribution and transmission networks, and shows timeframes for these measures in line with the current price control periods. It also describes various potential measures that might reduce environmental emissions in the future but are not currently commitments of the network companies.

Overall context

The RIIO (Revenue = Incentives + Innovation + Outputs) regulatory framework is a new performance-based model for setting the network companies' price controls which will last eight years. RIIO is designed to encourage network companies to:

- Put stakeholders at the heart of their decision-making process
- Invest efficiently to ensure continued safe and reliable services
- Innovate to reduce network costs for current and future consumers

- Play a full role in delivering a low carbon economy and wider environmental objectives.

Reducing losses and shrinkage are part of the framework objectives, and one aspect of how we are improving energy efficiency on our networks. The information gained through this regulatory framework has been used as a basis of the report.

There is other work being done on flexibility which may have an impact on the wider energy efficiency front. We are examining the potential for flexibility and thinking about the interactions between the different uses of flexibility across the value chain. We want to understand how market participants across all parts of the supply chain might participate in providing and using flexibility in the future.

If you have any questions on our report, please contact James Veaney on 0207 901 1861 or james.veaney@ofgem.gov.uk.

Yours sincerely,



Andrew Burgess
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