

**Electricity Distribution Price Control Review**



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**Response to Ofgem Consultations:**

**1) October Update**

**2) CEPA's Report on Benchmarking**

**3) Customer Survey report by ACCENT**

**19 November 2003**

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## 1 Executive Summary

This document integrates our response to Ofgem on:

- The October Update Document on the Distribution Price Control Review;
- The Report by CEPA on Benchmarking; and
- The Customer Survey Report by Accent.

The sections of this response are ordered according to the contents of the October Update document. The summary below identifies the key points made across the three consultation documents.

- The work on benchmarking and comparative efficiency analysis will only be as reliable as the data upon which the analysis is based. We are pleased that Ofgem is aware of the significant problems with the existing data set due to the inconsistent bases upon which it has been compiled but unless this issue is resolved it will severely hamper Ofgem's plans to conduct the type of work envisaged by CEPA.
- We welcome Ofgem's attempts to achieve early resolution of the substantial uncertainty around the recovery of future pension costs. However, it is important to recognise that the guidelines identified are open to significant degrees of interpretation. It would therefore be wrong to try to close off discussion before there has been adequate debate of the next level of detail that emerges in trying to apply the seven principles.
- The hybrid incentive scheme for distributed generation can be effective so long as it provides sufficient reassurance on cost recovery as to limit DNO risk. The IFI/RPZ proposals need further work before they will really act as an encouragement to DNOs.
- We see little evidence of customer willingness to pay for significant changes to quality of supply and so large scale change to standards or other arrangements is probably not appropriate, even though the planned further stage of customer research will be useful.
- Given the increased focus of attention on network resilience we would suggest that the priority is to agree a definition of network resilience and then to develop a mechanism that can monitor this resilience of networks on an on-going basis.
- The approach to RIA's in this review should embrace more fully the wider social and environmental aspects of the price review than is evident to date in the initial work provided.
- The future detailed specification of the new losses and distributed generation incentive schemes need to be examined together to ensure that they are complementary in effect.
- It is important that Ofgem resolves the policy issues in the review as soon as possible in order to complete the work on an efficient and a timely basis.

## **2 Timetable and Consultation Process**

### **2.1 Timetable**

We welcome confirmation of the timetable and the greater clarity on the schedule of meetings. We note the considerable progress made by Ofgem in the last few months as data requests have been specified and also the constructive and helpful approach which has been taken to resolve issues with DNOs. The October Update is a good point at which to review progress before the final of the major submissions of data takes place.

We are a little disappointed that the main data gathering is taking place in advance of policy making - thus increasing the risk of wasted effort on all parties. It would have been better if Ofgem had by now resolved more of the policy issues that dictate business planning assumptions. An example of this is the topic of metering separation where we would now like to see greater clarity of how the necessary policy decisions will be made in time.

However we must accept that we are where we are. Therefore there will need to be iteration around some issues, where the assumptions behind our FBPD turn out to be different from the final resolution of policy, and we accept the inevitability of parallel working on policy and business plans. Ofgem's future plan should also acknowledge the potential rework of the plans submitted by companies.

### **2.2 DTI involvement**

One critical element of the price review process is not transparent from the timetable plan. This is the involvement of DTI. There are a number of areas where Government policy requirements need to be made more explicit in order that Ofgem and DNOs can develop proposals that will meet social and environmental objectives. Particular examples include distributed generation (where Government needs to be encouraged to describe more precisely the contribution expected from DNOs to the achievement of targets for both renewable energy and CHP), and network resilience (where any changes in the network performance standards expected by society must be specified).

### **3 Form Structure and Scope of Price Control**

#### **3.1 General Observations**

There has been only limited discussion so far on the form and structure of the price control. It is now appropriate to begin to develop more definite proposals for the development of the RPI-X approach.

We are encouraged, by the nature of data requests in the FBPQ, to expect developments along the lines suggest by both Ofgem and DNOs in early workshops towards an RPI-X+I+Q structure. We hope that a core price control consistent with a maintenance of existing service levels and obligations will be established with supplementary incentive mechanisms associated with potential variations in service requirements (including for example: distributed generation; network resilience; and any new service obligations). We also welcome the proposal to confirm the pass through of costs outside our control, such as: local authority rates; licence fees; and NGC charges.

#### **3.2 Fixed Retention Periods**

The move to fixed five-year retention periods for efficiency gains in both opex and capex is a welcome step. This should strengthen the incentives on companies to continue the quest for efficiencies, which will lead to long term benefits for customers.

