Electricity Distribution Price Control Review

Summary of responses to the September Update document

November 2004 265a/04

Summary

This document summarises responses to the September 2004 Update document on the Electricity Distribution Price Control Review for selected issues. All of the responses to the September Update document have been considered in developing the Final Proposals, including those responses summarised here. This summary has been developed as a separate document, rather than embedded within the Final Proposals document only so as to keep the latter document of more manageable length, and is not intended to understate the importance of these responses.

Further details on the issues and work areas are set out in the November 2004 Final Proposals document and earlier documents on the Electricity Distribution Price Control Review.

Table of contents

1. Introduction

1.1. The purpose of this document is to outline key points made by respondents to the September 2004 Update document on the Electricity Distribution Price Control Review for selected issues. All of the responses to the September Update document have been considered in developing the Final Proposals, including those responses summarised here. This summary has been developed as a separate document, rather than embedded within the Final Proposals document only so as to keep the latter document of more manageable length, and is not intended to understate the importance of these responses.

1.2. Where Ofgem announced specific proposals or decisions within the Update document, these are highlighted in bold typeface, whereas respondent views are summarised in plain typeface.

1.3. This document should be read in conjunction with the document "Electricity Distribution Price Control Review – Final Proposals", which is being published at the same time as this summary of responses.

2. Quality of service and other outputs

Interruptions targets

2.1. **Since the publication of the June paper, Ofgem has undertaken further work to update the interruption targets.**

2.2. A number of DNOs requested additional information on the updated calculation of the targets and associated cost allowances.

2.3. Respondents raised a number of concerns in relation to the revised CI targets. One DNO felt that it was odd that revised data for other DNOs had led to it receiving a tighter CI target and less capital expenditure to achieve it. One DNO felt that the CI targets should take into account other network characteristics which affect performance such as the extent of tree coverage and CONSAC cables. Another DNO suggested that as a different target setting methodology was being applied to SP Manweb, its underground HV performance should be excluded when deriving the CI targets for other DNOs.

2.4. Several DNOs raised issues with the methodology for setting CML targets. A number of DNOs suggested that the methodology of applying upper quartile restoration times (CML per CI) to CI targets was flawed as there is an inverse relationship between CI and CML per CI. One DNO noted that the disaggregation work showed customers interrupted per incident varied by a factor of more than 4 across DNOs and that the methodology did not take this variance into account. The same DNO felt that it was unrealistic to believe that some DNOs were 3 times better than others at restoring supplies than their counterparts, although this was what the disaggregation and benchmarking analysis suggested. Another DNO felt that the characteristics of the reference DNO were very different from other types of network.

2.5. A number of the DNOs believed that basing the CML targets on movement towards upper quartile benchmark performance means that the incentive scheme is not symmetric. One DNO suggested that its targets should be re-profiled to reflect a greater proportion of the improvement coming in the latter years of the price control.

2.6. One respondent was disappointed that the EDF–LPN targets for CI and CML would be flat throughout the 2005-2010 period, particularly when these targets were at levels which had already been bettered in 2003/04. It felt that, given the importance of the City of London, EDF–LPN's targets should be more challenging.

2.7. Several DNOs felt that there should be additional capital expenditure allowances to fund improvements in CMLs or that their CML targets should be relaxed. One DNO sought clarification of the treatment of quality of supply revenue allowances within the sliding scale mechanism, if they were used for capital investment.

Cost allowances

2.8. **The Initial Proposals paper set out cost allowances associated with the targeted improvements in quality.**

2.9. **The capital expenditure allowances associated with customer interruptions targets have been updated to reflect changes in the levels of targets and improvements discussed above. They have also been revised to reflect further information provided by some of the DNOs. Ofgem has revised the level of the (restoration cost) allowance to reflect further information from the DNOs on the costs of improvements.**

2.10. One DNO supported Ofgem's approach of taking the most cost-effective components of the FBPQ, Quality of Supply scenario and DNO preferred cases in determining the cost allowances.

2.11. Several other DNOs raised concerns at the approach to setting cost allowances. One DNO asked for additional information on how the CI capital expenditure allowances were derived. One DNO felt that the reduction in its allowed expenditure on quality of supply improvement from £2.30 per customer in DPCR3 on expenditure to £1.60 per customer in DPCR4 would compromise standards of service. Another DNO suggested that in setting base cost allowances for operational expenditure the linkage between existing costs and existing performance had been ignored. It was also concerned that there was no additional capital expenditure where DNOs CI targets were tighter than their 2010 benchmark.

