

26 September 2014

Ms Anna Rossington
RIIO ED1
Ofgem
9, Millbank
London
SW1P 3GE

Dear Anna

RE: Response to Ofgem's Cost of Equity estimates in the Draft Determinations for the Slow-Track Electricity Distribution Companies

I am writing on behalf of members of Energy Networks Association (ENA), the voice of the networks. ENA is the industry body for UK and Ireland gas and electricity transmission and distribution networks, essentially, the 'wires and pipes' that deliver this vital service to our homes and businesses.

ENA welcomes the opportunity to respond on Ofgem's Cost of Equity estimates in the Draft Determinations for the Distribution Companies and this response is made on behalf of Electricity North West, Northern Powergrid, ScottishPower Energy Networks and Scottish & Southern Energy Power Distribution.

In the draft determination for RIIO ED1, Ofgem proposes a cost of equity of 6.0%. In the Draft Determination Financial Issues paper, chapter 2 - Allowances for cost of capital, paragraph 2.11 Ofgem states "Our estimate in our 17 February decision had been informed by the provisional determination for Northern Ireland Electricity Limited (NIE) published by the Competition Commission (CC) in November 2013." In table 2.2 of the Financial Issues paper Ofgem sets out its translation of the CC's cost of equity analysis to the DNOs. We believe that Ofgem has made a number of errors and incorrect judgements in "translating" the CC's cost of equity decision for NIE across to the DNOs and in its overall cost of equity decision.

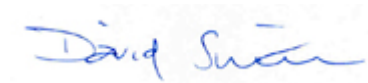
We have commissioned NERA to review these errors and incorrect judgements and we attach their report 'A Response to Ofgem's Cost of Equity Estimates' with this letter. They estimate, taking account of the issues identified, the appropriate cost of equity for the RIIO-ED1 period obtained from a consistent translation of the CC decision that takes account of the specificities of the two cases lies upwards of 6.4%.

By providing a cost of equity of 6.0%, Ofgem chooses an estimate that does not allow any margin for error over the RIIO period, thereby not providing any justification for under-recovery on other elements, e.g. the cost of debt.

DNOs do not consider that there is any headroom in the 6.0% Cost of Equity. This is detailed further in a separate report by NERA 'A response to Ofgem's Proposals on the Cost of Equity and Debt for RIIO ED-1' which has been submitted with our overall ENA Draft Determination response.

I trust that you find these comments and the attached report useful. We would be happy to meet with you and the relevant members of your team to discuss them further.

Yours sincerely



David Smith
Chief Executive

Attachments:

- NERA - A Response to Ofgem's Cost of Equity Estimates in the RIIO ED1 Draft Determination