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**Electricity Distribution Price Control Review – Update –  
October 2003**

***A Response by British Gas Trading***

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## EXECUTIVE SUMMARY

British Gas Trading (British Gas) welcomes the opportunity to respond to Ofgem's consultation in respect of the 'Electricity Distribution Price Control Review' and is happy for this non-confidential response to be placed in the Ofgem library.

As Distribution Network Operators (DNOs) can influence business rates on network assets and NGT exit charges there should be some limited incentive to ensure that those costs are at an appropriately efficient level.

As the delivery of security and quality is dependent on both operating and capital expenditure, the proposed test for eligibility to the five-year capital expenditure incentives should be extended to eligibility to the same for operating expenditure. We also believe that consideration should be given to extending the period over which the incentive is to be passed back to DNOs from five years to ten whilst keeping the Net Present Value of the incentive constant.

We welcome Ofgem's intention to look at the possible extension of the distributed generation hybrid-incentive scheme to demand connections.

It is right to remove the somewhat arbitrary distributed generation losses adjustment. DNOs could reduce any adverse impact of remote renewables from the proposed losses incentive via the use of loss related charging methodologies. It is important to minimise any perverse incentives that DNOs might have to delay losses reduction initiatives for the remainder of this price control period. A key element of any future losses regime should be to ensure that any customer cost increase as a consequence of loss reduction is no more than the value of losses. We will shortly meet with Ofgem to further discuss our thoughts on an alternative incentive mechanism.

It is difficult to comment on the appropriateness of the individual quality of supply benchmarks or their application without seeing the underlying performance data, especially performance improvements since the implementation of IIP. Moreover, it is not possible to properly comment on the proposals in the absence of the likely cost increase, if any, to customers and the shape of the future incentive scheme.

The key interaction that supports network resilience is the proposed eligibility of the rolling five-year capex efficiency incentives, i.e. DNOs should meet their quality and security obligations. This should be supported by a similar extension to the eligibility to the five-year operating expenditure incentives and paying the same NPV of incentive over ten years.

The form of the hybrid distributed generation incentive proposed by Ofgem appears to be an appropriate way forward in respect of distributed generation costs. This appears to be similar to British Gas' previous suggestion of using a scheme that has the characteristics of the NGT electricity transmission SO incentive scheme.

An appropriate way to assess costs might be to use merged company data and assert £12.5m benefits per merger. One way to reduce perverse incentives and outcomes would be to assess efficient costs and produce revenues for merged DNOs then translate those into revenue streams for individual licensees.

Hopefully the work that Ofgem is carrying out in relation to improving on its 1999 efficiency assessments should allow greater confidence in the results so that any catch-up rates are more challenging than the previous 75% of the benchmark over a number of years. This work should be used to set the 'real' Po cuts of individual licensees, or in the case of DNOs with catch-up rates the 'initial' Po cut plus the 'catch-up' X.

The 'real' X that should additionally be applied to all licensees could be directly derived from the Total Factor Productivity (TPF) study that Ofgem has commissioned from CEPA. There is merit in considering a TPF approach similar to that carried out by Europe Economics (EE) for the water regulator earlier this year. In this study, EE estimated a long-run TPF for the water industry plus an additional post-privatisation effect.

For pensions we see the challenge for Ofgem being the identification of those genuine shortfalls that should be funded by the customers and those which should be borne by shareholders. Operational efficiency is the net effect of the short-term reductions in (manpower) costs offset by any increase in pension liability. Companies should not benefit in the short term from the former without being responsible for the latter in the long term. Companies can influence the level of pension costs incurred consequently they should be provided with the incentives to operate efficiently and should be rewarded for out performance and penalized for under performance. Accordingly, pension costs could be assessed using benchmarking techniques.

## Detailed comments

In the main this response uses the heading and section numbering used in Ofgem's document.

### 3. Form, Structure and Scope of the price controls

#### Form and structure of the price control

##### Pass-through costs

Both business rates on network assets and NGT exit charges are effectively currently passed through. We reiterate our view that as Distribution Network Operators (DNOs) can influence, albeit to a limited extent, the level of charges, there should be some limited incentive to ensure that those costs are at an appropriately efficient level.

We accept that, as DNOs have no real influence on the level of licence fees a continuation of pass through is appropriate for this cost.

