

Central Networks

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Paul O'Donovan
Manager, Distribution Price Control Review
Ofgem
9 Millbank
London
SW1P 3GE

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Assessment of the Electricity Distribution Price Control Review Process

Dear Paul

The Electricity Distribution Price Control Review 4 was conducted in an environment where new challenges were facing the industry, which included how to incentivise the connection of distributed generation, the introduction of a separate metering price control, pensions and to start the task of replacing network assets installed in the 1950s and 1960s. This was in addition to the usual price control issues that need to be resolved, and so it required a good process to address these areas in a timely and efficient manner.

The price control process started well in 2002 with the project on how to develop monopoly price controls. This was a worthwhile exercise in looking at broad policy areas. We believe this process should be repeated in 2007/08, with the intention to agree on many of the key issues, prior to the start of the next price control review.

The process however did not fully lead in DPCR 4 to clear policy decisions being made prior to the collection of the data via the Business Plan Questionnaires. As a result, there was increasing requirements on companies to provide supplementary data, something we believe can be avoided for the next review. Nonetheless, at the initial stage, we welcomed the input in designing the questionnaire's and the idea of splitting up the data requests between historic and forecast information. Looking forward we trust this process will improve still further as more comparable annual data is collected following on from the cost reporting project.

Central Networks

Pegasus Business Park
Castle Donington
Derbyshire
United Kingdom
DE74 2TU
central-networks.co.uk

Jonathan Ashcroft
T 01332 393600
F 02476 425794
jonathan.ashcroft
@central-networks.co.uk

Central Networks East plc
No 2366923

Central Networks West plc
No 3600574

Central Networks Services Limited
No 3600545

Registered in England and Wales

Registered Office:
Westwood Way
Westwood Business Park
Coventry, CV4 8LG

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There were some useful innovations into the price control process which we fully supported and which can be built upon for the next review. The introduction of Working Groups to consider policy issues in an open and constructive arena provided a number of benefits, including a forum for delivering a common understanding and consensus where possible on proposed solutions. As we have said in our detailed response, this forum should be constructively used over the next 18 months to progress issues ahead of the next review e.g. cost comparison, network resilience.

Another innovation to the process was the opportunity to discuss key issues with members of the Authority. This forum allowed potential solutions to be discussed at the highest level and ensured that areas of disagreement were generally resolved in a reasonable way. We would support a continuation of this process going into the next review.

There were a number of processes which can be improved for the next review, including the role of consultants, clarifying the role of future surveys and their interaction with the Business Plan Questionnaire, and the application of regulatory impact assessments prior to making policy decisions.

A more detailed response to the consultation is attached, and is set out to respond directly to the questions raised in it.

We look forward to working with Ofgem over the next few years to ensure that the DPCR 5 process is even better than the last review.

Yours sincerely

Jonathan Ashcroft
Regulation Manager

Central Networks

Detailed response to “Assessment of the Electricity Distribution Price Control Review Process” March 2005

The following detailed comments are structured to follow the order and numbering of Ofgem’s document.

3. Issues for consideration

General principles and objectives

3.4 Ofgem would welcome views on whether:

- the objectives of the review were appropriate;
- Ofgem’s processes facilitated the effective delivery of these objectives (or if not, why not); and
- the manner in which Ofgem attempted to achieve these objectives conformed to the principles of good regulation.

Distribution Price Control Review 4 was conducted in an environment where the industry was mature, given that it is 15 years since privatisation. During this period, asset lives have been extended and inefficiency removed. This situation cannot continue indefinitely. Against this background, the main objectives for this review as set out in the Initial Conclusions to the Monopoly Price Control Project were broadly appropriate. Looking forward, there are a number of challenges facing the industry, not least in relation to the resilience of the network and how climate change may impact this. We are encouraged that Ofgem are committed to improving their understanding of this and look forward to engaging with you on this over the coming months.

