Workshop Summary
Electricity Distribution Price Control Review

7 November 2003

December 2003

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1. Introduction

1.1. The price control review is currently in the second of its four stages. The initial consultation document (July 2003 – 68/03) set out the timetable and process for the review. As part of the price control process, a workshop was held on 7 November 2003 at the Thistle City Hotel, Barbican, London. The workshop was a chance for interested parties to discuss the key issues for the review, and provide Ofgem with views to develop price control policy and the assessment of costs.

1.2. The 84 attendees represented a wide range of interests, including DNOs, supply businesses, the City, consumer representatives and consultants. A full list of represented bodies can be found at Appendix 1.

1.3. Ofgem opened the workshop by outlining recent progress on the price control, and Jim Tame, Chair of the ENA Regulation Group, provided a DNO viewpoint on the review. After a presentation from Ofgem on distributed generation (DG), registered power zones (RPZs) and the innovation funding incentive (IFI), the workshop divided. One breakout group left to discuss the RPZs and the Innovation Funding Incentive (IFI), while the remainder of the delegates remained to hear further presentations from Ofgem staff on quality of supply, metering and cost assessment and financial issues.

1.4. After lunch the delegates reconvened in four breakout groups. Each group consisted of a mix of Ofgem, industry representatives and other interested parties. The groups focused on:

- RPZ, IFI and DG;
- metering;
- quality of supply; and
- cost assessment and financial issues.

1.5. Summaries of the breakout discussions form the main part of this document and are presented in the next section. Copies of the slides from the main presentations and break out groups can be found in Appendix 2, which needs to be downloaded as a separate document from Ofgem's website. The aim of the

breakout groups was to give attendees an opportunity to discuss issues in an open environment. The aim of this document is to provide a summary of the day's proceedings, but delegates' opinions should not be taken as representative of their views or the opinions of Ofgem.

1.6. Following the workshop, attendees were invited to complete an evaluation form reviewing the day's events and format. Appendix 3 contains a summary of the evaluation form responses.

1.7. Ofgem would appreciate any comments on the content or format of this document, and on the use of workshops and whether they could be improved, by 10 February 2004. These should be sent to:

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2. Breakout groups: summaries and suggestions

Morning breakout group: RPZ/IFI

Companies represented:

Aquila	EA Technology	SP T&D
Biopower London	EDF	Water Research Centre
BPI	EME	WPD
Cornwall Consulting	Mott MacDonald	YEDL
Corporation of London	Siemens	

Discussions

IFI

The group was asked to consider whether Ofgem's proposal for research and development (R&D) funding was appropriate. The group noted that it was a sensible first step, but whether the amounts were right in the long term remained to be seen. Ofgem suggested that the figure of £1m per year per licensee (noted to be around ten times the present level by one participant) was for the next price control period only, rather than the long term. It was felt that this figure was approximately correct. Ofgem's proposed R&D intensity of 0.5 percent of turnover (to be included in opex rather than capex) was designed as a mechanism that could change within the price control period but the group thought that a constant figure for five years would be preferable. It was recognised that some projects, such as the Thames Gateway, would need much more than £1m, though this example was more suited to RPZ than IFI funding.

Ofgem asked the group to consider whether these measures would be enough to change DNO behaviour: the group admitted that while they could imagine possible projects, the subject got limited attention from management, and it would be important to strike the right balance. Once the initiative was part of the regulatory process, DNOs would be more likely to act.

Ofgem outlined how the funding would work: 50-75 percent would be funded by the IFI, the remainder by the DNOs. The group feared that the scheme would be a waste of money if the DNO failed to get a return on the proportion that it funded, but Ofgem

noted that returns in this area are difficult to quantify. It was predicted that success rates (depending on how this is defined) on IFI projects would probably be about one in ten, but that there would be a better view of this after the price control period. One delegate suggested that funding of more than 100 percent would be a good incentive for DNOs to commit to IFI, but Ofgem questioned how such a funding level could be justified to customers. IFI projects aim to prepare networks for the next 20 years, but this is complicated by the difficulty of predicting funding more than five years ahead, and by the need to co-operate with universities and other third parties.