There remain considerable doubts over the optimal approach to ‘benefit sharing’ and we would draw your attention back to the paper by John Bird that was sent to Ofgem by the EA Price Control Group (PCG). In the longer term it will be necessary to acknowledge that different kinds of benefits have different associated costs, and we should eventually look at the sharing of net benefits. For the moment we welcome the steps that have already been taken to improve incentives and commend the detailed mechanics developed by PCG on both capex and opex efficiency gains.

#### **3.3 Distribution Losses**

We are pleased to see that our earlier comments have influenced Ofgem’s thinking and that Ofgem has recognised the difficulties with both the 10 year benchmark calculation and the impact of future growth of distributed generation. We support Ofgem’s proposal to review the impacts of these effects on a company-specific basis. However, without clarity on the incentive regime we can expect to face, it is difficult for us to conclude on its acceptability.

As we explained to Colin Green and Gary Keane, when they visited us last month, the impact of any losses incentive will vary substantially depending upon the data used - both to set the benchmark and as reported in the future. We were offered sight of Ofgem’s modelling on the possible offsetting effects of incentives on distributed generation and losses. This would be most helpful as we remain to be convinced that

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a company expecting growth in distributed generation in remote locations would ever wish to adopt the revised form of losses incentive you have proposed.

### 3.4 Treatment of Wheeled Units

We have previously drawn Ofgem's attention to the anomalous circumstances surrounding wheeled units. This has two distinct aspects:

- 3.4.1 ***Electricity imported from other distribution networks*** - we believe that these costs should be treated in the same way as NGC exit charges. To do otherwise creates distortions in the economic analysis where there are choices between developing grid supply points in a DNO's area and contributing to the costs of a neighbouring network where capacity might already be available; and
- 3.4.2 ***Electricity delivered to embedded networks*** - this is a new category of sales which may grow significantly in the future. However forecasts of volumes or of the associated costs are particularly hard to identify at present. These are the classic characteristics of an excluded service and we believe Ofgem should confirm this interpretation before their policy in the connections market has led to an explosion in such 'sales'.

## **4 Quality of Service and Accent's Customer Survey Report**

### **4.1 First phase of the consumer survey**

There is little evidence in our experience that our customers are willing to pay for improved performance and this is supported by the initial results from Ofgem's latest research. This throws considerable doubt on any proposals to enhance quality of supply targets for 2005-2010. We are therefore pleased to note that Ofgem's base case FBPQ assumes no change in CML/CI targets, and that the potential costs of any changes are explored in the separate sensitivity analysis.

Our thinking here also influences our comments on the proposals to reward 'frontier performance' on quality of supply. We continue to doubt the suitability of rewards for one-dimensional performance. Only if superior quality of supply represents value for money for customers should it be rewarded. We are becoming disappointed that Ofgem may not meet their plans (as described at the outset of IIP) to develop inter-company comparison on a value for money basis.

Ofgem will no doubt wish to follow up some of the preliminary findings in Stage 1 of Accent's report. We would suggest that Stage 2 should focus on 3 areas:

- Quantification of willingness to pay, particularly in respect of marginal changes in CML and CI. This needs to consider also how the results should be interpreted back into incentive schemes. We found the presentation of the valuation data in the Stage 1 report to be confusing. Where only a minority of customers was willing to pay anything extra, the average preparedness to pay should have been reduced to bring into the sample all those prepared to pay nothing. The report exaggerates willingness to pay on many measures.
- Network resilience – in line with our comments below, more work needs to be done to understand how targets for resilience could be established. Even if the final choice is driven by the Government's social policy considerations, it is important to understand individual customer's attitudes.
- Environmental improvements – we continue to believe that the investments necessary to support distributed generation will need to be funded, in part, by demand consumers. It is therefore necessary to understand customers' reaction to this additional cost burden. Again it may turn out that the impact on price is driven more by Government policy objectives, but it would be helpful to understand customers' feelings.

### **4.2 Network resilience**

We agree that network resilience demands greater attention and welcome any shift from short term to longer term perspectives on asset performance and network

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management. We hope to contribute positively going forward to the debate on defining and measuring resilience.