We supported Ofgem’s objective of resolving key policy issues at an early stage so that there was more certainty for companies, and big surprises were avoided. The policy debate on investment was one such example, where there was broad agreement at an early stage that the investment profile for DPCR 4 would need to significantly change compared with previous price reviews as assets installed in the 1950s and 1960s were coming to the end of their useful life. The only debate during the review was on the scale of the increases. The opportunity to start to address the issues facing the industry over the next decade and beyond should begin in earnest, so that by 2007/08, we can agree the broad policy objectives for the review. This can then become a firm foundation from which any data requirements should be driven from.

During the last review, there was some uncertainty on several major issues until late in the process, such as the cost of capital, the regulatory asset value and the approach to setting the cost benchmark. By using the next few years constructively, we believe these process issues can be satisfactorily addressed, and would be consistent with good regulatory practice. We will return to this theme later in our response.

We support a more transparent approach to price control reviews, and in our view, the DPCR 4 process was a significant improvement upon previous reviews. The establishment of working groups on key policy issues was a good innovation to the process and one that we trust Ofgem will maintain for the next review. The level of access to Ofgem staff at all levels was good, and the meetings with the Authority

committee were a welcome development. However as with all innovations, there is room for improvement. One area we would focus on is to establish from the outset the clear 'rules of engagement' for meetings with the Authority, and following such meetings, for the Authority or Ofgem to provide feedback to the companies.

The principles of good regulation set out by the Better Regulation Task Force are ones that we endorse. Ofgem have made advances towards meeting these principles for achieving policy objectives in DPCR 4. There were examples where targeted solutions were adopted, as was the case for encouraging the connection of distributed generation. On the otherhand some decisions were made, which we believe were neither proportionate nor consistent, such as the way in which the initial decision was made on equalising opex and capex incentives for addressing the accounting issue. We would encourage Ofgem to continue to have reference to the principles of good regulation for setting future policy, which we believe is in the interest of all stakeholders.

General issues

Communication

3.7. How effective were the channels and methods of communication? Were the appropriate individuals with responsibility for work areas within Ofgem clearly identified to interested parties? Was Ofgem open and receptive to comment and criticism during the DPCR? Did stakeholders have access to the appropriate levels of seniority within Ofgem to resolve issues as they arose?

There were a large number of consultation and accompanying documents published during the price control review. Some of these documents were well written, particularly the September and Final Proposals. However some of the papers produced appeared simply to meet an internal deadline without fundamentally progressing policy decisions.

We believe there was good access to the key individuals within Ofgem for debating policy issues at a bilateral level, which served as a useful channel for understanding each other's position. There were a number of critical issues for Central Networks during the review, notably the singleton issue, opex incentives, tax and pensions where we appreciated such access. On each of these, we were able to speak to the appropriate level of seniority within Ofgem in attempting to resolve these issues, including the Authority. This type of access allowed both sides to understand each other, and we believe ultimately assisted in producing solutions acceptable to all parties. Such access must be retained not just at a price control review but also between reviews, so that an open and frank debate can be had on the major issues facing the industry.

During the course of the review, Central Networks produced a number of documents by academics on key policy issues. Although we welcomed the opportunity provided to submit such evidence, we were disappointed that the feedback from Ofgem was limited. This is a process issue which can be improved for the next review, so that we are not left with the impression that Ofgem were not being open minded once an initial policy decision had been made. On the otherhand we can point to examples where Ofgem provided feedback and were open to ideas. When it came to the methodology and incentive framework for tax, Ofgem recognised that a "clawback" mechanism was too complex to introduce, and so sensibly agreed to an incentive akin to opex.

Workshops

3.8. Ofgem held a number of workshops during the process (2 x Network monopoly price controls, 2 x structure of charges, 2 x DPCR, 1 x distribution losses). Did participants find these useful? Were there too many/too few? Were they held at appropriate stages of the process?

The workshops that we attended were in our opinion an exercise in public relations to a wide ranging number of stakeholders. For non-DNOs, they serve a useful purpose in understanding the critical issues to surface during the review and the consequences these may have for all stakeholders.