##### Fixed retention period for efficiency savings for this price control period

Whilst we welcome the mechanism to allow a company to retain the benefit of out performance for a five year period irrespective of when the improvement was made, we reiterate our concern that the reward for an operational expenditure saving is considerably greater than that for a similar capital expenditure saving. We believe that developing a mechanism that achieves greater parity warrants further investigation.

We welcome Ofgem's confirmation that it will not retrospectively apply the fixed retention period for operating expenditure efficiencies.

As the delivery of security and quality is dependent on both operating and capital expenditure, the proposed test for eligibility to the five-year capital expenditure incentives should be extended to eligibility to the same for operating expenditure. We also believe that consideration should be given to extending the period over which the incentive is to be passed back to DNOs from five years to ten whilst keeping the Net Present Value (NPV) of the incentive constant. See our comments later in this response in section 4 on network resilience for further details.

##### Metering

We understand that following the introduction of separate price controls for metering and network activities, the rateable liability for the metering assets will be reallocated to the network assets as proposed in gas. We ask that Ofgem confirm this understanding in their next update.

##### Demand connections

We welcome Ofgem's intention to look at the possible extension of the distributed generation hybrid-incentive scheme to demand connections. This should ensure that customers are adequately protected until such time as competition in connections becomes established. The current effective pass-through of connection costs provides weak incentives on DNO efficiency.

### Extra high voltage and 132kv

There are currently differences in the scope of distribution (versus transmission) activities in England and Wales versus those of Scotland. In order to avoid any inefficient locational signals, there should be consistency in the distribution and transmission charging arrangements.

### **Distribution losses**

#### Output based incentives

Evidence points to an ongoing reduction in settlement errors though more remains to be done to reduce these to acceptable levels. These reductions should decrease the uncertainty in the calculated level of losses, hence, increase DNO incentives to reduce losses. However, it is still important that Ofgem carries out its long-standing commitment to review revenue protection. In light of the reduced uncertainty and the intention to enhance the existing losses incentives, British Gas supports Ofgem's intention to continue with an output based incentive. There is little to suggest that an input based incentive would be as effective.

#### Distributed generation adjustment and remote renewables

It is right to remove the somewhat arbitrary distributed generation adjustment. In general terms DNO losses can be expected to reduce as a consequence of the increasing amounts of distributed generation. Care should be exercised in relation to any DNO specific losses adjustments. A symmetrical policy of adjustments might mean that if DNOs were protected from any increased losses from remote renewables then DNOs should also not receive the full incentive windfalls from the inevitably increased levels of other distributed generation. Remote renewables adjustments could result in DNOs favouring remote renewables over more efficiently located (closer to demand) renewables. DNO specific adjustments could mean that any increased energy losses arising from remote renewables would be paid for (smeared across) all consumers via increased electricity purchase costs.

Ofgem will need to ensure an appropriate balance between incentives for efficiency and protecting DNOs from factors outside their control. If a marginal incentive is to be used then an appropriate balance between efficiency and DNO protection could be achieved by reducing the effective incentive rate (DNO exposure). This should only be considered where the net effect of all DG (not just renewables) on a DNO's system is likely to result in higher losses than would otherwise have been the case. However, even this limited form of DNO protection is unlikely to be necessary as there is likely to be a significant amount of relatively easy loss reduction at a DNO's disposal as a consequence of the ineffective incentives on technical losses to date.

DNOs could reduce any adverse impact of remote renewables from the proposed losses incentive via the use of loss related charging methodologies. For example, using marginal zonal losses charging arrangements along the lines of those due to be implemented by NGT for the electricity transmission network in 2004.

#### Calculating losses

As well as the method of calculating adjustments, we would welcome a more general review of the methodologies used by DNOs to calculate losses. DNOs appear to calculate losses on differing and non-transparent bases. Historical DNO reporting of quality of

supply data and the subsequent material adjustments under the IIP scheme illustrate the importance of ensuring comparable and accurate data when calculating the financial rewards (and penalties) due to (and from) DNOs.

### Benchmarking

If practical, we support the use of benchmarking of performance across DNOs both to set any future losses targets and to assess the efficient level of losses in the longer term.

### Possible perverse incentives

It is important to minimise any perverse incentives that DNOs might have to delay losses reduction initiatives for the remainder of this price control period. DNOs may pursue this strategy so that they can inappropriately benefit from an increase in the losses incentive rate at the next price control. That is, DNOs will be exposed to a relatively low financial penalty now, followed by higher financial rewards during the next price control period. One possibility could be for Ofgem to signal, as soon as possible, the intention to reward (penalise) above average (below average) losses performance at the end of the next price control, based on performance that includes the remainder of this as well as the following price control period. Additionally, Ofgem could extend the eligibility of the five-year rolling incentives to include achieving a satisfactory level of losses.