2.12. One respondent felt that moderate increases to electricity distribution costs over the period 2005-10 should be accepted by Ofgem as customers would expect DNOs to replace tired assets and improve both resilience and quality of supply on an ongoing basis. The respondent commented that this was borne out by Ofgem's consumer survey results.

Incentive rates

2.13. **The Initial Proposals set out a proposed approach to setting incentive rates. Ofgem does not propose to change this approach but has updated the calculations to reflect the changes in the interruption targets set out above. The implied changes to the incentive rates for CIs and CMLs are very small.**

2.14. One DNO requested that the revised incentive rates should be published as part of final proposals. Two DNOs suggested that the incentive rates should be increased by narrowing the width of the out-performance band. Another DNO was concerned that the incentive rates did not match customers' willingness to pay more closely.

2.15. One DNO felt that given the limited incentive to improve the performance of its networks the effective message to customers was that standards of performance would not be improving. One DNO requested confirmation that the CI and CML incentive regimes will be totally independent.

Interruption audits

2.16. **Since the June Initial Proposals paper Ofgem has given further thought to the appropriate accuracy targets and audit process for interruptions in light of the responses in this area. Ofgem considers that further steps should be taken to streamline the audit process.**

2.17. There were mixed views on whether the two-part audit process will save time or money. One DNO requested that the methodology for carrying out audits and estimating the accuracy of reporting be set out in the RIGs. Another DNO suggested that Ofgem should consider further streamlining audits where high levels of accuracy are consistently delivered.

Exceptional events

Treatment of severe weather events under the quality of service incentive scheme and supply restoration standards

2.18. **Ofgem is proposing the following banding of weather conditions for the quality of service incentive scheme and standards of performance for supply restoration:**

- **Normal conditions;**
- **Severe weather conditions including:**
  - **Category 1 (medium events);**
  - **Category 2 (large events); and**
  - **Category 3 (very large events).**

2.19. All the DNOs suggested that the trigger period for compensation for very large severe weather events should be based on a square law rather than a linear sliding scale. All DNO also suggested that there should be an upper limit of the size of events that are covered by the severe weather standard. Most DNOs believed that this limit should be 50 per cent of exposed customers. One DNO argued that a limit of 70 per cent of exposed customer would be reasonable.

2.20. Scottish and Southern Energy (SSE) proposed that the Highlands and Islands should be covered by similar arrangements to the existing 18-hour standard for supply restoration. It suggested that this treatment is appropriate as many of the circuits in these areas were built as part of the electrification programme of Northern Scotland in the 1960s and had derogation from normal design standards. Further these areas were subject to more frequent severe weather than the rest of Great Britain.

2.21. One respondent welcomed Ofgem's intention to introduce severe weather restoration arrangements through a statutory instrument. The same respondent felt that Ofgem needs to ensure that the overall regulatory regime encourages training to a level that provides sufficient staff to respond to severe weather.

2.22. Another DNO argued that the storm compensation payments above the annual 2 per cent cap should be recovered in the year that they were made.

Treatment of other types of exceptional events

2.23. **Although significant numbers of exceptional events are caused by severe weather conditions there are also "one-off" exceptional events due to causes such as transmission faults and third-party damage which cause only a small number of incidents but result in substantial numbers of CI and/or CML.**

2.24. **The proposed approach to determining exceptionality for such one off events is to set separate absolute thresholds for CI and CML so that similar types of exceptional event are captured across companies. For an event to be classified as exceptional it would need to pass one or both of the thresholds.**

2.25. Most DNOs welcomed the used of absolute numbers to set the thresholds for one-off events, but wanted the full impact of such events to be removed from the incentive scheme. However, one DNO did not feel that the use of uniform absolute thresholds was equitable and suggested an alternative approach based on uniform percentages of the 2009/10 CI and CML targets.

2.26. A number of DNOs mentioned the need for a suitable definition of "excludable events". A response on behalf of all the DNOs set out possible criteria for defining such events. One DNO requested further definition for long running events in respect of when the three month periods are deemed to start and end and also what happens when an event spans more than one reporting year. One DNO asked for flexibility in the new arrangements to allow for consideration of individual events on a case-by-case basis.