We would encourage the use of workshops going forward for this reason, but believe they could be tailored to particular policy areas. This may mean that more workshops are required in order that all the key issues are properly discussed in the open by all relevant stakeholders.

DNO/Ofgem Working Groups

3.9. Did groups meet at an appropriate frequency? Did participants get the opportunity to put forward their views in an open and constructive manner, and did Ofgem give these views appropriate consideration? Was Ofgem represented at an appropriate level of seniority during these meetings? Did these groups produce meaningful outcomes, or were they generally unproductive?

In DPCR 3, we believe that there was insufficient debate on many of the policy issues of the day. These concerns have started to be addressed by Ofgem's innovation in DPCR 4 of establishing working groups (WGs) consisting of Ofgem and industry members. This welcome introduction in the regulatory process enabled a shared understanding and proposed solutions to be developed in an open environment. An example of this process which benefited both the industry and Ofgem was in working together to implement the rolling capex mechanism for the DPCR 3 period.

Overall we believe the WGs were a worthwhile process, enabling Ofgem to float potential policy solutions prior to official publication of a consultation document. This provided the opportunity for companies to digest the proposals in an informed manner, and offer constructive feedback, which we believed advanced the price control process. Where there was disagreement, such as in the proposal to equalise opex and capex incentives, both sides were able to put their arguments across in a robust and open manner. Without such debate, the eventual solution to the problem may not have been forthcoming.

The principle of the WG is supported by Central Networks, and we believe it is a useful tool for developing future regulatory policy particularly on potentially contentious issues. Now is not the time to abandon the WGs until the start of the next price control, and so we would support Ofgem in maintaining a dedicated number of these to consider the big policy issues in readiness for 2007/08. This would support our idea of "bedding down" at a sufficiently early stage in the process the policies which would then drive the data requirements for DPCR 5.

From their initial conception, there were a number of working groups (WGs) covering a range of issues. As we have argued, this improved the understanding of issues for all sides, but there was a clear risk in some cases that they simply became talking shops. In order to aid joined up thinking, there would have been a benefit if there were fewer groups that focussed on addressing a range of issues in an integrated way, such as the

competing tensions of cost and quality incentives. Another area for improving the WGs is to ensure that there is a proper process in place which provides confidence to companies that regulatory ideas debated during WGs are given appropriate consideration by Ofgem and the Authority. Such a response could be formalised within a consultation paper so that companies understood the reasons why Ofgem either accepted or rejected the ideas put forward by members of the WG.

Preparatory work

3.10. Was the planning work (conducted primarily by the Network monopoly price control project) useful? Did it target the areas of greatest importance for the DPCR? Did it give adequate consideration to the potential for radical change from previous price controls? Was the focus on complexity, simplicity or pragmatism?

The Network monopoly price control project was an opportunity to set out the direction on a number of policy issues for DPCR 4. A good start was made, with independent analysis conducted by Frontier Economics on 'Balancing Incentives' and 'Dealing with Uncertainty'. The preparatory work also prepared the way forward in a number of areas including the academic work on the Cost of Capital and the recognition by Ofgem of increased investment in the future, and the need to rewire Britain for facilitating distributed generation.

Lessons however can be learned from this, and we believe that a framework already exists to enable more in-depth preparatory work to be conducted prior to DPCR 5, in the form of the Working Groups as discussed above. This we believe would enable at a much earlier stage in the process, the agreement of a wide range of key policy issues including:

- How the cost benchmark is to be set
- How efficiency is to be measured
- How resilience can be measured, and whether incentives can be introduced to provide a link with a resilience investment allowance
- How to agree on what customers are willing to pay, building on the stakeholder survey conducted by Ofwat
- A clear signal on whether the power of the cost and quality incentives will be increasing or decreasing in DPCR 5

By utilising the next few years in a constructive way, some of the problems in terms of process issues that arose in DPCR 4 can be avoided for the next review, in particular, ensuring that the data collection objectives are clear from the outset, which are driven by policy decisions. Unclear policy in some areas resulted in unfocussed data collection by Ofgem, and consequently the need to revisit data requirements during the DPCR 4 process. As a result the burden of data collection on companies, far from falling during this review, has continued to increase, something that we can all agree must be reduced in future reviews.