### Capping the customer cost increase

A key element of any future losses regime should be to ensure that any customer cost increase as a consequence of loss reduction (i.e. any incentive payment plus increase as a consequence of capitalised losses expenditure, for non-technical losses this should include the additional value of the units driver) is no more than the value of losses. For example, if the value of a permanent reduction of 1kwh of losses is 100pence (calculated say on the basis of the price of the additional 1kwh of energy that would otherwise have to be purchased) then the final cost increase should be no more than 100pence. Ideally, the cost increase should be lower than 100pence so that customers not only benefit from a reduction in the level of losses (environmental benefit) but also benefit from a net cost reduction (improved cost efficiency). The current Ofgem proposals do not appear to incorporate a cap on cost increases and also inappropriately provide greater incentives (hence greater customer cost increases) for non-technical loss reduction.

### Forecast business plan questionnaire

See our comments later in this response in section 6 on the forecast business plan questionnaire.

### Way forward

We will shortly meet with Ofgem to further discuss our thoughts on an alternative capital expenditure allowance based losses incentive that places a cap on cost increases yet retains the existing capital expenditure efficiency incentive properties.

## **4. Quality of service and other outputs**

### **Consumer survey**

Ofgem's work on assessing customer's willingness to pay is welcome. However, DNOs provide a wide range of services directly to suppliers. Ofgem does not make clear how it will assess whether or not to extend the range of outputs to services provided to suppliers. We would welcome clarification of Ofgem's thinking in this area.

### **Comparing quality of supply**

#### Low voltage

It would be helpful for Ofgem to clarify its rationale for low voltage Customer Minutes Lost benchmarks being based on the assumption that poorer performing companies will move 75 per cent of the way to the national average duration of interruptions by 2020. These benchmarks appear unchallenging in light of the overall performance improvements under the recently introduced IIP incentive arrangements.

#### High voltage

If incentives or benchmarks are to be based on data provided by companies, care should be taken to ensure its accuracy. The DNO circuit length data provided by DNOs and included in Appendix 2 of the Ofgem document shows some unusual trends for some companies. For example, NEDL's circuit length reduces from 44,753km in 2000/1 to 39,610 in 2001/2. Conversely YEDL's circuit length increases from 54,767km in 2001/2 to 58,744 in 2002/3. Most other companies show a modest increasing trend over that period. As noted earlier, DNOs' historical fault data provides an important lesson in the reliability and accuracy of DNO data.

#### Extra High voltage and 132kv

It is right to protect DNOs from any volatility of performance in this area that is outside their control. However, it is important to ensure that the use of a benchmark based on the average of ten-year performance does not inappropriately ignore any step change increased levels of performance achieved under IIP.

#### Use of benchmarks

For low voltage, for poorer performing companies if the benchmark is to be 75% of the way to the average DNO performance, and the company's target is to be 40% of that, then the resulting 30% gap closure to average DNO performance does not appear particularly challenging. Furthermore, it is not clear what the effect of having a benchmark at average performance for the better performing companies is. Are better performing companies going to be incentivised to reduce their performance to that of the average?

It is difficult to comment on the appropriateness of the individual benchmarks or their application without seeing the underlying performance data, especially performance improvements since the implementation of IIP

Moreover, it is not possible to properly comment on the proposals in the absence of the likely cost increase, if any, to customers and the shape of the future incentive scheme.

### Rewarding frontier performance

Better performing companies should be better rewarded than poorly performing ones. Moreover, as benchmarking of performance across DNOs should be used wherever possible to incentivise performance improvements, companies should be further rewarded for moving that benchmark.

Rewarding frontier performance through the IIP scheme and through an additional mechanism appears to be appropriate though it is not possible to comment on Ofgem's additional mechanism without further information on the effects of the target setting methodology incorporated within the business plan questionnaire produced by Ofgem. In general terms we support frontier rewards for improvements in performance for upper quartile performers.

### **Network resilience**

For network resilience the important interactions are between the: -

- Cost efficiency incentives;
- IIP output incentives;
- Guaranteed and overall standards (in particular likely DNO financial exposure where compensation is on application rather than automatic); and
- Compliance with efficiency obligations versus likelihood of effective enforcement.

