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Dear Rachel

ELECTRICITY DISTRIBUTION PRICE CONTROL REVIEW: INITIAL CONSULTATION DOCUMENT

Thank you for giving us the opportunity to comment on your publication *Electricity Distribution Price Control Review: Initial consultation document (the Initial consultation)*.

Our full response is attached. I am afraid its length is commensurate with the comprehensive nature of the *Initial consultation*, although we have captured the key points in the summary that is included.

We very much look forward to participating in this price control review. More than any of its predecessors this review has the opportunity to chart the course not only for the next five years but, in conjunction with RPI@20 project, well beyond that limited time horizon.

It is perhaps worth contrasting the position we find ourselves in at DPCR5 with the circumstances that prevailed at all the previous reviews. Although there have always been challenges in the past, previous reviews have taken place against the backdrop of:

- general economic growth and increases in prosperity;
- ongoing outperformance against allowances by the company;
- real-terms reductions in energy prices; and
- a relatively stable outlook for Government policy.

In contrast, this review is clearly going to have come to terms with the impact of:

- steep and sustained rises in input prices;
- huge public sensitivity to overall energy price rises;
- clear evidence that companies are not outperforming their operating cost allowances; and
- greater uncertainty in the capital markets.

It would be challenging enough in times of stability. But to add the additional uncertainty arising from the public policy imperative to drive a transition to a lower-carbon economy represents a particular challenge for Ofgem and for the sector. Ofgem must be ready to execute a review that will give effect to a necessary increases in prices, whilst ensuring that those increases are properly justified. The review must build on assumptions that demand on-going efficiency from the companies and it must, of course, represent a good deal for customers.

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Although the price increases that must be anticipated are not of the same order as the increases imposed by the competitive markets on the customer base, the upward pressure on distribution prices is already obvious, and the opportunity to off-set these upward pressures with further efficiency gains that has been present at previous reviews has now been exhausted.

These factors will make for a challenging price control review but we are encouraged by the *Initial consultation* in our belief that Ofgem is ready to face these challenges.

Yours sincerely

A handwritten signature in black ink that reads "John France". The signature is written in a cursive, slightly slanted style.

John France
Regulation Director