

# Ofgem's energy network price control 2021-2026



Gas and electricity transmission,  
gas distribution, and system operator

**ofgem**

Making a positive difference  
for energy consumers

## Introduction

Ofgem has set out its proposals for a five-year investment programme of £25bn, with potential for an additional £10bn or more, to transform Britain's energy networks to deliver emissions-free green energy for GB, whilst cutting the cost of this investment for consumers.

Britain's networks carry energy around GB to heat and power our homes and businesses, and increasingly to power our cars and other means of transport.

They are privately owned, and funded by you through your energy bills. They are also monopolies - you can't choose your local network as there is only one in each area.

To protect consumers like you, Ofgem limits how much these networks can charge for the services they provide through five year 'price controls'. "RIIO<sup>1</sup>" is the name for these.



## The Challenge

GB has one of the world's most reliable and safest energy systems, with power cuts half the EU average and customer satisfaction with networks at a record high.

However, the fight against climate change means our energy system needs to change quickly and dramatically.

Last year the UK Government legislated to cut GB's harmful carbon emissions down to net zero by 2050. The Welsh and Scottish Governments also have made net zero commitments.

To hit these targets, we will need to change the way we heat and power our buildings, and travel, moving away from polluting fuels such as natural gas and petrol to greener alternatives such as wind and solar energy, and possibly hydrogen.



<sup>1</sup>Revenue=Incentives+Innovation+Outputs

## Cutting charges, boosting investment

To drive these changes, we will need to invest more in our networks. Some must be made immediately, much will follow in the coming years.

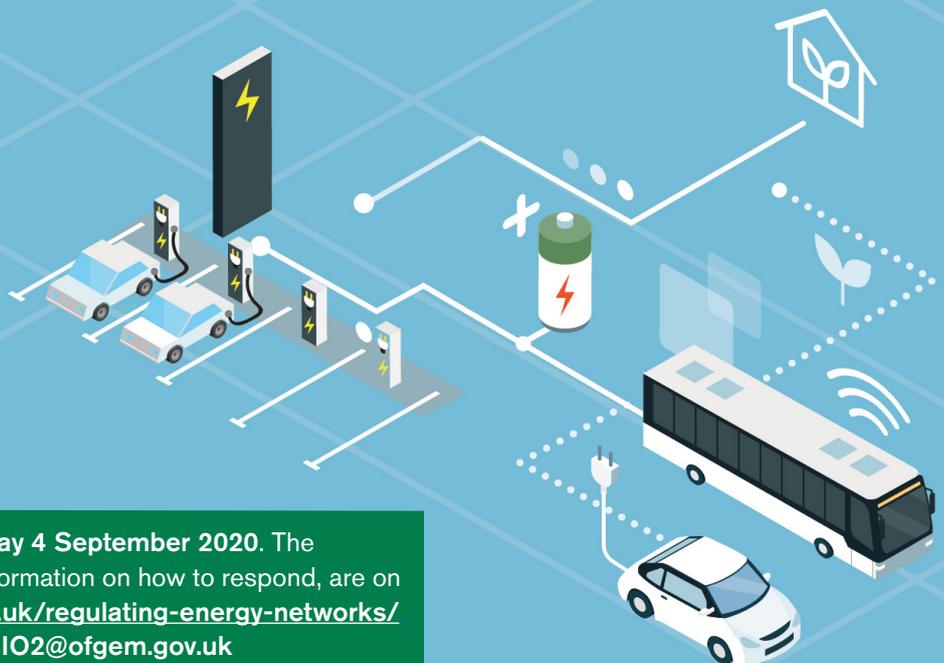
We think that networks can go further, for less profit, giving consumers much better value for money.

So, from 2021, we intend to push network companies to cut right down on their running and financing costs to keep the network charges on your bill as low as possible. We plan to set them tougher targets for customer service, safety, reliability and going further faster on green energy.

Our proposals would almost halve company earnings, saving up to £3.3bn across all sectors to help fund crucial improvements, now and throughout the price control. We'd cut over £8bn from company spending plans, because we don't think they've justified their proposals are value for consumers' money.

Meanwhile our separate price control for the electricity system operator (ESO), will boost the ESO's funding and responsibilities to prepare the grid for taking on much more renewable power.

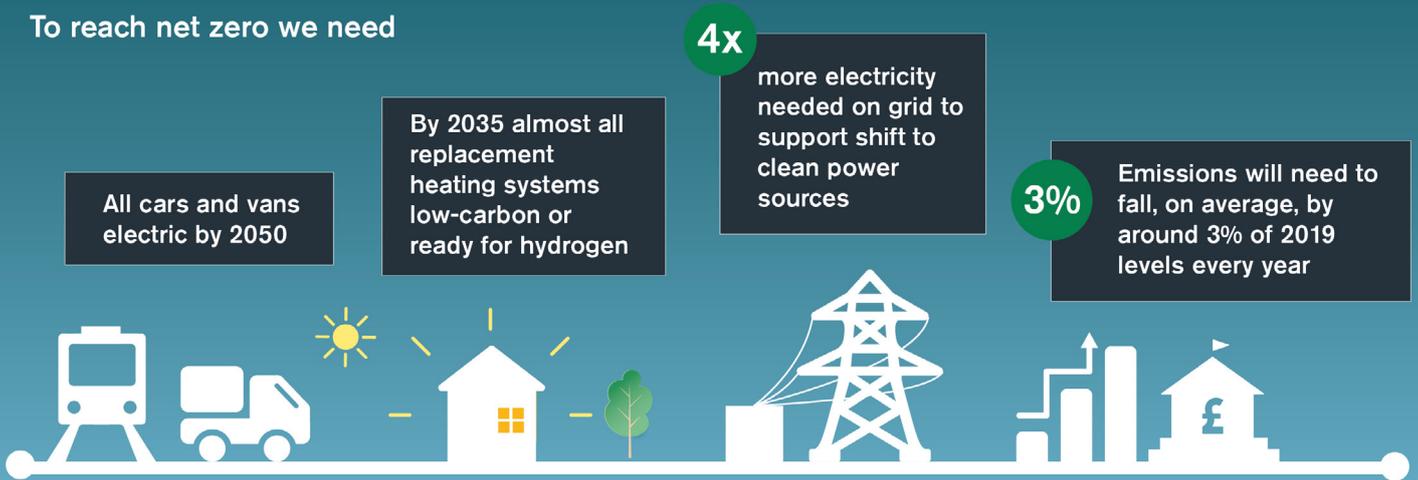
In short, less of consumers' money will go towards company profits, and more towards building a better, greener network for the future.