The key element of these interactions is the proposed eligibility of the rolling five-year (as opposed to the previous variable five to one year) capex efficiency incentives, i.e. DNOs should meet their quality and security obligations. This important interaction should help to ensure that DNOs do not inappropriately reduce capital expenditure at the expense of quality of supply and hence network resilience. However, there are two weaknesses in relying mainly on this approach.

First, operating expenditure as well as capital expenditure affects network resilience. For example, the extent of (or absence of) tree thinning and removal. Consequently, eligibility to the recently introduced rolling five-year opex efficiency incentives should also be subject to the same test as that for capital expenditure.

Second, network resilience cannot always be measured over a five-year period. Network resilience can be thought of as quality of supply (an instantaneous measurement) with a time lag, i.e. quality of supply not just now but extending some time into the future. Various factors 'reveal' network resilience. The most important of these is the exposure of the network to a major storm. The time between major storms is on average greater than the five-year period of a price control and the five-year capital efficiency incentive eligibility test. As noted in our response to the Ofgem July 2003 consultation document, one way to address this particular difficulty is to pay the existing five year efficiency incentive over a longer period of time, say ten years, whilst keeping the incentive the same as currently in NPV terms. This prolonged period should not only increase the likelihood of revealing poor network resilience but should also reduce any perverse incentives on companies to reduce short term costs to inappropriately benefit from incentive payments.



Any assessment of DNO efficiency, especially eligibility to the rolling capital efficiency incentives should take account of DNO performance before and in response to the storms in October 2002.

## **5. Distributed Generation**

### **DNO information and distributed generation**

DNO information on volume and cost forecasts should be verified against independently available information and assessments. Where possible, individual components of costs should be benchmarked across all DNOs.

### **Incentive framework for distributed generation**

The form of the hybrid incentive proposed by Ofgem appears to be an appropriate way forward in respect of distributed generation costs. This appears to be similar to British Gas' previous suggestion of using a scheme that has the characteristics of the NGT electricity transmission SO incentive scheme. However, British Gas' suggested form of incentive scheme appears to offer the advantage of being more transparent in the way it describes the DNO breakeven point and the incentive rate around that point. This transparency would extend to the use of DNO specific parameters.

The proposed way forward is preferable to the alternatives of either the standard RPI-X regime (which would require greater certainty on the unit costs and volumes of likely DG) and the use of full pass through (which has very weak incentive properties). The challenge will be to set the DNO exposure at a level that reflects the amount of DNO uncertainty.

As our previous responses note, we have considerable concerns about the introduction of Innovation Funding Incentives and Registered Power Zones, though we believe that Registered Power Zones have some merit and so should be considered further.

## 6. Assessing Costs

The comments in this section recognise Ofgem's comments that the DNO historical data includes un-audited data and that not all data has been provided on a comparable basis.

### Historic Business Plan Questionnaire

As noted earlier in this response (section 4) some of the data provided by DNOs shows some curious trends and may require further investigation or explanation. For example: -

- For standard controllable costs for EDF Energy Eastern Power Networks the data shows very low values until a significant increase in 2002/03. However, there is only a modest increase in 2002/03 for EDF Energy London Power Networks even though the two DNOs were under common ownership and operation;
- For customer numbers Aquila's data shows a material reduction from 2000/01 to 2001/02 whilst most companies show stable or modestly increasing numbers;
- For circuit length NEDL's data shows a reduction from 44,753km in 2000/1 to 39,610 in 2001/2. Conversely YEDL's data shows an increase from 54,767km in 2001/2 to 58,744 in 2002/3. Most other companies, with the notable exception of WPD South West, show a modest increasing trend over that period.

We would welcome greater publication of comparable DNO performance data. This would help us to make estimates of our likely future DNO costs following the price control settlement. The currently available data is inadequate for this purpose. It is our understanding that DNOs have been sharing much of the data, currently not in the public domain, amongst themselves. If there were genuine concerns about either confidentiality or the need to ensure that inappropriate conclusions were not drawn from non-comparable data then it is curious that DNOs are sharing data with companies that are their effective competitors.

### Forecast business plan questionnaire

It is a pity that the questionnaire does not appear to include a number of loss reduction scenarios along the lines of those for quality of supply. This information could have significantly supported the review of the losses incentive currently being undertaken.