We would suggest that the focus of attention in this area should now be on trying to develop a mechanism that can monitor the resilience of networks on an ongoing basis. This would then provide a means of reassuring Government and consumers that severe events, such as storms, would have no more effect on supplies than was reasonable in the circumstances. The search for measures of resilience has not yet proved successful, but the growing public awareness of the issue should encourage us all to redouble our efforts to find a solution. As with IIP, we should aim to find an outcome-based approach that can then be ‘priced’ to reflect customers’ willingness to pay, possibly amended to reflect any Government social policy guidance.

The September draft report of the Network Resilience Group included a series of possible actions that will inform companies’ plans for the future. It may be possible to develop incentives linked to these actions as a stop-gap until a more complete outcome-based approach can be developed.

### **4.3 Disaggregating and comparing quality of supply performance**

We are pleased that Ofgem have accepted the framework for disaggregation developed by the DNOs. However in our minds, this approach was only suitable for understanding the relative performance of companies. It cannot easily be adopted for use as a target setting tool, since there is no link to the funds available to companies to achieve previous quality levels. This is linked to our earlier observations on the need to consider value for money.

There is then an entirely separate debate about the level of service customers might wish to receive in the future and how much it might cost any company to alter its performance to that level. We do not support the use of one model to achieve all of the objectives that have been identified on quality of supply.

### **4.4 The scope of the output incentive scheme**

The IIP is still a relatively new tool and the development effort on reporting arrangements should now be exploited by keeping stable the operation of the incentive arrangements. We would therefore prefer to see IIP left in its current form (subject to any price changes reflecting the willingness-to-pay survey). It is particularly important that output targets remain constant to maintain the levels of reward anticipated when the IIP was introduced. If there are new service delivery measures for which reward or penalty mechanisms are considered appropriate, we believe these should be specified in separate schemes (consistent with the RPI-X+I+Q approach).



#### **4.5 Changes to the standards of performance arrangements**

In our view there is considerable merit in stability in the form and scope of incentive mechanisms. It is only when companies can understand the long term consequences of their actions, that they are likely to respond positively to incentives to change behaviour. We believe that the combination of Guaranteed and Overall Standards of Performance and a relatively simple form of IIP is an appropriate basis for managing performance in terms of quality of supply and customer service. As the Accent work has demonstrated, these incentive mechanisms already seem to be targeting the areas of most concern to customers.

## **5 Distributed Generation**

### **5.1 The incentive framework: cost pass through proportion; network access incentives; and demand customers**

We welcome Ofgem's continued quest for an incentive mechanism that will encourage DNOs to take a more supportive role in the development of distributed generation. We accept that this is not an easy area, and that Ofgem's ability to consider more innovative approaches (such as our RED certificates proposal) is constrained by the lack of clear guidance from the DTI. We do remain concerned that any approach which still requires embedded generators to pay all the costs of the network capacity provided to meet their needs, might not do enough to stimulate new development.

We believe the hybrid scheme proposed by Ofgem could become an effective incentive. However it must be recognised that the provision of connection and infrastructure assets for distributed generation is more risky than the equivalent functions to meet general demand requirements. This is not only because of the uncertainty over the longevity of particular generation projects but also because of the less standardised design and asset usage. This latter issue is particularly important since it explains the construction cost risk that arises from the standard commercial approach of charging on the basis of estimated costs.

In our view the hybrid scheme can most easily be interpreted as 'pass-through' at the standard cost of capital, plus a p/kWh allowance based on the availability of the connection. Given the above average risk involved, companies will still be dependent on the p/kWh allowance to pass hurdle rates of return for these projects, but the future accounting can be made less complex if all assets enter a common RAB, with a single rate of return applied.

We have previously advocated a separate network availability incentive. However it may be difficult to find an appropriate way of calibrating such a scheme. It cannot be right to offer generators significant refunds for non-availability of network access, unless the generator had initially paid for a secure connection. This has not been the norm, with almost all generators opting for a low cost, less secure form of connection.

### **5.2 IFI and RPZ**

The October Update paper led us to expect revised proposals from Ofgem to be presented to the workshop on 7<sup>th</sup> November. Without that additional input, we have not developed our own thinking as much as we would have liked.

In principle, we support the concept of additional incentives for both research and demonstration projects. However, we remain confused by the apparent conflict in Ofgem's thinking that reveals a continuing fear of inefficiency, whilst at the same time wishing to encourage industry collaboration. We do not expect companies to be

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happy to share IPR if they have been encouraged to see research projects in a competitive environment.