Changes in the exceptional event allowance

2.27. **Ofgem has amended the approach to include an allowance for very uncommon events, of a scale that might happen once every 20 years ("1 in 20 year**

events"). As the cap on revenue exposure to the new weather arrangements is 2 per cent of revenue, and taking account of potentially substantial fault costs to restore supplies permanently following such an event, this allowance has been set at 4 per cent of revenue (to cover both fault costs and compensation) multiplied by the 1 in 20 probability of the event occurring.

2.28. One DNO suggested that additional costs should be allowed for 1-in-15 or 1-in-10 year rather than 1-in-20 events, given changing climatic conditions. One DNO suggested its allowance be increased to reflect its greater risk of storms. Another DNO suggested that there should be a flooding allowance for EDF - LPN.

Undergrounding in national parks and areas of outstanding natural beauty

2.29. Several respondents were concerned that no action was being proposed to address the intrusive impacts of overhead wires on the landscape. They note that Ofgem has statutory duties relating to sustainable development and to have regard the impact of distribution activities on the environment. It also has duties under the National Parks and Access to the Countryside Act 1949 (as amended by the Environment Act 1995) and the Countryside and Rights of Way Act 2000.

2.30. One of the respondents suggested that as a minimum reporting requirements should be developed to include landscape amenity issues and mechanisms should be in place to allow companies to spend on priority undergrounding schemes in designated areas. Another respondent requested clarification that it is not unlawful for DNOs to allocate expenditure to environmental improvement work, that environmental improvement work is not incompatible with the Secretary of State's guidance to the Authority on social and environmental issues and that DNOs could set targets for undergrounding in sensitive areas if they so desired.

Worst-served consumers

2.31. **In line with the approach taken throughout the review (and at previous reviews), Ofgem does not propose to endorse or reject specific projects. The allowances provided through the sliding scale mechanism create some**

headroom for companies to undertake expenditure in this area where they can justify it. Based on the examples provided, the costs per affected customer tend to be relatively high and Ofgem is not persuaded that there is sufficient customer benefit to justify additional targeted regulation in this area.

2.32. One DNO was concerned that there was no additional allowance for quality of supply improvements for worst served customers. It noted that its proposed expenditure was well within Ofgem's quoted industry average of £1000 per customer and requested that Ofgem reconsidered its position or worked with the DNO to communicate the reasons for not allowing the expenditure.

Targets for electrical losses

2.33. **The Initial Proposals document set out Ofgem's initial view for the fixed target level of losses calculated from data for the 10 year period from 1993/94 to 2002/03. DNOs have expressed broad support for the revised incentive framework set out by Ofgem, although three DNOs have identified a number of detailed issues and company specific factors in relation to the calculation of the targets. Following discussions with these companies and consideration of the arguments that they have put forward, Ofgem have made specific adjustments to the losses target for 2005 onwards.**

2.34. One DNO was comfortable with the calculation of the targets, which it accepted as being stretching but sensible. One DNO supported the targets set out in the September paper but noted that this was conditional on there being robust arrangements for revenue protection activities. Another DNO felt that the increase in the incentive rate adds significantly to the short term risk, because of the increased impact of factors such as changes to EHV sales and further deterioration in the operation of the settlements system with both of these factors being outside of DNOs' control. The same DNO felt that the target level of losses is weighted too heavily towards recent history, thereby producing a target which is not a true 10 year average.

2.35. One DNO expressed concern with the lack of supporting detail on the losses incentives, particularly in relation to the rolling losses incentives mechanism described in the March paper. The same DNO believed that the losses benchmark should be set by a company specific average to 2007/08. This DNO also requested clarification on the treatment of capital expenditure invested in loss reduction and whether this would be penalised as overspend under the sliding scale mechanism. The DNO requested clarity on whether the criteria for efficient investment would take into account the relationship between cost and loss performance. It suggested that the value of losses should be revised at the next price control. The DNO proposed that Special Condition C1 of the licence should only permit changes to the allowed loss percentage following full consultation with the DNOs.

3. Cost assessment

Operating costs

3.1. One DNO responded that it disagreed with the methodology adopted by Ofgem in the operating cost assessment. Conversely, another DNO was broadly supportive of Ofgem's framework for setting operating costs allowances, including the normalisation work, regression analysis, use of the upper quartile for benchmarking and the decision not to allow a glidepath for catch up with the frontier.

3.2. One non-DNO expressed a view that without greater investment in companies' staffing levels facilitated by higher expenditure allowances, it did not believe that the efficiencies sought could be achieved.