Ofgem concluded the discussion by asking for input on how they could ensure that the money was well spent. Ideas included:

- establishing an appropriate reporting method, including the production of public reports;
- taking note of models from other industries: environmental reporting in the water industry, for example. Here, there is no obligation to report on R&D, which is funded from a communal pot, and carried out by organisations like the Water Research Centre. However, they spend less on R&D than the electricity industry;
- checking to ensure that DNOs do not duplicate research, by coordinating research and projects (though diversity should still be fostered); and
- investigating the length of time between innovation and return and reporting on the findings.

It was generally thought that the first option was the most practical and possibly the most effective as well.

RPZ

Ofgem moved the discussion onto RPZs and the drive to find genuinely innovative schemes (i.e. active management) which could assist the connection of DG. Currently the level of DG activity across the country is still low, and it is anticipated that there will

be regional variations which will change over time, depending on the development of DG. The discussion covered the following topics:

- connections: there are already some unconventional connections in place, for which customers are carrying the risk. RPZs could change this, putting more of the risk onto DNOs;
- technology: the DNOs present suggested that they did not yet have suitable technology in place, but that some of the challenges were more organisational than technical;
- scale: there was some confusion over the scale of RPZs, but Ofgem confirmed that this was something that was not yet defined;
- the gold, silver and bronze classifications: group members were not yet clear on the differences between the classes, but anticipated that this would change with time;
- financial mechanisms: the group questioned the use of a £/MW driver, suggesting that this was more appropriate for capex. Ofgem suggested that it was consistent with the general approach to DG incentives. This would become clearer once the DG incentive parameters were understood;
- the course of action should RPZ not work: where would the funding for fixing a connection come from;
- the need for ideas for RPZs from DNOs: Ofgem has already received some ideas involving major parts of DNO systems, but more ideas and worked examples would be welcome;
- the historical lack of R&D: the challenge is to meet new partners, including partners from outside the UK, but there had been very little international cooperation with DNOs in the past; and
- IIP/guaranteed standards: this may be discouraging DNOs. Ofgem will continue to consider this area.

Afternoon session

Breakout group 1: RPZ/Innovation Funding/DG

Companies represented:

Aquila	EME	Siemens
Biopower London	Energywatch	SP T&D
BG Trading	Mott MacDonald	SSE
BPI	Mowlem Energy	UU
Cornwall Consulting	Powergen	Water Research Centre
EA Technology	Realtime Engineering	WPD
EDF	RWE Innogy	YEDL

Discussions

The discussion began with a presentation from Scottish & Southern Electricity plc. The presentation examined some of Ofgem's emerging proposals on distributed generation. The hybrid mechanism was considered to be a complex matter and low risk overall, but a number of risks would need to be addressed to avoid DNOs delaying investment. Other alternatives might be to extend the existing framework, under close monitoring, or look at the possibility of 100 percent pass-through, supplemented by an additional £/MW revenue driver and subject to audit and reporting. Both the RPZ concept and the IFI were to be supported strongly, though further work would need to be done on the detailed rules.

Open discussions then began by considering the NGC/Transco hybrid scheme, but while these are also low risk businesses, the comparison was of limited use since the scheme required a number of licence modifications, the network is much simpler and it is unclear how the DG scheme will develop. Ofgem pointed out that costs and uncertainty vary greatly between the DNOs, and it would be necessary to look at the total capex across the UK, which is quite low. It was noted that this could cause conflict with the obligation to connect, and if costs are greater than the return this could be a barrier. Ofgem suggested that the scheme could be reopened, with some high cost projects considered individually (logging up, for example), but this does not make for a good incentive. Ofgem also pointed out their objection to 100 percent pass-through, since this would discourage efficiency.

A delegate asked why RPI-X does not hold true for DG. Ofgem raised the issue of higher cost uncertainty, and said that a menu approach could be designed to deal with the risk-reward balance.

Incentives and Government targets

Ofgem outlined their desire to provide incentives for deliverable outputs by adding to the basic incentives. Efficiency and potential customers are Ofgem's primary concerns: connection costs are only a small part of meeting the Government targets and other factors are more important. The group concurred on the importance of the government targets, but felt that some of the issues surrounding this were:

- connection, which is becoming an increasingly important issue for DGs;
- network reinforcement where there is no competition;
- deeper reinforcement, which will make connection more significant;
- the wide range of potential outcomes; and
- the range of cost for CHP, which is greater than for renewables.

Connection

The group considered how much influence the DNOs had on generators over where to connect. Connection, network reinforcement and the timescale for connections are all significant issues. The introduction of shallow connection charges is likely to create new interest, but there are uncertainties caused by the lack of information on past costs.

