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Dear Paul

Assessment of the Electricity Distribution Price Control Review Process

I write in response to your March 2005 consultation paper. We have already had opportunities to comment in detail on the process issues raised by your paper in the workshops you have arranged and in one-to-one discussions since the Final Proposals were published last November. I do not intend to repeat all those comments here, but I would like to make a few observations in response to your paper.

The review of your processes has demonstrated that there was much to commend in Ofgem's handling of the price control review. In particular, we welcomed the general transparency of the process and the consistent adherence to a timetable set out at the outset of the project. Both of these qualities were very helpful in our internal management of the review. We might not always have agreed with your conclusions, but at least we could see their derivation.

For me, there were two particular areas where the process could be improved for the next review. The first is in the objective setting stage. It was never clear how conflicting objectives would be resolved, nor how to integrate broader public policy issues with the statutory duties facing GEMA. It would be helpful to review the mechanism for determining objectives prior to the next price control review. This would also help to ensure that any DNO "own case" submissions were consistent with the broader policy objectives and were therefore given more consideration in the review process.

The second, is the need for greater co-ordination across the whole review. The idea has emerged from your workshops of an overarching group where the Ofgem management and Company Regulation Directors could review progress across the whole project. This would close the perceived gap between the subject-specific working groups that did contribute effectively to the process in 2003 and 2004. Ofgem's own organisation structure has improved over the same period and it is less likely that we would have a repeat of the situation where some big issues (such as metering) were being handled by other directorates, apparently remote from the main price control review work.

The most encouraging part of your paper was the recognition that price control review work does not end with the publication of licence modifications. We fully support the objectives of the Cost Reporting Project and see this as a vital step towards higher quality data input for future reviews.

We are also pleased to see that you intend to continue work on the other issues raised during the review. We hope that there will be opportunity for us to contribute, particularly in the areas of assessing the appropriate balance between service levels and costs, identifying longer-term indicators of network health and resilience and the role of equity in the financial structure of network utilities.

These will, no doubt, be among the items for discussion in future meetings with David and Martin.

Yours sincerely

Mike Boxall
Electricity Regulation Director