A policy area which needs to be debated over the next couple of years is whether the existing framework, which has been largely unchanged since privatisation remains appropriate for a new era of reinvesting in the networks and to address environmental concerns. We agree that RPI – X has been successful at removing inefficiency and "sweating the assets", resulting in prices to customers falling by 50% in real terms since 1990. A Working Group could consider a number of potential incentive frameworks that could support the infrastructure investment needed to maintain and improve security of supply. This forum as we have already discussed would allow an open discussion, so that agreement can be reached within the industry prior to the next review.

Use of consultants

3.11. Were consultants used in an appropriate manner by Ofgem throughout the DPCR? Was the output from Ofgem's consultants perceived to be fair and unbiased? Should Ofgem be doing more or less of the work in-house?

The role of consultants during a price control can add value to the process, and so in principle we are not against the use of them by Ofgem. Where new thinking is being sought, it seems sensible to engage with academics and consultants.

We are therefore disappointed that on a number of occasions during this review process, Ofgem failed to respond to consultants' recommendations, for example the CEPA and Frontier Economics work on incentives and benchmarking techniques. A further criticism that can be made is the selective use of consultant reports, such as CEPA's analysis of ongoing productivity. In this case, Ofgem provided data which had not been normalised for assessing historic productivity, and then ignored the forward looking analysis produced by CEPA, as justification for making its policy decision in the final proposals.

There are other examples where the scope of the work was not sufficiently wide, such as the Ernst and Young analysis. This placed a significant burden on companies, despite the narrow remit given to the consultants.

In general, we would support Ofgem in conducting more of the opex modelling work in-house, provided that there is sufficient expertise and a fair-minded approach taken. The revenue reporting project is one such example where there is the opportunity for constructive dialogue between Ofgem staff and DNO senior managers in the joint pursuit of producing more comparable data, a benefit that may be lost if the work was contracted out. Where there is a need for external specialists, it is important that they have clear objectives and terms of reference, but the process must nevertheless be driven by Ofgem.

The capex modelling undertaken by PB Power was not considered transparent and resulted in an apparent disjoint with the revenue setting process. We also suffered from a lack of access to the PB Power model, resulting in a lot of time being exhausted in guessing their assumptions and explanations.

These issues can be alleviated in future if Ofgem were to develop and utilise more in-house expertise in respect of capex modelling, not least to provide clarity between the modelling and subsequent setting of allowances. As a result of undertaking this, Ofgem would acquire significantly more knowledge of the investment requirements of the network, and thus would improve the decision making framework. Consequently the design of future Business Plan Questionnaire's (BPQs) would improve, and it would provide further linking of investment to network performance.

Consultation process

3.12. Was the overall consultation process too lengthy, about right or too short? Did Ofgem produce the right amount of material so that interested parties could understand the DPCR? Were there too many/too few consultation documents? Were the response periods for these documents sufficient? Was there evidence that respondents' views were considered? Did the Ofgem documents give a fair and balanced account when respondents had contrary or conflicting views?

We believe that the overall length of the consultation process was about right. However in terms of project management, there is room for improvement. Overall, Ofgem was able to

demonstrate that it had kept to its original timetable, but some of these publications appeared to be issued solely for the sake of meeting such commitments rather than advancing policy ideas. A more focussed approach to managing the project would be beneficial and if successful, could assist in alleviating some of the burden placed upon companies.

The response period for responding to the major consultation documents was sufficient. It was also helpful that GEMA meetings were scheduled prior to submitting written responses, as it provided an opportunity to respond to arguments made by the Authority during these proceedings.

An area that we believe can be improved upon for the next review is how Ofgem provides feedback to policy ideas being proposed by companies. It was not at all obvious that Ofgem fully considered the views of respondents. An example of this was the policy debate regarding the power of incentives, notably for operating cost efficiency savings. Where there is disagreement, the onus must be placed on Ofgem to fairly summarise the alternative hypothesis as well as providing a full explanation as to how a policy decision has been made. This would ensure transparency by providing within the documents; a fair and balanced account of contrary and conflicting views, and Ofgem's reasoning in reaching a decision.