The group agreed that it may be appropriate to provide incentives for network operation. In the short term, opex should go up, but the main point was that DG develops. Incentives can be dealt with in the connection agreements.

Ofgem asked the group whether they supported the use of bilateral agreements between DNOs and generators: while there is currently no regulatory barrier to their use, there may be an information barrier, and the incentive not to reinforce and to introduce constraints also prohibit their use. Shallow connection charges would discourage this. While it was considered that this may be a matter best left for DNOs to consider, the

group was asked to think about whether Ofgem should prescribe what information should be available to generators.

Security of supply

The group considered whether the growth of DG would affect reliability. This was unlikely to be an issue for years to come, but it was thought that potentially there could be a problem if there were too many constrained connections.

The hybrid mechanism

Ofgem stated its commitment to the hybrid mechanism. Under the proposed model, there would be some pass-through, at a reasonable level, but it would be necessary to strike a balance between pass-through and incentives for efficiency. Another issue to be considered surrounded the voltage levels of reinforcement or technology. It would be difficult to build a bottom-up model, and a more simplistic mechanism would be based on one or two cost drivers. The fault level was one of the most volatile factors, and how the incentives regime would cope with this remained to be worked out.

One of the DNOs made the following key observations:

- the single incentive rate would not work;
- some DNOs have had a large volume of inquiries;
- it was possible to establish fault level long term averages; and
- a corrective mechanism was needed.

It was feared that reliance on the MW incentive will make DNOs wait until DG is certain, and this in turn could hinder achievement of some of the targets, where instead DNOs should be stimulating DG development. The group noted that no DNO had come up with a more workable incentive, and the scheme itself was a difficult thing to incentivise. One option would be to sell access rights, and pass-through would only be granted for DGs that pay a deposit. Load related expenditure would provide more certainty, but the associated risks were still not understood fully.

Strategic reinforcement ran the risk of the last few projects not turning up. Recovery could be weighted to the front of the target, and generators could be given better

information to streamline connection. The group questioned how interested the DGs were in location, given that the constructor carries the risk. Ofgem noted the potential impact on losses and QoS, worries also existed around:

- double losses;
- technical hurdles (G59);
- locations not being near demand centres;
- the possibility of lengthening work weakening the network; and
- voltage problems.

Breakout group 2: Metering

The session began with a presentation from Aquila Networks plc on the issues that concerned DNOs on metering. This looked at whether there was a need for a price control and if there was, what it should look like.

Stranding of assets and operations

The presentation's main issue was the stranding of assets, which was considered to be of more importance to the DNOs than questions about design of controls. DNOs highlighted their concerns that a separate metering price control would expose them to the risk of stranding of both assets and the operational resources required to meet their licence obligations.

Ofgem observed that similar concerns to those expressed by the DNOs in relation to a metering price control were expressed by Transco during their price control negotiations. Furthermore Transco did not have the comfort that the DNOs had in having a 'replacement cost' valuation used in their price control. DNOs acknowledged that Depreciated Replacement Cost (DRC) was a suitable way of valuing assets and mitigated some of the stranding risk that concerned them.

DNOs also suggested the use of termination charges as a solution to the problem of stranded assets. Ofgem indicated that it would not see any barriers to DNOs developing 'voluntary' offers including termination charges as Transco were doing. Ofgem indicated that termination charges were likely to be more acceptable if they were cost reflective. There was some concern about how a voluntary termination charge could fit with the price control structures currently discussed but most participants agreed with Ofgem that this was a second order issue that could be solved.

However, in addition to voluntary termination charges DNOs appealed to Ofgem to design a price control that included termination charges.

The DNOs felt that when they lose market share they should receive protection for their revenues. The DNOs considered that the structure of a new price control was a secondary issue and that stranding was a real issue that Ofgem needs to address.

Premature replacement of meters

Ofgem's view on premature replacement was that there is no customer or commercial benefit in taking good meters off the wall and replacing them with other meters with the same functionality. It is therefore not likely that the market will generate significant levels of premature replacement. Furthermore, installation costs are significantly higher than asset costs, factors which further mitigate against significant early asset replacement.

DNOs contended that meters were being replaced to allow suppliers to use different IT back office systems (in particular on pre-payment meters) and to offer better services to customers therefore the cost of installation would not prevent premature replacement and asked Ofgem to re-examine its assumptions.