### CEPA's background study on benchmarking

#### Use of various techniques

We support the use of a number of techniques to assess efficiency, in particular COLS and DEA. This can help to alleviate the problems associated with the small number of data points and the probable need to make significant adjustments to normalise the data.

#### International data

The use of international data can be problematic if it is used without significant adjustment to reflect differences in operating environment including technical standards and accounting regimes. If international data is seen as helpful, Ofgem should put in place a program of work to make the data more comparable. It might be appropriate to target the use of that data for the next (not this) price control review.

### Total cost

Total cost analysis would be a preferred way forward though we recognise the difficulty of producing an appropriate measure. Consideration should be given to repeating the analysis carried out by CEPA using a single year's operating costs but with revised depreciation and RAV components. A problem with the CEPA approach is that it does not appear to take account of differences in regulatory depreciation profiles between companies (resulting in differing depreciation and RAV values between companies). This effect can be neutralised by recalculating the depreciation and RAV with common depreciation assumptions.

### Mergers

The impact of mergers is likely to be particularly problematic. There are a number of issues that need to be overcome. First, Ofgem is likely to have to restate (if necessary reconsider) its merger policy and then ensure that its benchmarking facilitates/implements it. Second, Ofgem will have to consider whether the cost data of individual licensees that are part of merged companies is comparable, in particular consider whether or not the allocation of shared costs between licensees is on a comparable basis.

#### *Merger policy*

If Ofgem's merger policy is simply to ensure that its policy response is neutral to mergers (i.e. the policy does not encourage nor discourage mergers) then there is a need to normalise for mergers. One way to normalise would be to observe the difference in costs between merged and non-merged DNOs. As there are only three (soon to be two) unmerged DNOs and eleven (soon to be twelve) merged DNOs that are part of only five merged groups it is likely to be particularly difficult to observe differences on a statistically robust basis. This is further complicated by how costs within a merged company could be expected to move over time. Immediately following a merger the overall costs could be expected to increase as synergies are sought. Eventually costs could be expected to be below the original levels. Observing differences between merged and non-merged companies taking account of the time since the merger is likely to be particularly challenging.

One alternative would be to use DNO-group (rather than individual licensee) data to observe differences in scale. Again this approach would not be without problems because of the small number of corporate groups (eight, soon to be seven) and the likely effects on costs of the time since the merger. A second alternative would be to assert differences, for example £12.5m per merger and to simply add these costs (on some shared basis) to the standard controllable costs of the individual DNOs that are part of merged entities.

An appropriate way forward might be to use merged company data (see next section) and assert £12.5m per merger.

#### *Comparability of merged company data*

DNOs that are part of corporate groups that contain other DNOs are likely to have a high degree of shared costs (over and above the normal corporate costs). The allocation of these shared costs is to a large extent arbitrary. Consequently, DNOs are likely to have taken different approaches to the allocation of these costs between the different DNOs within the corporate group. The different approaches could be either the result of genuine

and valid approaches to allocation or alternatively companies may have chosen particular allocation methodologies to influence a certain regulatory outcome.

A DNO group might pursue the latter strategy where a reallocation of costs would allow one company to receive frontier benefits (when its real costs were higher) whereas the other company would receive a catch-up period (when its real costs were already lower). There are a number of other scenarios under which certain cost allocation strategies could be profitable.

There is a risk in carrying out any particular strategy of cost allocation (reallocation) when companies are unsure of the methodologies to be used by Ofgem for benchmarking and calculating frontier benefits and catch-up rates. However, as DNOs have had access to each other's cost data for some time, DNOs could have reduced the risk of these strategies by modelling different possible outcomes.

The simplest way of avoiding these allocation problems is to only use data for DNO groups rather than individual licensees. Support for this approach can be found in analysing the correlation between the 2002/3 standard controllable costs and the many possible dependent variables. Generally, there is a significantly higher degree of correlation between the data of merged-company rather than individual-licensee data.

For the next (rather than this) price control, one way to reduce problems of comparability could be for the allocation methodologies to be either specified or approved by Ofgem.

One way to reduce perverse incentives and outcomes would be to assess efficient costs and produce revenues for merged DNOs then translate those into revenue streams for individual licensees.

### Operating cost analysis in 1999

We do not support the view that the analysis of operating costs in 1999 was robust though we support many of CEPA's recommendations for improvements on that approach.

### Cost drivers

Further work needs to be done to establish the appropriate cost drivers. Using 2002/03 data, especially DNO corporate groups, rather than 2001/02 data for single licensees gives different results. In particular, as we do not agree that the 1999 methodology was robust, checking the validity of a modified approach against the results of the 1999 methodology is likely to be unhelpful.