Normalisation

3.3. Some DNOs commented that the cost assessment process should consider how factors such as "cost of quality" and "capital substitution" impact operating costs. One DNO maintained that 2002/03 was an "atypically low" cost year and insufficient adjustments have been made for this. Another DNO responded that Ofgem's normalisation process has not produced consistent and comparable cost data between DNOs, and as a result undermines the reliability of the results of the benchmarking analysis. One DNO respondent was supportive of Ofgem's approach to normalisation.

Cost function and composite scale variable (CSV)

3.4. Some DNOs were in favour of adopting an increased weighting of network length in the CSV compared to the 50 per cent weighting used by Ofgem, while other DNOs advocated a lower weighting of network length. One DNO supported Ofgem's weightings in the CSV.

3.5. Three DNOs commented that the CSV does not include enough variables to enable the cost drivers for each company to be accurately reflected, thus requiring the efficiency results to be interpreted with extreme care. It was highlighted that the choice of CSV has the effect of disallowing costs (or creating a revenue windfall) to the extent that it does not match the real cost drivers underlying DNOs' costs. One of these DNOs responded that companies most disadvantaged by use of CSV3 are those with dense urban networks.

Regional factors

3.6. Two DNOs disagreed with Ofgem's analysis that the company with the second highest average wage costs was EDF-SPN. One of these DNOs argued that an allowance for wage costs should not be given to EDF-SPN unless a similar allowance is given to them as it is of the view that its average wage costs is in excess of that of EDF-SPN. The other DNO responded that the sparsity of the network was a better fact-based reason for regional allowances than salary costs.

3.7. One DNO responded that Ofgem has set opex and faults cost allowances using the costs levels of the upper quartile companies which have below average regional costs and hence proposed that the regional allowance based on wage costs should be increased. One DNO stated that it is more expensive to serve a HV customer than a LV customer and that this had not been reflected in the chosen cost driver computation.

3.8. Two DNOs stated that Ofgem should not limit the further consideration of regional factors solely to the issue of EDF-SPN wage costs.

3.9. One non-DNO respondent pointed out that since the mergers of EPN, LPN and SPN many activities appear to have been moved within the combined service areas to relatively low cost regions and consequently the LPN regional allowance appears excessive.

3.10. Another non-DNO responded that Ofgem should take into consideration the wider economic pressures within the South East as a whole and award all EDF companies and SSE-Southern higher allowances that relate to the volume of work undertaken within areas with large wage costs.

Establishing a Benchmark

3.11. One DNO cited that the DNO regression analysis was not sufficiently robust and hence advocated the use of 'average costs'. Two other DNOs responded that efficient companies should be allowed to earn more than average returns and adopting an 'average costs' benchmark would be the best way to achieve this. One DNO respondent agreed with Ofgem's use of 'upper-quartile' to set the benchmark.

3.12. One non-DNO urged Ofgem to remain using upper quartile costs as it strikes an appropriate balance between setting costs at the efficient level whilst at the same time avoiding the use of an erroneously low frontier.

Glidepath

3.13. Most DNO respondents disagreed with Ofgem's approach of not adopting a glidepath. One DNO respondent and one non-DNO respondent agreed with Ofgem's arguments for not using a glidepath.

Frontier Shift

3.14. All DNOs advocated the use of a lower annual efficiency target. Two DNOs suggested that Ofgem should strike a balance between customers and shareholders interests. Five DNOs responded that the scope for future improvements had been overestimated with two DNOs highlighting the 2003/04 costs as an indication of rising costs across the industry.

3.15. One non-DNO urged Ofgem to rethink its decision to reduce the opex frontier shift whilst at the same time omitting an efficiency factor for other costs (capex) as it is not supported by the available data. It suggested that there is a need for a frontier shift on overall costs rather than just the quite limited shift proposed on operating costs.

Total cost analysis

3.16. One DNO suggested that total cost efficiency should be recognised and rewarded in the Final Proposals. Other DNOs noted that further refinement of the total costs model is required and should be undertaken as part of the next price control review.

Data Envelopment Analysis

3.17. One DNO expressed disappointment that Ofgem had indicated that DEA results were implausible without providing an adequate explanation. One DNO suggested that the DEA results should be used to as a sense-check of the regression analysis to distinguish whether deviation from the frontier is due to inefficiency or other factors.

Vegetations, exceptional events and quality improvement

3.18. One DNO stated that Ofgem's process for establishing the allowance for tree cutting effectively only allowed a level of expenditure below that actually incurred in 2002/03 and neglects the increasing requirement as a result of ESQCR.