DNOs' obligation to provide metering of last resort

One of the main DNO concerns was that their legal obligation to provide meters of last resort was leaving them with costs that other competitors in a metering market did not have to deal with, such as IT systems, and staff wages and pension schemes. So long as this obligation continues these costs would continue. DNOs believed that these costs should be recoverable through the distribution price control.

One DNO expressed concern that if suppliers chose to de-appoint them as MOp then they would have to terminate the contracts for a large number of staff, incurring significant costs. However, they would also need to maintain the capacity to provide 100 percent market share. The DNO suggested a 'one way door' policy whereby suppliers who have opted out of the regulated service can only get services from the in area DNO through normal commercial negotiations. Ofgem agreed to consider the idea further.

DNOs pointed out that, to date only one supplier had opted to go for unbundled metering charges. The majority of metering contracts have offered bundled services.

DNOs suggested that as metering competition developed the previous economies of scale would be eliminated and this would in turn affect the pricing for the provision of metering of last resort. An estimated 50 percent of metering costs were fixed so the further metering competition develops then the more metering prices would increase.

Ofgem encouraged DNOs to provide information on this point in their BPQ responses to enable a proper assessment of the costs of the last resort obligations and the potential stranding of operational costs.

Ofgem remained of the view that removing obligations will be done if a competition assessment indicates that competition will be adequate to protect customers.

PPMs and metering innovation

Many DNOs assumed that innovation would only work if there was a mass rollout of an alternative technology across the whole industry.

It was noted that Centrica is driving a rapidly expanding market for PPM, and that this is not a mass rollout of a new technology. DNOs stated that the savings produced by Centrica's innovation dwarfed its installation costs, therefore leading to a stranded cost risk for the DNOs on PPMs.

Ofgem acknowledged that there are barriers to innovative PPM meters as PPM obligations are spilt into two parties and will need 'joined up thinking' to find a solution to this. Ofgem suggested that the issue of cross subsidy was probably less of an issue in electricity than in gas, which the DNOs confirmed.

Ofgem explained that metering innovation should be driven by consumers needs, and suppliers were better placed to judge those needs than either Ofgem or DNOs. It was confirmed that Ofgem were looking at the issue of barriers to metering innovation.

Sale of businesses

DNOs voiced concern that the price control would complicate a sale of its metering businesses. They asked whether, when a third party bought a DNO's metering business, the obligations would continue to stay with the DNO. Ofgem indicated that the policy position set out in 2000 remains in force.

Ofgem Competition Assessment

Ofgem stated that their long term aspiration of metering services was to progress in a similar way as with meter reading. There is no price control for gas meter reading and the obligation for Transco to provide this service had been removed earlier this year.

There is a different dynamic for metering competition than there is for supply competition, in that metering competition is driven by suppliers rather than consumers.

DNOs anticipated that the power in the metering market would shift from fourteen licensed distributors to an estimated four large supply licensees. Ofgem pointed out that any abuse of market power in such a market could lead to Competition Act investigations.

DNOs expressed concerns that suppliers may use metering to tie consumers to their retail business.

Breakout group 3: Quality of supply

The session began with a presentation from East Midlands Electricity. There was then an open discussion covering four broad areas:

- willingness to pay;
- long-run performance and network resilience;
- 'worst served customers'; and
- Standards of Performance – awareness, protection of I&C customers and the value / role of the Overall Standards.

Willingness to pay

The group were all keen to play a role in the design of the next stage of the Customer Survey and offered their support in developing the questionnaire. There was general agreement that the next stage of research was key in developing any future incentive scheme, with a strong focus on willingness to pay and customer awareness of the proportion of distribution charges that they pay.

There was some debate as to whether 'zoning' in the next stage of the survey would be feasible in order to identify areas where willingness to pay was greater, e.g. it was suggested that City businesses would be prepared to pay much more to increase network resilience. The experience in more rural areas of the country was very different but there may a 'special case' for the central business districts.

Concerns were expressed as to whether customers can honestly rationalise willingness to pay and make judgements on long run investment plans for the network. It was argued that Ofgem had a key role here in achieving a balance between long run and short run targets. For example, network investment to achieve long-run improvements may in the short run cause higher levels of planned interruptions. It was felt that consumer organisations (energywatch) had a role to play in educating the consumer to enhance understanding.

