



Promoting choice and value
for all gas and electricity customers

Introduction

DPCR5 policy paper workshops

28 January 2009

Agenda

Time	Session	Details	Location
10:00	Welcome and introduction	Presentation by Ofgem on background to DPCR5 and content of policy paper	Room 9
10:30	Breakout sessions	Roundtable discussions with Ofgem teams on key issues raised in policy paper	
		1 – Environment	Room 5
		2 – Customers	Room 2
		3 – Networks	Room 9
12:30	<i>Close</i>		

Contents

- Why is DPCR5 important?
- Purpose of today's workshop
- Process

Overview of DPCR5

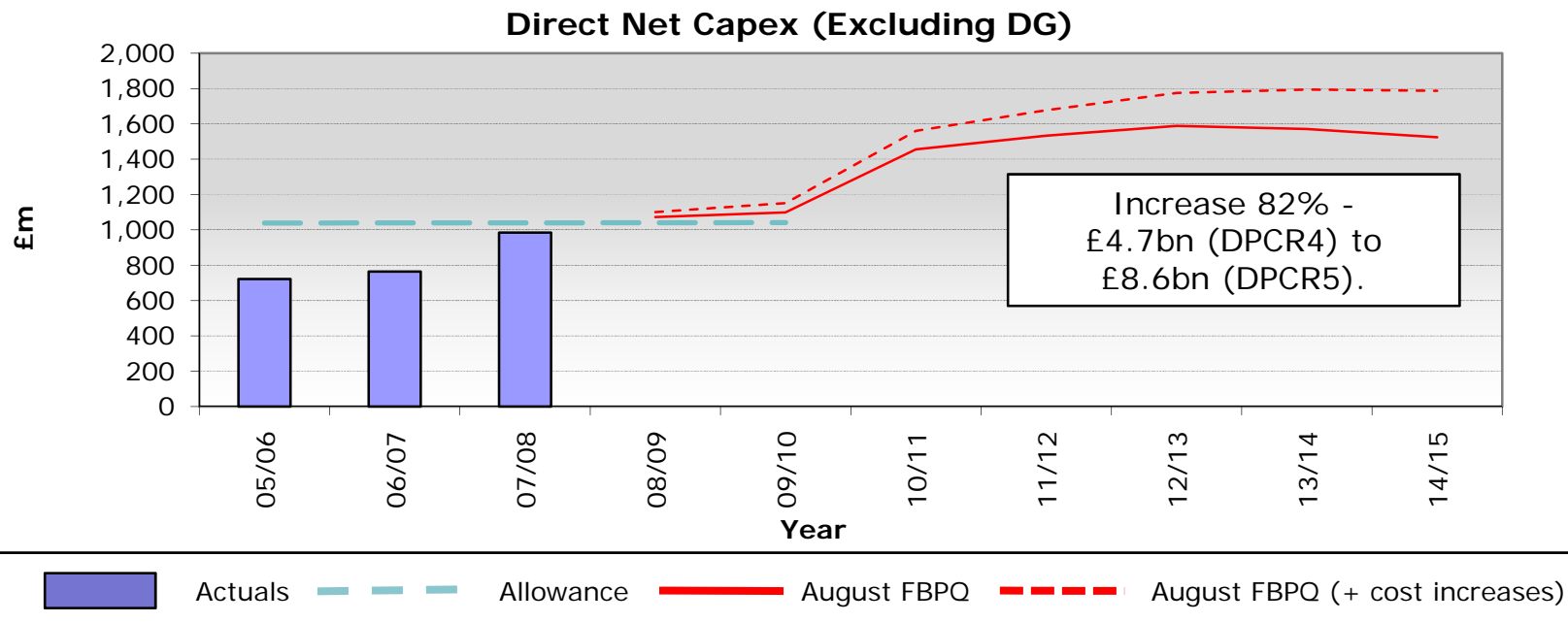
- Context
- Themes and objectives
- Approach