Comparison with 2003/04 analysis

3.19. A number of DNOs pointed to the 2003/04 results as evidence of increasing costs across the industry and suggested that Ofgem should take this into consideration when determining the potential for future productivity.

Mergers

3.20. DNOs' responses in this areas reflected diverse points of view. One DNO responded that it is inappropriate to base 'efficiency scores' on the output of a model that ignores the ownership grouping of the companies. Another DNO stated that the current methodology was discriminatory and unfair to singletons. It proposed that the benchmark for non-merged DNOs should be set at the upper quartile of the four singletons.

3.21. Two DNOs argued that all companies benefit from economies of scale to some degree and hence agreed with Ofgem that there is little merit in adjusting the benchmarking to account for differences between merged companies and singletons.

3.22. In respect of future mergers, one DNO commented that tariffs for loss of comparators are inappropriate and unnecessary. One DNO suggested that the issue of the merger penalty should be subject to a separate consultation exercise after completion of the price review.

3.23. One DNO responded that as a result of a more lenient merger policy being applied to other companies, it will have paid more than any other merged entity by the end of DPCR4. This DNO argued that it should be allowed to recover the excess payment.

3.24. One non-DNO responded that it was in favour of there being no adjustment in the regression analysis for merged/single entities.

Rates

3.25. All DNOs were supportive of Ofgem's decision to treat business rates on network assets as a pass through cost.

Capital expenditure

Base case capex

3.26. DNOs expressed disappointment at the level of allowed capital investment. Four DNOs responded that PB Power took insufficient account of a number of fundamental and company specific capex requirements. A number of DNOs responded that their latest submissions should be taken into consideration in the Final Proposals.

3.27. One non-DNO responded that the capex allowance would be insufficient to meet the replacement costs of replacing ageing assets requiring renewal during the next price control period.

3.28. One non-DNO commented that the capex allowances may be over-generous compared to current expenditure levels.

Resilience and Worst-served customers

3.29. Two DNOs commented that their submissions included proposals that would improve supplies to worst served customers, but were rejected by Ofgem on the basis of poor value for money and would require subsidisation by other customers. The DNOs further commented that the sliding scale mechanism allows companies to undertake this expenditure, even though this would not 'improve' value for money or avoid cross subsidisation.

3.30. One DNO expressed disappointment that Ofgem rejected its resilience proposals, even though resilience is believed to be the key issue for its customers.

3.31. One non-DNO expressed disappointment that EDF-LPN's targets for both CIs and CMLs remain flat throughout the 2005-2010 period, especially as the EDF LPN distribution network has already bettered these levels in its 2003/4 performance.

ESQCR

3.32. All DNOs commented that although the majority of costs might be expected after 2008, significant costs will be incurred in the period before this date. One DNO suggested that a 'contingency' allowance should be made in the Final Proposals for companies' ESQCR costs that will be incurred before 1 April 2005.

Sliding scale mechanism

3.33. Two DNOs commented that the sliding scale places too much reliance on the PB Power view and disproportionately penalises companies that may simply have a difference in engineering opinion. One DNO responded that the view for the sliding scale allowance should be increased.

3.34. One DNO proposed that the return component of the sliding scale should be increased to ensure that a risk-averse management is properly incentivised to forecast capex accurately.

3.35. One DNO suggested that there is no reasonable way for companies to predict what PB Power is likely to forecast, as there is no standard way of forecasting capex, so the incentive does not encourage more "accurate" forecasts, only lower ones.

Incentives

3.36. All DNOs expressed support of Ofgem's intention to establish a consistent cost reporting framework, although they were concerned at the weakening of the opex incentives.

3.37. One DNO commented that it believed that weakening incentives will have a more direct and substantial effect on customers' bills than the detrimental effect of inappropriate accounting. Another DNO stated that weakened opex incentives will significantly reduce the number of viable efficiency improvement projects, which will not be in customers' long term interest.

3.38. One DNO disagreed with Ofgem's application of the rolling capex mechanism to necessary expenditure in excess of allowance. This DNO noted that in its view previous Ofgem documents indicated that the incentive was not intended to apply to expenditure in excess of the allowance.

4. Financial issues

Base revenues

4.1. Some DNOs suggested "P0" should be calculated differently. Some of these DNOs responded that changes in volume should be taken into consideration when calculating "P0", while others responded that rates and EHV income should be excluded.