Long-run performance and network resilience

- There was a concern that Ofgem's focus on cost minimisation and the minimisation of CMLs and CIs has impacted adversely on long run network performance.

- Discussion followed about the practicalities of measuring network based improvements due to time lags of any potential effects of improvements, difficulties in actually measuring events which have been prevented in addition to statistical issues of measuring fault rates. One proposal put forward was to monitor fault rates on a specific number of 'worst performing' circuits, which would need to be ring fenced.

- There was some discussion over whether any incentive scheme should be 'input' or 'output' based. Ofgem felt that output measures should be used to focus resources efficiently and thus not promoting untargeted, unproductive spending. In conjunction with this, it was suggested that Ofgem should remain detached from micro level business plans of the companies, as they are generally best placed to take such decisions. Some participants felt that input measures would be more effective in incentivising network resilience, stating that output measures may well be too slow in identifying issues.

Worst served customers

The discussion initially focused on the definition of 'worst served customer' and whether the focus should be on customers who suffer from poor service over a sustained period or customers who are poorly served during an exceptional event. It was generally felt that both issues were important.

A number of participants felt that any incentive mechanism should improve performance for all customer groups, rather than focusing purely on average performance. The multiple interruptions standard was suggested as a method for taking this forward.

Standards of Performance

Awareness of the standards

There was a brief discussion of the customer survey results noting that less than 10 percent of customers are aware of the standards. There was then some debate as to how awareness of the standards could be better promoted. It was noted that customers are typically disinterested until something goes wrong and there is difficulty in getting customers to read information that is already provided via mail shots with bills. Strategies such as targeting customers through the media at the time of storm events, standardising the information provided and changing the onus of responsibility of reporting breaches of the supply interruptions standards from customer to companies were debated.

The practicalities of changing the method of compensation for supply restoration from a claim based system to an automatic system for customers was debated with the obvious cost and network connectivity implications. One participant proposed an alternative to automatic payments in the form of the companies notifying those customers it believes that may have suffered an interruption (using the currently established connectivity systems) and thus may be entitled to compensation.

Another participant suggested using the numbers of complaints received by consumers as a measure of company performance. However, as complaints are diverse in nature a number of participants felt that this would be difficult to implement.

Business Customers

The levels of compensation payments especially in relation to business customers was debated, following recent work which highlighted dissatisfaction with the amount and timing of payments. One participant expressed concern about compensation payments being extended to cover consequential or economic losses. A number of participants supported linking the amount of compensation to the level of distribution charges paid by the consumer. This echoes similar standards linking business compensation to transportation charges within the gas industry.

Overall standards

The original purpose of the overall standards was to act as a complimentary measure to the guaranteed standards. A number of participants felt that their role was now somewhat obsolete given the outputs framework under the IIP.

The possibility of removing the overall standards was discussed, possibly transferring the current overall standard on multiple interruptions into the reporting framework of the IIP, in order to gather information on worst served customers. One participant expressed concern that over time the standards have continually been tightened, which has implications for network design.

The group discussion was closed, with thanks to all participants and with a view to incorporating issues discussed into future work.

Break out group 4: Cost assessment and financial issues

The session began with a presentation from EDF Energy.

Pensions

The fact that Ofgem was addressing the issue of pensions was welcomed, and it was noted that the DNOs were fortunate to be in this position. Delegates representing the DNOs made the following points in the course of the discussion:

- there were concerns that the future of the pension schemes could depend on customers' willingness to bear some of the costs;
- in contrast to the DNOs, firms operating in competitive markets could lose business and even go bankrupt if they tried to pass on pension costs to customers. DNOs said they were in the same situation, but Ofgem had statutory obligations not to set price controls in a way that threatened their ability to finance their activities;
- non Public Electricity Supply (PES) companies who bought PES supply businesses when pension funds were in surplus would not bear any of the present pension fund deficits and this could be regarded as an unfair competitive advantage;
- pension trustees have an obligation to fund pension deficits even at the expense of the business therefore this is an unavoidable cost for the DNOs. The only way to recover these costs was through the price controlled distribution businesses;
- former PES businesses now operating in competitive markets (e.g. supply) should not be unfairly handicapped. It was pointed out that the former Central Electricity Generating Board generation companies have to fund their pension deficits and compete in the market: should they also be relieved of such costs?;
- since distribution customers had previously benefited from lower prices during pension fund surpluses, it was reasonable to expect them to now share some of the costs. If shareholders were expected to bear all the

costs of the pension deficits the corollary should be a higher cost of capital for the DNOs;

- it was suggested that pension deficits could be ameliorated by having longer spreading periods. However, one DNO commented that if the shareholders were expected to bear the full costs of deficits they would expect a higher cost of capital and the pension trustees would use shorter spreading periods; and

- it would be preferable to have a 'level playing field' in future, and it was important to avoid introducing distortions into competitive markets. The potential impact of pension costs on metering was also highlighted.

