

OTEG – 29th September 2006

Update from Price Control Sub-Group

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Background

- Established in August
- Consider issues and inform thinking
 - form, scope, duration of price control
 - highlighting/discussing questions
 - not providing answers
- Paper produced in September
- Further consideration once broad regulatory framework decided

Fundamental Issues

- Build on onshore regime where possible
 - recognise and address differences
- Significant degree of cost uncertainty
- Absence of robust historical/benchmark data
- Effective solution needed
 - balance speedy implementation with need for enduring regime
- Balancing needs of all stakeholders
 - attracting investment while promoting efficiency

Form of Price Control

- Range of approaches
 - from straight pass-through to fixed ex-ante allowances
 - extremes probably not appropriate
- Different approach for different phases of project?
- Minimise complexity?
- If RPI-X then at what stage?

Form of Price Control (cont.)

- Incentives for cost efficiency and service quality
 - essential in enduring regime
 - initially report performance and introduce incentives later?
- Regulatory depreciation period
 - aligned with G assets or with physical life?
 - precedent in DG incentive to align with G assets
- Potential approaches
 - TIRG type mechanism
 - baseline allowances plus revenue driver
 - sliding scale

Duration

- Influenced by a number of factors
 - front loading of capex
 - cost uncertainty
- Traditionally 5-years
 - is different approach justified?
 - relatively short initial period?
 - merit in aligning with onshore controls?
 - different periods for capex and opex?

Scope

- Cover all assets owned by offshore TO
- Any excluded services?
- Decommissioning costs
 - funded by price control?
 - appropriate mechanism?