Requests for, and use of, information

3.13. Were Ofgem's requests for information appropriate and proportionate? Was the consultation on draft information requests useful? Did Ofgem give appropriate explanation and justification for all information requests? Did regulatees have sufficient time to meet Ofgem's information requests?

We appreciated the fact that prior to collecting the data, distributors were consulted regarding the format of the Business Plan Questionnaires (BPQs). Dividing the time between submitting distributed generation data, historical data and forward looking data helped to spread the initial information burden for companies, and from a process point of view, was much appreciated. There was sufficient time for providing this information to Ofgem, and we would therefore support a similar process for the next review, since we believe this was a major improvement upon DPCR 3.

A useful innovation into the process was to allow companies the opportunity to sell their own business plan in addition to the Base Case scenario which had been the basis of previous reviews. However much of this information was not used in the process for determining investment allowances, despite providing evidence of the benefits customers would receive. Looking forward, we would encourage Ofgem to continue to allow companies to submit their preferred case in the future, but this should be in the context of results extracted from stakeholders. Companies could then respond proactively to these results and put forward plans consistent with customers' wishes.

Our initial optimism that the data requirements would be focussed was short-lived. The process generated an increasing burden on companies to provide further data to respond to unforeseen issues and develop policy. Often the time required to produce the data requested was very short. By setting out policy at a sufficiently early stage, which would then drive the data set, would in our view minimise the amount of additional information required, and hence improve the process.

Timeline

3.14. Was the publication of the timetable as early as March 2003 useful? Were the timelines for the various work streams appropriate? Was it appropriate to schedule the Final Proposals for November 2004? Was it appropriate to issue an update in September 2004, in between the Initial and Final Proposals? Which issues were addressed to soon/too late in the process?

We supported Ofgem in producing a draft timetable for the Distribution Price Control Review. This helped ensure that companies were aware of when key parts of the project needed to be completed, and hence we could improve our internal planning processes.

Some early decisions were made in the process such as the incentives to be applied to distributed generation, adoption of a post tax cost of capital and the type of costs that would be treated as pass through, which were welcomed.

There were however a number of complex policy issues that were not addressed until quite late on in the process. An example of this is the development of the separate metering price control. It was not acceptable that the draft metering price control was published in the September update paper. A number of other issues that were addressed too late in the process include:

- power of incentives and the change in the cost accounting for DPCR 4
- how the cost benchmark would be set and the techniques to be applied
- use of a sliding scale mechanism for capex
- RAV roll forward

We agree that it was appropriate to schedule the final proposals for November 2004. It was also helpful that generic policy issues were largely concluded by the time of the publication of the September update, leaving the remaining period leading up to the final proposals as an opportunity to negotiate on company specific issues.

However at the policy stage during 2002/03, we believe that this part of the process was rushed, with too many consultations and not enough time to fully debate the key issues in the lead up to the review.

Regulatory consistency

3.15. Was the content of Ofgem's Final Proposals consistent with the views it expressed throughout the DPCR? Were there inconsistencies between the previous DPCR and the manner in which analysis was conducted during this DPCR?

Our comments on regulatory consistency have been expressed in other parts of this document. In summary, there has been consistency in a number of areas during the process, such as the need to increase investment in the network, to provide further incentives to improve quality of supply and losses, and to promote distributed generation in an economic and efficient manner. However there have been in our view a number of regulatory inconsistencies which could have been averted:

- Weakening opex incentives whilst assuming ongoing productivity improvements
- Stating that it would use a number of techniques to inform a view of opex efficiency, and then relying solely on regression

Despite these inconsistencies, there has been an improvement since DPCR 3. As we have reiterated on a number of occasions, by using the next few years constructively, regulatory consistency can improve still further for DPCR 5.