In response, Ofgem noted that:

- it had already stated DNOs would not be expected to bear the full cost of the deficits. The task was to determine the appropriate split of such costs between customers and shareholders. An important issue would be identifying the pension costs relating to the distribution business;

- selling a supply business was a commercial decision, which included the treatment of associated pensions;

- if the supply price controls were still in place, the supply business would be directly attributed their share of pensions costs;

- customers may have benefited in the past from pension surpluses e.g. the frontier company in DPCR 3 taking a pensions holiday. The difficulty was that Ofgem had never identified pension costs separately in previous price reviews;

- tracing historic cash flows in and out of the pension funds would be extremely complex and any assumptions would be made with reference to actuarial evidence. Ofgem acknowledged that actuarial valuations only provided a 'snapshot' of the performance of pension management therefore it may be necessary to have a mechanism to update price controls for subsequent pension valuations.

Ofgem concluded the discussion by noting that there was a large amount of agreement on the issue, but issues that would need further consideration were:

- timing: when should pensions costs for supply and distribution be separated - from 2001 or earlier; and
- what had been assumed regarding pensions at previous price control reviews?

Embedded debt

The discussion began with a DNO considering Ofgem's previous attitude to embedded debt. The DNO representative suggested that when determining a company's cost of debt, Ofgem had implied that the company should be able to take advantage of lower rates available in the market without regard for the transaction costs of switching out of long term debt instruments.

In response, Ofgem noted that:

- the price of long term debt had been fairly stable over a long period so there was little justification for a premium on embedded debt. Nevertheless Ofgem recognised the risk of exposure to the divergence between the real and nominal rates of interest and this would particularly affect those with a small debt portfolio and who therefore had less scope for refinancing. An example of this was the smaller water companies which accordingly received the small firm premium on their cost of capital; and
- conversely, some DNOs have benefited from having cheaper embedded debt than assumed by Ofgem in setting previous price controls. Overall all the DNOs had signed up to DPCR 3 including its assumption on embedded debt.

It was noted that one response to the embedded debt issue would be to move to five year debt consistent with the price review cycle. Some people suggested that it wouldn't be sensible for all companies to follow this approach, as it would lead to an inefficient cost of capital and be difficult for the markets to accommodate.

The discussion concluded by considering the time horizon Ofgem should use in evaluating cost of embedded debt, and what weighting should be given to the historic trends versus the present market rate. Gilt and bond rates were presently low compared to the historical average. Ofgem acknowledged that there may be a strong case for concluding that there is presently a greater risk that rates will rise than that they will remain constant or fall, as Ofwat has done. Ofgem would consider the evidence and arguments as to whether this would change in future.

Information Disclosure

It was noted that it was essential to have comparable information on high level categories e.g. opex, capex, repex etc. The table published in the cost assessment chapter in the October document was welcomed by the financial community but some of the DNOs stated that this information was not necessarily consistent or reliable. People also welcomed the opportunity to discuss issues at this workshop, and similar forums would be appreciated.

The financial analysts pointed out that the DNOs were usually subsidiaries of wider corporate groups whose accounts did not provide all the required information on the DNOs. They noted that the reason that bonds traded at prices favourable to the DNOs was due to confidence in Ofgem as the regulator in the absence of relevant information on the DNOs.

The idea that Ofgem should publish regulatory accounts on its website was raised. Some DNOs had published accounts up to several months after the end of the financial year. In addition access to the management was difficult and obtaining information from the DNOs was also problematic. For a example, previously one DNO had refused to disclose its regulatory accounts. A DNO suggested that one reason for the delay in publishing the regulatory accounts was the level of detail DNOs were required to provide, which took a long time to establish, whereas higher level information would take less time to produce.