### **Ofgem's approach to assessing costs**

As noted in our previous response we support the use of upper quartile performance (or second best performing company if assessing the smaller number of corporate groups) when assessing the efficient level of costs. Setting all companies costs by reference to this benchmark could allow frontier companies sufficient reward for moving the benchmark forward whilst avoiding the problems associated with unsustainably low frontiers.

If it were considered that this approach does not result in adequate rewards for frontier companies, then we would support the use of the additional multiplier approach for frontier companies being considered in water and supported by a number of respondents to the last Ofgem consultation document. However, frontier rewards during this price control

period should not be substantially increased as compared with last time as their implementation at the end of this price control cannot have had a material effect on incentives during this price control period. If frontier benefits need to be significantly enhanced then it would be more appropriate for Ofgem to signal this as part of its post implementation review in 2005.

Hopefully the work that Ofgem is carrying out in relation to improving on its 1999 efficiency assessments should allow greater confidence in the results so that any catch-up rates are more challenging than the previous 75% of the benchmark over a number of years. This work should be used to set the 'real' Po cuts of individual licensees, or in the case of DNOs with catch-up rates the 'initial' Po cut plus the 'catch-up' X.

The 'real' X that should additionally be applied to all licensees could be directly derived from the Total Factor Productivity (TPF) study that Ofgem has commissioned from CEPA. There is merit in considering a TPF approach similar to that carried out by Europe Economics (EE) for the water regulator earlier this year. In this study, EE estimated a long-run TPF for the water industry plus an additional post-privatisation effect.

## **7. Financial issues**

### **Treatment of pension costs**

We welcome the attention that Ofgem is affording this issue and the prominence it has in setting distribution price controls. As we have previously stated, we acknowledge that Ofgem has a duty to ensure that companies can finance their functions. This includes the funding of efficient pension costs which, as a result of the recent substantial falls in the equity markets and consequential growing shortfalls in companies' pension funds, is now a material issue.

We see the challenge for Ofgem being the identification of those genuine shortfalls that should be funded by the customers and those which should be borne by shareholders.

We understand that the shortfalls in companies' ability to meet their future liabilities differ greatly and that the reasons for this include the differing performance of pension funds resulting from historic investment decisions and the differing redundancy programmes pursued by companies in pursuit of efficiency savings.

First, with respect to differing investment strategies, we do not believe that where trustees have opted for a high risk / high return strategy, which has subsequently failed, the customer should be liable for this shortfall unless it can be demonstrated that customers benefited to an equivalent amount in years of surpluses.

Second, where the deficit has resulted from aggressive redundancy programmes we do not believe that these should be borne by customers if the company has retained the benefits resulting from increases in efficiency. Operational efficiency is the net effect of the short-term reductions in (manpower) costs offset by any increase in pension liability. Companies should not benefit in the short term from the former without being responsible for the latter in the long term. There are parallels with the likely effects of differing approaches to capital expenditure, where there may be short-term reductions in costs that cause longer-term increases. Any assessment of efficiency in respect of pensions costs (as for capital expenditure) within the context of total employee costs needs to take a longer-term view.

As companies can influence, at least to some extent, the level of pension costs incurred, they should be provided with the incentives to operate efficiently and, as with other controllable operating expenditure, companies should be rewarded for out performance and penalized for under performance.

Accordingly, we believe that pension costs could be assessed using benchmarking techniques where efficiently managed funds, and those that have not performed as well, may be identified.

We agree that this will need to be assessed in a transparent, fair and consistent way.

### **Assessing the regulatory asset value**

There have been a number of corporate restructurings that have taken place since the start of the last distribution price controls. These have arisen either as a consequence of the Utilities Act (where distribution and supply activities were separated) or following the sale of distribution or supply businesses. Many of these restructurings are likely to have resulted in the effective disposal of assets by the DNO. For example, where properties (or

other rights, licences etc) have either being moved out of the distribution business or left behind in another corporate entity (as part of the transfer scheme to separate distribution from supply). It is likely that as a consequence of the ongoing DNO manpower reductions necessitating a reduced property portfolio, shareholders will have subsequently benefited from the sale of some of these properties. Any assessment of the regulatory asset value at the start of the next price control will need to take account of these asset 'disposals' so that customers can share in this increased efficiency.

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