Nevertheless we will continue to work up specific proposals, particularly for RPZ options in the North West, in the expectation that a suitable reward mechanism will eventually emerge. Some of our early thoughts include:

- greenfield or brownfield commercial development, where a range of technologies and solutions can be trialed – including: demand side management and generation from such technologies as: mines’ gas; PV; CHP and possibly also biomass and wind in some locations. A key driver might be the ability to appoint a licence-exempt supplier and thus release a higher value of embedded benefits – although this will need the co-operation of a real supplier;
- a voltage control project – probably the existing work we are doing with Econnect in Carlisle; and
- our first mass DCHP installation.

We understand that Ofgem wish only to provide premia once for each identifiable innovation. Nevertheless to promote a culture of innovation we believe Ofgem should seek ways where DNOs are incentivized for many incremental improvements to the way DNOs treat with generators, rather than be pushed wholly to significant discrete schemes. This comment applies both to IFI and to RPZs.

### **5.3 The volume and costs of distributed generation**

We are pleased that Ofgem has published this data so that interested parties can review and comment upon the range of data provided. We are not surprised to see a very wide range of results since we always expected this to result from the very real uncertainties being faced. Actual volumes and costs are likely to be different for all companies, with volume in particular being driven by exogenous factors including: Renewable Obligation Certificates; the commercial and operational position of the generators; and planning issues.

Table 5.2 is a largely comprehensive list of the factors that affect costs. Our experience conflicts with the suggestion that fault level is always the most significant driver of the costs relating to shared assets. There is potential for overlap between shared reinforcement costs and strategic costs, for instance where reinforcement triggered by one scheme might create sufficient capacity for others to connect - an example of this is to be found in Cumbria within our own region.

Each of the three main technical design cost drivers (fault level, voltage limits and thermal capacity) can occur to differing degrees in conjunction with any of the generation technologies, dependent on location. Thus it is possible to envisage two schemes with most attributes in common but very different reinforcement costs. For example, two 500kW CHP schemes in different town centres having respective “deep” costs of zero and £200k/MW for switchgear replacement due to fault level considerations.

There is confusion in Table 5.2 regarding transformer tap changers. Reverse power flow causes two problems. One is the controllability of voltage and is a feature of the

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control scheme and possibly the tapping range of the transformer. Control scheme replacement costs are modest, but an inadequate tapping range would, all other factors being equal, require a transformer change. Separately, irrespective of voltage control, some tap changers are not adequately thermally rated for reverse power. Again in this case this could precipitate a transformer change should this reduced reverse rating be breached.

## **6 Assessing costs and the CEPA Report**

The assessment of companies' costs is clearly a critical element of the price control review process and we welcome Ofgem's open and consultative approach to this task. We have already provided an immediate reaction to the CEPA report and have subsequently contributed to the discussion that followed CEPA's presentation on the 30<sup>th</sup> October. Additional comments on the CEPA report are therefore covered in an appendix to this response document.

The issues that need to be addressed can be divided into :

- Developing a consistent dataset
- Comparing companies' performance
- Assessing appropriate future revenue allowances.

### **6.1 Consistent data**

The whole idea of comparative analysis depends upon consistent data being available. We appreciate the efforts that Ofgem are taking to try to ensure that any comparisons that are made are fair. It is clear to us that this has not been the case in the past, but Ofgem's more searching scrutiny of 2002/3 data gives us more confidence that a reasonable dataset will emerge.

However, if the proper correction of the data for such issues as capitalisation policies and atypical item reporting is not successfully made, then all analysis will give erroneous results.

### **6.2 Comparing companies' performance**

Ofgem's initiative in commissioning CEPA to review the techniques available for benchmarking efficiency was an excellent step. The CEPA report provides valuable assessment of the respective merits of a number of benchmarking tools. However it also goes on to draw conclusions on the basis of an analysis of 2001/2 data from companies' regulatory accounts. This therefore means that this work is of very limited value, since the data from which judgements are made is so clearly inappropriate.

We have already commented on some of the shortcomings (see also appendix). These limitations could devalue the whole of CEPA's work unless they are rectified. CEPA's basic approach is not necessarily wrong, but the input data problems need to be corrected before anyone can attempt to draw conclusions from such work.

We would agree that the small number of data points makes the use of any statistical techniques less valid, and the potential for error in conclusions drawn must not be overlooked. Nevertheless, we can see the need for some form of comparison, if only to demonstrate that companies are all operating at broadly comparable levels of efficiency.