This consultation closes on **Friday 4 September 2020**. The consultation documents, and information on how to respond, are on our website at [www.ofgem.gov.uk/regulating-energy-networks/](http://www.ofgem.gov.uk/regulating-energy-networks/) For more information, contact [RIIO2@ofgem.gov.uk](mailto:RIIO2@ofgem.gov.uk)

# Net zero challenge

To reach net zero we need



Graphic source: Committee on Climate Change estimates

## At a glance



## Our four objectives for network companies

### 1 Greener networks

**↓26%** business carbon footprints cut by a quarter



**£3bn** to connect more green electricity to the grid, and upgrade transmission links to take on more renewable power



new potential net zero funds throughout price control, including upgrades and innovation for low carbon heating network infrastructure

### 2 Better value for money



Tougher targets for safety, service, environment and delivering more value for consumers' money

**↓£3.3bn**

saved, as rates of return halved to 3.95% CIPH, cutting profits

**>£8bn**

removed from company spending plans, which don't show value for money



**£20** average drop in network charges per household bill

### 3 Better customer service



at least **8/10** customer satisfaction targets

**£30m**

funding to drive projects for consumers in vulnerable situations



double payments made to customers when gas distribution companies don't meet minimum standards

### 4 Safer and more reliable networks

**>99.9%**

reliability for gas and electricity transmission grids

**>£6bn**

to maintain, replace and repair ageing equipment

**15,500km**

of iron gas pipes replaced with safer plastic



## Our objectives for the Electricity System Operator



New funds and responsibilities to get system ready for diverse, clean energy mix



System to be ready to operate net zero carbon emissions by 2025



Consumers put at heart of operations, as spending allocated on basis of consumers' interests



Maintain our high level of security of supply



## Highlights across GB: Transmission companies and the system operator



### Scottish Hydro Electric Transmission (SHET)

Allowed return on capital **2.47%** average over 5 years

**14%** saved through greater cost efficiency

Funding to connect **3GW** new renewable generation to the network

**15%** improvement in targets for network reliability

### Scottish Power Transmission (SPT)

Allowed return on capital **2.63%** on average over 5 years

**14%** saved through greater cost efficiency

Funding to connect **1GW** new renewable generation to the network

**62%** improvement in targets for network reliability

### National Grid Electricity Transmission (NGET)

Allowed return on capital **2.63%** on average over 5 years

**16%** saved through greater cost efficiency

Funding to connect **15GW** new renewable generation to the network

**53%** improvement in targets for network reliability

### National Grid Gas Transmission (NGGT)

Allowed return on capital **2.63%** on average over 5 years

**8%** saved through greater cost efficiency

**£80m** funding to decommission parts of the network and GHG emitting equipment that is no longer needed.

**1782 tonnes CO2e** reduced through environmental initiatives

### Electricity System Operator

Ready to operate the electricity system with carbon free energy mix by **2025**

ESO estimates to save up to **£2bn** (£3 per household) in wider costs to consumers by increasing competition, and avoiding unnecessary network and constraint costs.

Planned step change in data use and digital technologies to drive the energy transition



## Highlights across GB: Gas distribution network companies



### SGN

Allowed return on capital **2.63%** on average over 5 years

**5%** saved through greater efficiency

**£6.1m** to support consumers in vulnerable situations\*

**£10m** to roll out innovative technology to support increased biomethane injection

### Northern Gas Networks (NGN)

Allowed return on capital **2.63%** on average over 5 years

Most cost-efficient gas distribution company

**£2.6m** to support consumers in vulnerable situations\*

**10%** reduction in electricity consumption, through renewables and energy efficient technologies across network sites

### Cadent

Allowed return on capital **2.63%** on average over 5 years

**13%** saved through greater efficiency

**£11.1m** to support consumers in vulnerable situations\*

**10%** reduction in energy consumption and offset unavoidable emissions

An improved service for consumers living in high-rise flats

### Wales and West Utilities

Allowed return on capital **2.63%** on average over 5 years

**8%** saved through greater efficiency

**£2.7m** to support consumers in vulnerable situations

**75%** of company cars ultra-low emission or hybrid to cut carbon footprint.

\*£7.5m of additional funding for collaborative vulnerability projects where GDNs work together, and with stakeholders, to tackle a problem