Transparency

3.16. Were the processes and analyses conducted by Ofgem and its consultants sufficiently transparent? Was the underlying data provided by DNOs sufficiently transparent?

Our comments on this section have been expressed throughout our response. There have been areas where transparency has clearly improved, including the sharing of the Financial Model, rolling capex mechanism, losses incentive, and the normalisation exercise. Transparency improves regulatory decision making, and in these areas there has been progress since DPCR 3.

Our two main concerns were the way in which the opex efficiency results were published and the PB Power modelling, the latter of which we have already discussed, and suggested that more in-house expertise would help to resolve this. In terms of the opex benchmarking, we were disappointed that Ofgem restricted the analysis to be presented to the public as predominantly regression based. We understand that the team within Ofgem responsible for this piece of work had carried out much further work using a number of other techniques including Data Envelopment Analysis (DEA), but many of these were not discussed any further.

Looking forward to the process for DPCR 5, all efficiency analysis should be in the public domain. But to avoid information overload, it could be self-contained in a separate appendix, in much the same way as the forecasts for each DNO were for DPCR 4.

Access to Ofgem & the Authority

3.17. During the DPCR, both Ofgem and Authority members met with various interested parties (environmental groups, consumer and union representatives, financial analysts and DNOs). Did groups encounter reluctance on Ofgem's part to arranging meetings? Was Ofgem properly represented at such meetings? Were Authority members willing to engage at appropriate stages of the process? Were these meetings productive?

The GEMA Meetings were a good opportunity for senior managers to engage with Authority members to debate key policy issues. The meetings arranged with the Authority were set at around the right time; midway through a specific consultation paper. These meetings were productive, which was helped by the fact that the knowledge of the authority was generally high.

As this was a new and welcome innovation to the process, we believe there is some scope for improvement. There was a good opportunity for debate, but this could have been even more focussed if briefing notes were circulated in advance, such that both parties understood each others agenda. Some feedback from the Authority would also be welcomed in order to progress areas of disagreement at subsequent meetings.

Further work

3.18. There are ongoing work streams that have arisen as a result of the DPCR, eg, cost reporting, resilience and financeability. Are the links between these work streams and the DPCR clearly defined? Are such work streams an appropriate means of dealing with the outstanding issues?

There were a number of issues outstanding as the price control review came to an end. The normalisation exercise which had taken six months to complete for one year's worth of data is clearly too long, and we are supportive of the cost reporting workstream to address the comparability issue. There is a clear link between this workstream and the issues raised in respect of the power of incentives and the capex modelling during DPCR 4.

Ofgem recognised during the process that stochastic frontier analysis (SFA) could not be used because the data set was too small. We expect that the project will allow more comparable data over time and hence facilitate the use of SFA at the next review as an additional benchmarking tool. The debate has not progressed any further since DPCR 3, but we hope that the work currently being undertaken will allow such regulatory advances.

Ofgem argued during the review that it would not allow investment to improve the resilience of the network citing arguments such as providing poor value for money to customers and cross subsidisation. We welcome Ofgem's commitment to improve their understanding of network resilience and risk over the coming year. The workstream on resilience is a useful way to continue this debate with Ofgem, to engage with the DTi and to seek appropriate solutions that promote the long term stewardship of the network, consistent with the reports produced by the Trade and Industry Select Committee.

DNOs have a statutory obligation to maintain an investment grade credit rating. As the ability to continue to extend the life of assets becomes ever more difficult, demand for more investment to replace those assets is expected to continue to rise for the foreseeable future. The investment increases announced during the review is in our view only the first stage in addressing this problem. Inevitably as more investment is made, it will place greater strain on companies balance sheets. This has already been evidenced during DPCR 4, where Ofgem made a financial adjustment to EDF - SPN to improve the financial ratios and hence ensure that it was able to maintain an investment grade rating. The issues raised, in this case, are likely to be replicated across the industry in future price reviews, so it appears timely to have the debate on financeability, and in particular, how new equity, as well as debt, can be brought into the utility sector to finance the higher capex programmes.

