

Responsive Regulation in a Changing Energy Landscape

5th Annual Smart Grids & Cleanpower 2013 Conference

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www.cir-strategy.com/events/cleanpower

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ofgem

Ofgem's objective and duties

- Principal Objective – to protect the interests of existing and future consumers
 - Interpreted widely – includes reduction of GHGs and ensuring Security of Supply
 - But requires that existing policy achieves targets, or if not, replaced by successful policy
- Statutory duties
 - Promote competition (unless better alternatives)
 - Have regard to meeting reasonable demand, achieving sustainable development and ensure financeability
 - Must also have regard to disabled or sick consumers, rural consumers, low income consumers and consumers 'of pensionable age'

Our objectives and duties allow us to take a long-term view of customer benefits

Traditional price controls not sufficient to address new challenges

- Focused on improving efficiency through reducing process costs
 - Achieved objectives...
 - ...but doesn't cope well with Tx network expansion, generation mix uncertainty, creating smarter distribution grids

RIIO: Revenue = Incentives + Innovation + Outputs

- **Incentives:** include environmental and stakeholder engagement
- **Innovation:** includes competition and annual allowance
- **Outputs:** companies set outputs based on their plans and stakeholder consultation – penalties for non-delivery.

£31bn of investment and expenditure agreed for Transmission and Gas Distribution to 2021. c.£25bn for Elec Distribution to be agreed 2015-23.

Other 'clean power' incentives in RIIO-ED1

- Connections
 - Retain 'shallow-ish' connection charging policy
 - Simplification of DG connection incentives
 - Continue to socialise reinforcement costs arising from LCT take up
- Other environmental measures
 - Losses – multi-pronged approach
 - £103m for undergrounding of existing lines
 - SF6, Fluid Filled Cables, Noise reduction

RIIO gives us a range of regulatory tools to ensure an effective and proportionate approach

Innovation is critical to the rapid transition to a low-carbon, VFM energy system

- LCNF launched as part of DPR5.
 - Up to £64m pa for innovation projects to help DNOs understand how to achieve security of supply at value for money.
 - 8 projects through to finals, including network management and configuration, demand side response and smart meter usage.
 - Results and benefits shared across industry
- NIC launched as part of RIIO T1 and GD1
 - Up to £27m pa for Electricity Transmission companies (onshore and offshore) and £18m pa for gas distribution and transmission companies
 - 8 electricity projects through to finals, including subsea cables and joints, mobile substation bays, new towers
 - 7 gas projects through to finals, including hydrogen blending, in-pipe robots and low carbon pre-heating

Smart meter rollout should bring benefits to consumers...

- ...but changes to governance are required
- Smarter Markets work programme launched July 2012 with 4 themes

Theme	Progress
Change of Supplier process	Workshops – condoc Q1 2014
Electricity Settlement Arrangements	Open letter March 2013, further scoping underway
Demand-side response – commercial and regulatory arrangements	Consultation open until 28/6/2013
Consumer protection and empowerment	Workshop held Jan 2013 – condoc Q3 2014

Currently different regulatory regimes for onshore, offshore and interconnectors

- Licensing, Multi-purpose projects, Charging, Access

Also potential conflicts and misaligned incentives for owners and operators

- Constraint costs, holistic system planning, European representation

ITPR seeks to address these issues

- [Open letter](#) sent November 2012

Ofgem is the Office of Gas and Electricity Markets.

Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.

We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.