Ofgem promises big investment but frozen bills as it sets out local grid plans

T
he companies that operate Britain's local electricity networks will have to become leaner while investing to make the grid greener, Ofgem said as it promised it will force them to shell out despite not allowing them to charge more for their services.

The regulator said the local operators of the grid will have to reduce their operating costs and tap into their profits to deliver one of the biggest transformations of the country's energy systems for decades.

The businesses include UK Power Networks in the South East of England and SP Energy Networks in southern Scotland, among several others.

They will need to invest billions of pounds – £22.2 billion to be precise – between 2023 and 2028 to help Britain prepare for a future where more homes and businesses opt for electric cars and heating.

The companies had asked for just under £3 billion more than that – a request denied by officials.

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The regulator wants to keep costs for households low, not least at a time when the country is gripped by a global energy crisis.

The charges paid to these companies are included in household energy bills, and will remain at around £100 per year even after the changes are made, Ofgem said on Wednesday.

Akshay Kaul, Ofgem interim director, infrastructure and security of supply, said: “The investment set out today delivers value for consumers, safeguards security of supply and helps ensure Britain is no longer at the mercy of international energy prices or geopolitical events.

“We’ve set the initial amount of investment that local electricity distribution network operators can make in the 2023-2028 period, with every pound representing value for money for consumers and no increase in bills.

“The economics of energy have shifted, with home-grown cleaner renewables like wind and solar energy proving cheaper than costly imported gas.”

The companies affected include Scottish and Southern Electricity Networks, Northern Powergrid, SP Energy Networks, Electricity North West, National Grid and UK Power Networks.

The decision increases the so-called allowed cost of equity from 4.75% in Ofgem’s draft decision to 5.23% in the final outcome – which benefits the companies.

Despite the regulator not allowing companies all the investments they wanted to make, it will allow spending to reach 6% higher than the draft decision had indicated.

Analysts at Jefferies said the outcome is positive for National Grid and SSE, and neutral for Spain’s Iberdrola, which owns ScottishPower.

National Grid said: “We will now review in detail the full package contained within the final determination to see whether it incentivises sufficient investment to ensure safe, secure and reliable supply of electricity alongside the need to help transition to a low-carbon domestic energy system, at the lowest cost to customers.”