Finally we believe that it is an appropriate time to consider whether RPI – X is the best framework for regulating the industry, and where improvements can be made against a background of increasing investment in the foreseeable future.

Overview of process

Process delivery

3.19. Did the process work? Did it effectively deliver a price control in a cost efficient manner? Did Ofgem deploy sufficient resource, too much or too little and at the right time in the process? Were Ofgem teams comprised of the correct range of competencies to deliver an effective price control?

During our response to this consultation, we have discussed at length how the process worked for DPCR 4. There have been improvements to this process, such as the policy discussion during 2002/03, the role of Working Groups, the opportunity to make representations to members of the Authority and the improved access to Ofgem staff. But clearly there are areas that can be improved. We do have some concerns that the burden on companies continues to rise, thus increasing the cost of conducting a price control review. As we have argued that more of the work should be brought in house, notably Capex modelling, and overall there is probably some scope to improving the efficiency of running a price control.

To address some of the process issues raised, the next few years must be used effectively. By deploying adequate resources to improving the comparability of data, network resilience and risk, losses, and financeability, many of the policy issues can be agreed prior to the start of the next review.

Positive points

3.20. What parts of the process worked well? Which elements added the most value to the process? What aspects should be retained for future reviews?

Ofgem started the process by initialising the project on developing monopoly price controls. We believe that this was a very important period which enabled some good debate on some of the key issues facing the industry in DPCR 4. We would urge Ofgem to commit to a similar project ahead of DPCR 5.

The introduction of Working Groups was also a valuable contribution to the process as we have already discussed. We trust that Working Groups on key regulatory issues will once again feature in DPCR 5.

The opportunity for CEOs to discuss major issues of concern with the Authority, and for senior managers within Ofgem and the companies to regularly engage was also a valuable part of the process, which we endorse.

The task of Ofgem introducing the Licence Modification in February 2005 was broadly successful. This was driven by the fact that the process was started early, and there was the opportunity for good open debate at meetings. Ofgem appeared to have taken notice of issues raised and logical arguments made by the cross industry group, which worked well.

Potential improvements

3.21. Were there any flaws in the process? How could the overall process be improved? What were the biggest problems? What change should be made to the process to avoid a repetition of these problems?

Although we supported the work that was undertaken within the monopoly price control project, policy was not concluded at a sufficiently early stage to then drive the data requirements. We have set out above how this can be improved, including the important role of Working Groups for arriving at early policy decisions.

The role of the Regulatory Impact Assessment (RIA) in principle is an innovation to the process that we support and is consistent with good regulatory practice. However their value during this review process was undermined, as they should have been used from the very beginning in order to influence and justify policy decision making. Unfortunately there were numerous occasions where policy had been decided by Ofgem, and then an RIA was subsequently conducted which would support Ofgem's policy decision. A learning point that needs to be heeded is that the policy rationale should in future be based upon a robust RIA. This can only lead to better and more informed decisions being made, which would be in the interests of customers and all stakeholders.

Other issues

3.22. What issues have been omitted from the above lists? Are there any other observations or comments that should be made regarding the DPCR? Are there other issues Ofgem should be addressing in 2005 and 2006 as early preparation for DPCR5?

We support Ofgem's work in 2005 which is looking at improving the cost reporting rules for companies, network resilience, structure of charges, and financability in conjunction with Ofwat. We have already started to consider the issues likely to be facing our industry in 2010 and beyond. These include:

- The role of networks in addressing the issues arising from climate change, in particular how we can support a low carbon economy
- Framework required to improve the security of the network
- Power of the incentives, both for cost efficiency and output delivery
- Improvement in the benchmarking analysis including a robust assessment of total cost
- Whether RPI-X is the best framework for regulating the industry going forward

We would support Ofgem in undertaking work in these areas over the next two years.

Finally it is important for any price control review to avoid having to solve the problems of the previous review. To retain the corporate knowledge already gained from DPCR4, processes, policies and their rationale should be documented before the team that was in place for DPCR 4 breaks up. DPCR5 can then begin from an informed position.