

Alistair,

I hope you are well. I've tried calling yourself and Cemil (a colleague of yours, I hope?) a couple of times but didn't want to leave a voicemail. Having seen OFGEM's initial price control proposals, I wondered if a little input on the return that we require from UK utility equity investments might be of some interest to you.

Below are figures that I shared with OFWAT a couple of months ago and I think they are also appropriate for electricity distribution - it's what I use in my DCF's anyway!

Then if one looks at an ROE implied by a DDM (ave yield + consensus dividend growth) and/MAR methods, then a figure of at least 5% appears to be required by the market.

Electricity relative to Water:

Although the electricity sector does not have as negative a cash flow profile as water, it is deteriorating. This means that I consider the electricity companies as risky as water companies, especially as I don't think "IDOKs" are used by OFGEM.

Best Regards,

Kevin

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