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Without a more robust attempt to replicate CEPA's work on a reliable dataset it is not possible to propose one specific form of comparison above another. As we have previously suggested, there is merit in exploring a number of different techniques and possible functional forms to describe the relationship between business drivers and costs. We expect Ofgem to continue this work once the 2002/3 data for all companies has been presented in a consistent form.

We also intend to do more work in this area and expect to discuss progress with Ofgem in the weeks ahead. In principle, we believe that comparative performance should be described in terms of value for money. If this proves impossible to deliver a single widely acceptable measure, it may be necessary to continue to compare only cost information, but this should be adjusted to reflect differences in outputs delivered to customers (such as the quality adjustments we have already demonstrated).

The comparison of costs might also be distorted for other reasons. Two of these are already well known. Firstly, a concentration on operating costs can be misleading to the extent that opex and capex are substitutable. We therefore recommend a review of total costs, and careful consideration of the form of capital consumption to be included. The second issue concerns the impact of different ownership structures on company costs. Ofgem's own statements on DNO mergers indicate that as DNOs combine they can operate with lower costs. Any comparison of performance should be able to isolate this effect so that short-term operational performance is not distorted by ownership issues.

Our work on these topics is continuing and we expect to discuss progress with Ofgem when appropriate.

### **6.3 Assessing future revenue requirements**

The mechanisms used to calculate future revenue need not be a direct extension of the analysis of past performance. Whilst historical performance may provide some insight into the scope for future efficiency gains, this will only be true if the reasons for differences in past performance can be fully understood.

We expect Ofgem to take account of many factors in assessing future requirements. These must include the extent to which the future will be different from the past. New service requirements, changes in legislation or other aspects of our operating environment will all affect the levels of income that will be needed.

However, it is inevitable that some extrapolation from the past will be done to help inform judgements on future revenue requirements. We believe that the frontier approach has now been discredited and that future benchmarks will rely less upon single or outlier observations.

Again the CEPA report helpfully identifies a number of options without providing an overwhelming case for one approach rather than another. At present we remain open-minded and support Ofgem's intention to consider a range of possible methodologies. Income needs could be derived from a company's own base costs, with suitable adjustments for anticipated movements in efficiencies and other 'cost shocks'.

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Alternatively the efficiency target could be derived from some form of benchmarking. What is ultimately important is that the allowed income will be sufficient to finance the functions of the Licensee. Using a range of approaches should reduce the prospects of any unacceptable answer emerging, but this depends upon each approach itself being based on reasonable assumptions.

It is probably premature to describe exactly how revenue should be calculated, but it would be helpful if Ofgem could set out their thoughts on how, in principle, any approach is reconciled to the obligation to ensure that it can be financed.

## 7 Financial Issues and Pensions

### 7.1 Policies and guidelines

We are pleased that Ofgem has sought to achieve clarity of the treatment of future pension contributions. This is an important issue for all DNOs. We will need to be convinced that the outcome avoids an undue burden falling on shareholders and that the operation of competitive markets is not distorted. We welcome Ofgem's attempts to achieve early resolution of the substantial uncertainty around the recovery of future pension costs. The development of a series of policy guidelines has been a positive step forward, which has helped to structure debate and provide a framework for analysis.

However, it is important to recognise that guidelines are not hard policy and it is becoming clear that the interpretation of the guidance provides further grounds for alternative outcomes. It would therefore be wrong for Ofgem to try to close off discussion before there has been adequate debate of the next level of detail that emerges in trying to apply the seven principles. We hope that the meeting on 25<sup>th</sup> November will provide the opportunity to move the debate forward.

### 7.2 Issues and way forward

We agree with Ofgem's identification of the main issues where further discussion is needed. These also align with the content of the three papers sent to David Gray on 11<sup>th</sup> November on behalf of ENA members. We will add here only very brief comments:

*Under-funding* - We are pleased that Ofgem recognise the issues raised and intend to provide further clarity of approach in the December paper.

*Regulated / Unregulated split* – This is a complex area, where the past obligations on companies have varied considerably. We believe it is important to look forward and identify the most appropriate means to ensure previous commitments to employees (many of whom have since retired) can be honoured. At the same time there should be a second objective to minimise distortion of competitive markets.

*Enhanced Benefits* – We acknowledge Ofgem's need to ensure companies have acted appropriately in taking initiatives to reduce future operating costs. However it does seem inconsistent to accept the benefit to customers of reduced cost base year costs, whilst suggesting claw-back of expenditure that allowed savings to be made.

