

.Cemil Altin,
Head of Price Control Development
Ofgem
9 Millbank
SW1P 3GE

Dear Cemil Altin,

**RE: DEVELOPING MONOPOLY PRICE CONTROLS:
INICIAL CONSULTATION**

energywatch welcomes Ofgem's proposals for developing price controls that go beyond the RPI-X formula, particularly with regard to how consumers actually value network services, whilst retaining its powerful incentive for efficiency savings. It also appropriate to take stock of the existing procedures for price control and to consider new developments in government policy will impact on the development of DNO networks. For example, DNOs may have to adjust the way they operate their networks to accommodate embedded generation.

We also realise the impact that regulatory uncertainty has on share price, capital markets, business planning and the subsequent impact on costs ultimately paid for by consumers. We would not want consumers to pay extra for the reform process.

energywatch broadly agrees with Ofgem's selection of key issues for setting future price controls. **energywatch** sees the benefits in developing the suggested "total cost approach" rather than making the (often difficult) distinction between capital and operating expenditure. We would like this option to be fully explored as it is likely to be consistent with an outputs focused method of price control as it less prescriptive as to how a DNO goes about achieving specific outputs of real value to consumers.

We agree with the working definition of efficiency for the DNOs that places value on consumer service expectations. The proposed research project must precisely define customer attitudes in respect of measurable service standards. The research will not only have to establish the DNOs service standards, it has to develop an approach that identifies consumer attitudes to the various trade offs within the control, for example, between the value of security of supply and the necessary investment costs. Ofgem must therefore to a great extent be bound by the research or explain why they have not followed its findings.

DNOs should be set quality of supply targets both comparatively and against their own historic performance. It might also be possible to compare similar performance measurements and targets from other jurisdictions. This could be used to develop a best practice approach in setting performance and efficiency targets.

In the setting of this and future price controls Ofgem needs to develop flexible procedures to accommodate changes to the regulatory environment as a result of the Energy Policy White Paper. **energywatch** has consistently argued that the Energy Policy Review should deliver for consumer's safe, secure and affordable energy. We will judge the success or failure of price control according to these criteria as these principles are transferable to the objectives of price control.

Yours Sincerely

Lesley Davies
Director of Policy and Research
energywatch