Ofgem asked analysts what specific information would be useful. It was noted that Ofwat published much more information on the water companies. The analysts were asked how they used this information. In general people wanted to know where the cash in the DNOs was going, be able to benchmark DNOs' performance and predict the likely price control settlement. Specific areas suggested included:

- capex;
- opex;
- inter company loans;
- comparison of performance and efficiency to the last price control; and
- information on key considerations e.g. distributed generation, pensions etc.

Ofgem said that this review would be more transparent than DPCR3 so there would be more data published.

Finally there was a discussion on how to resolve these issues. There was consensus that the situation had improved since DPCR 3 but much work needed to be done to improve the quality of information. It would be difficult to comment on the level of detail required without having seen such information. A possible solution was to have intermediate level detail e.g. opex broken down into 6-7 categories.

Ofgem noted that it would be difficult for the financial community to decide which information to see and in how much detail without seeing populated BPQ tables to put this information in context. It was pointed out that detailed knowledge of the network was important: for example, information on tower painting expenditure was an important performance indicator which was contrary to the DNOs' assertion that this was not useful information.

The discussion ended with an agreement to establish a meeting between the DNOs and interested parties, with Ofgem in attendance. The group would progress the information disclosure issues above and one DNO volunteered to disclose its numbers.

Appendix 1 List of attendees

Under the Data Protection Act 1998, Ofgem is required to have written permission before disclosing names of individual delegates. Attendees are therefore listed as companies represented, rather than by name.

Aquila Networks plc
ABB Limited
Bank of America
BC Partners
Biofuels London
Biopower London
British Gas
British Power International Ltd
Brockley Consulting Limited
Cornwall Consulting
Corporation of London
Dow Jones
EA Technology
ECS Metering & Data Services
East Midlands Electricity
Econnect Limited
EDF Energy
Energywatch
ERA Technology Ltd
Fidelity Investments
Fitch Ratings Limited
4DataLink
Hammonds
HSBC
Horstmann Controls Ltd
ICIS Technology Limited
Lanarkshire Valuation Joint Board
Mowlem
Mott MacDonald
National Economic Research Associates
National Grid Transco
NEDL
Powergen
Real Time Engineering Ltd
Royal Bank of Scotland plc
RWE Innogy plc
Scottish & Southern Energy plc
Scottish Power
Siemens
Soditic
Sohn Associates
Tisbury Capital Management
United Utilities plc
Universities Energy Purchasing Consortium
Western Power Distribution
Williams De Broe
WRc plc
YEDL

Appendix 2 Presentation slides

The Powerpoint slides can be downloaded as a separate document by following the links from the website publications list.

Appendix 3 Summary of questionnaire responses

The workshop attendees were issued with a questionnaire on the day, to help Ofgem evaluate the day's progress and gain ideas for future improvements to such events. 44 completed questionnaires were returned, and the questions are listed below with representative summaries of the responses from delegates.

1. What did you think of the presentations?

Delegates found the presentations to be good, concise summaries which set the scene well for the subsequent debates and highlighted points for discussion. Non industry attendees in particular commented on the good mix of technical and 'bigger picture' information.

2. Did the format of the workshop work well by using breakout groups discussing particular issues?

The breakout format was strongly endorsed, with the only reservations being the time constraints on discussions and some delegates wishing they could have attended more than one of the groups. The chance to debate face to face was welcomed, as it provided an opportunity to hear and consider differing views, in contrast to the more isolated nature of a written consultation exercise.

There was, however, some concern at the lack of non-DNO representation, particularly in the DG group, where the absence of generator representatives was keenly felt.

3. What did you think of the location for the workshop and the catering arrangements?

Attendees found the surroundings appropriate and comfortable. There were some concerns about transport links to the venue, which Ofgem will consider in the planning of future events.

4. Should Ofgem hold another workshop of this form during the course of the Electricity Distribution Price Control?

Respondents were in strongly in favour of holding more workshops. Nearly all suggested April 2004 as the most suitable date, and Ofgem is planning another workshop for around this time, after the publication of the March policy document. Other ideas included the circulation of an agenda outlining potential issues for debate, and the suggestion that investors should be invited in future.

5. Other comments

The general consensus among attendees was that workshops such as this are a valuable forum for debate, and bring a welcome transparency to the regulatory process. It was felt that the more viewpoints were present the better, and Ofgem will look at methods for ensuring that as many groups as possible are represented at future forums.