We have previously argued for benefit sharing to be done on the basis of net benefits (rather than apportioning a share of gross cost savings to customers). It is entirely consistent with our general approach to use the net impact of severance schemes in any assessment of company efficiency.



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We hope that the differences of view that emerge from your October Update are a consequence of the stage in the process we have reached. The principles remain open to interpretation, and more detailed procedures need to be developed that remove the uncertainty and confirm that a reasonable conclusion will ensue.

## **8 Initial RIA for Distributed Generation**

Our review of the initial RIA for distributed generation indicates that Ofgem continue to see their objective solely in terms of efficiency. This will not lead to the most rapid development of renewables and CHP and may not therefore be consistent with Government targets and objectives.

It would be more consistent with the wider purpose of Government environmental policy, for the evaluation of costs and benefits to take explicit account of the reduction in carbon and other emissions that would result from these various forms of Distributed Generation. This might help to shape incentives in a way that provides more encouragement for low carbon generation.

We look forward to further work by Ofgem on the RIA of the review itself to embrace more fully the wider social and environmental objectives which are viewed as appropriate by the stakeholders in the price review.

## **9 Appendix: Additional comments on the CEPA report**

### **Input data to any analysis**

We have stressed already how important it is for the input data to any comparative analysis to be genuinely comparable and to be compiled on a consistent basis. We are pleased that Carl Hetherington is attempting to deal with this as part of his work, but if the proper correction of the data for such issues as capitalisation policies and atypical item reporting is not successfully made, then all analysis will give erroneous results. We do not think that the CEPA report makes this point strongly enough. Indeed it presents results based on 2001/2 data that are misleading.

### **The increasing “dispersion” of data over time**

CEPA comment in their report that they observe that trends in efficiency improvements over time for certain companies are at odds with what might have been expected. It is our belief that the underlying performance of companies is probably very close to what one would expect, with genuinely less efficient companies having more scope for future efficiencies than efficient companies. We suspect very strongly that the counter-intuitive results picked up by CEPA might well be due to the type of data inconsistency problems referred to above.

### **Data volatility over time**

Our own analysis of conducting the same type of comparative efficiency analysis, but with different progressive years of data, can show very volatile results in terms of relative company performance. Again, we believe that this is explained, at least in part, by reporting and data inconsistency not only between companies, but also between years. The most important implication here for the CEPA work is that the results in the report cannot be assumed to be universally valid if only a single year’s data set is used, without much more rigorous auditing of accounting practice.

### **Using a range of techniques**

We have always recognised the need to consider a range of techniques and as such, we support in principle the development of DEA, but as an element of a portfolio of techniques. We believe that DEA might be workable if there are a relatively small number of well-defined explanatory factors. We do however have reservations over an undue focus on any one “latest favoured technique”.

### **The number of comparators**

The number of comparators is an area which we have already highlighted to Ofgem. It is essential that any comparisons reflect the reality of 8 ownership groups, even if this is only by adjusting the data in a 14 licensee model. We were therefore a little

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alarmed that very little of the CEPA work has examined this important area and we hope that Ofgem's actual analysis will cover this vital area properly.

### **Total costs**

We support the move to compare costs on the basis of total costs, again amongst a range of analyses. This aggregation of data might also help to make the conclusions less subject to the data consistency problems referred to above. It is important to use the correct cost drivers and we recommend that Ofgem and CEPA refer to DNOs' historical business plan questionnaires to cross check the relevance of cost drivers used in the comparative analysis. We remain to be convinced that customer numbers can be taken out of the set of cost drivers. We believe that customer numbers remains relevant as a measure of the costs of providing a network (including service cables to individual customers). In fact, it is quite possible that consumption will be less of a factor in driving costs going forward, due to the impact of distributed generation. The general move towards the removal of metering from the main price control will not, as suggested by CEPA, largely remove those costs which are driven by customer numbers.

### **Quality**

The CEPA report seems far too dismissive of the impact of quality on costs. We know first hand that should we be asked to change the quality of supply from our network, that our costs would change. It is also evident from the more robust reporting of IIP performance that companies' actual experience does vary markedly.

### **International data**

Whilst the use of international data is attractive in principle, the feasibility of getting data for analysis which is both robust and available in the time scales, seems to us to be remote. If this is indeed the case, then this should be agreed as soon as possible in order to avoid wasted effort by all parties. Perhaps it should be worked on in time for the next review.