Pensions

4.2. All DNOs opposed the 1/13th deduction from the deficits at 31 March 2004 for 2004/05 deficit contributions, stating that contributions to address the deficit would not normally be expected to start until April 2005 and that no allowance had been made in the current price control for deficits.

4.3. Almost all DNOs opposed the idea that part of the allowance for pension deficits would be capitalised. They said that this would increase the period over which the deficits were funded by 20 years more than that in which the DNO was expected to pay the money into the scheme. They also argued that such treatment would be inconsistent with the accounting treatment of the costs.

4.4. The one DNO that thought capitalising part of the deficit costs was sensible in principle said it would only be acceptable in practice if DNOs are allowed a sufficient cost of capital.

4.5. One DNO said that the Pension Protection Fund Levy, whilst uncertain at this time, is quite significant over the DPR period. They suggested that there should be agreement in principle to treat any such costs as pass through items.

4.6. One non-DNO thought Ofgem's approach was fair and reasonable to all parties, but stressed the need for actuarial confirmation of the information provided by the DNOs.

Allocation to Distribution

4.7. While some DNOs accepted the 80% allocation of deficits to distribution as a reasonable compromise, others made specific arguments that in their own case the figure allocated to distribution should be higher.

Treatment of ERDCs

4.8. While some DNOs thought the 70:30 split of ERDC costs between customer and the company seemed reasonable, others argued that the company share should be much less (typically 18%) with one DNO remaining opposed in principle to the companies paying any part of the cost.

4.9. One non-DNO felt that Ofgem had been overly generous in the changes to the pension allowances since the Initial Proposals and in particular did not think Ofgem should have allowed part of the ERDC costs to be passed on to customers.

Tax

4.10. Two DNOs commented that the opening tax pools should be adjusted to reflect tax planning adopted on the abolition of ACT and other specific tax management decisions.

4.11. Some DNO respondents were in favour of a risk sharing mechanism for differences between the allowances and outturn tax, but one DNO was opposed to a risk sharing mechanism. Another DNO commented that the effect of Ofgem's proposals was to distort gearing decisions and to make gearing above 60% a less viable option. It suggested that adjustments are made for gearing levels both above and below 60%.

4.12. One non-DNO commented that although Ofgem aim to share any efficiencies (out-performance of marginal tax rates) with customers, no exact mechanism for this has yet to be consulted on.

Regulatory Asset Value

4.13. Two companies responded that they had no major issues with the RAV roll-forward numbers.

4.14. Four DNOs disagreed with Ofgem's interpretation of DPCR3. One DNO responded that to retrospectively apply, among other things, industry average overhead capitalisation policies amounts to effectively re-opening DPCR3.

4.15. One non-DNO respondent was of the view that it is unrealistic to expect companies to never incur overstay penalties as overstays may be incurred by an efficient company for a number of reasons and suggested that an efficient level of over-stay penalties should be included in regulated revenue.

4.16. Another non-DNO urged Ofgem to reconsider the treatment of asset disposals. It suggested that asset disposals should be identified and the regulatory asset bases reduced accordingly to avoid companies being paid twice for the same assets.

Financial Profiles

4.17. Two DNOs expressed disappointment that the financial model has moved from a 'mid-year' approach to an 'end-of-year' approach.

4.18. One DNO claimed that the mixing of real and nominal interest rates and the inter-relationship with the rate of inflation under-states the derived revenues.

4.19. One DNO responded that the solution to EDF-SPN financing challenge must be on the basis of a "stand alone" entity. The DNO also responded that accelerated depreciation is not a viable long-term solution and suggested a financeabilty adjustment of the kind proposed by Ofwat.

4.20. One DNO responded that it was inappropriate for Ofgem to consider a change to a company's depreciation profiles at this late stage of the consultation process, especially as it is inconsistent with the established precedent of dealing with the 'cliff-edge' when it occurs.

4.21. One non-DNO responded that no clarity has been provided in terms of what credit rating is being targeted or the extent of the financing issues affecting EDF-SPN. If rising levels of investment are the cause of the financing issues, more DNOs may potentially be affected. The non-DNO stated that advancing depreciation profiles only offers a short-term fix which will reduce the long term RAV and reduces the companies' ability to absorb future costs shocks.

Non operational capex

4.22. One DNO commented that the inclusion of non-operational capex in the RAV and the depreciation over a 20 year period is inconsistent with Ofgem's stated policy.

Other

4.23. One non-DNO responded that Ofgem's Final Proposals should not unintentionally discourage companies which would wish to attach priority to environmental work from so doing.