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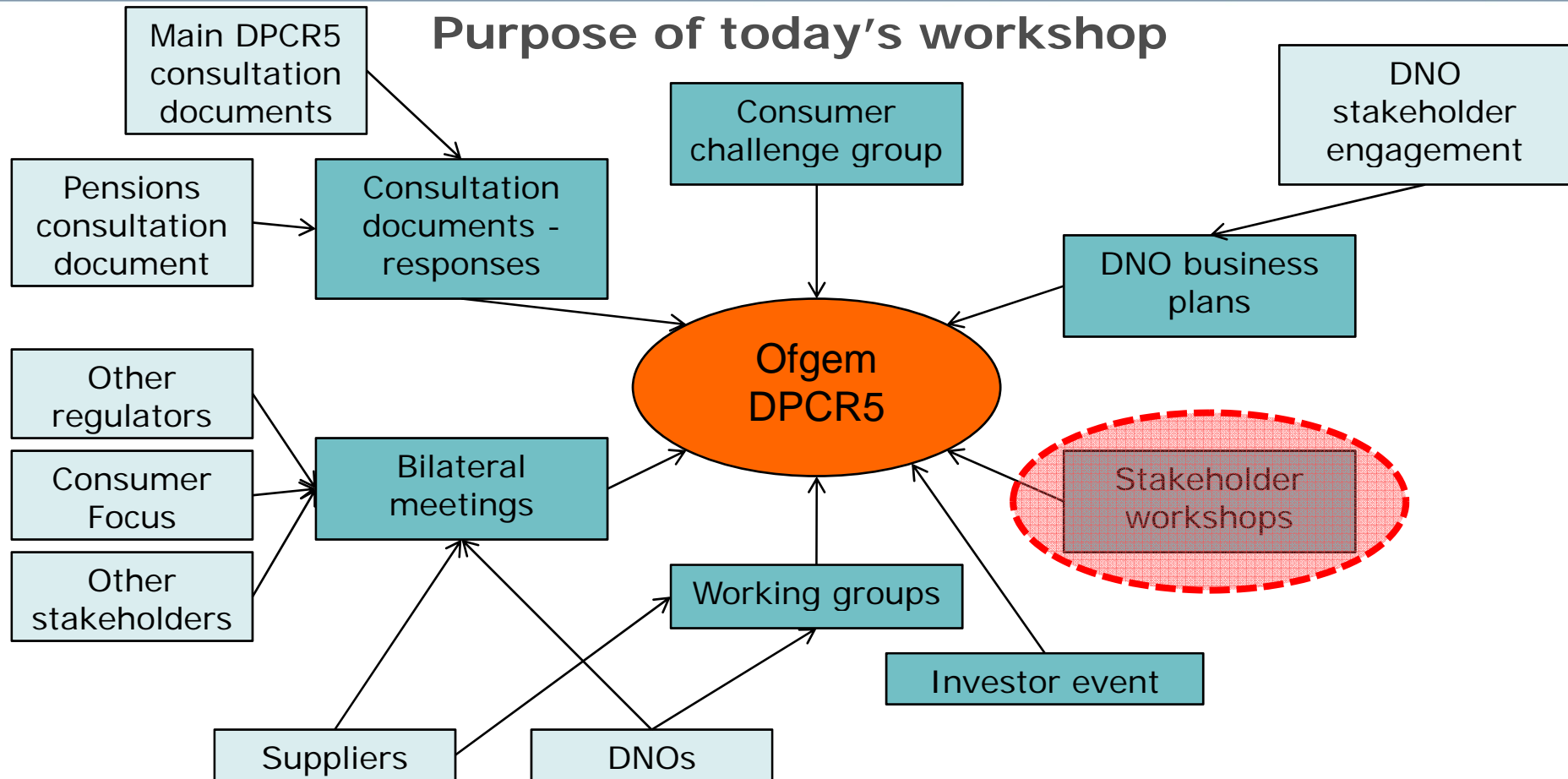
Why is DPCR5 important?

Allowances	Behaviours
Electricity distribution costs account for approximately £3.5 billion annually	What type of assets DNOs install and when they make this investment
14% of typical electricity domestic consumer's annual bill	What role they play in tackling climate change
Rising energy bills	How seriously they take customer service and quality of supply issues



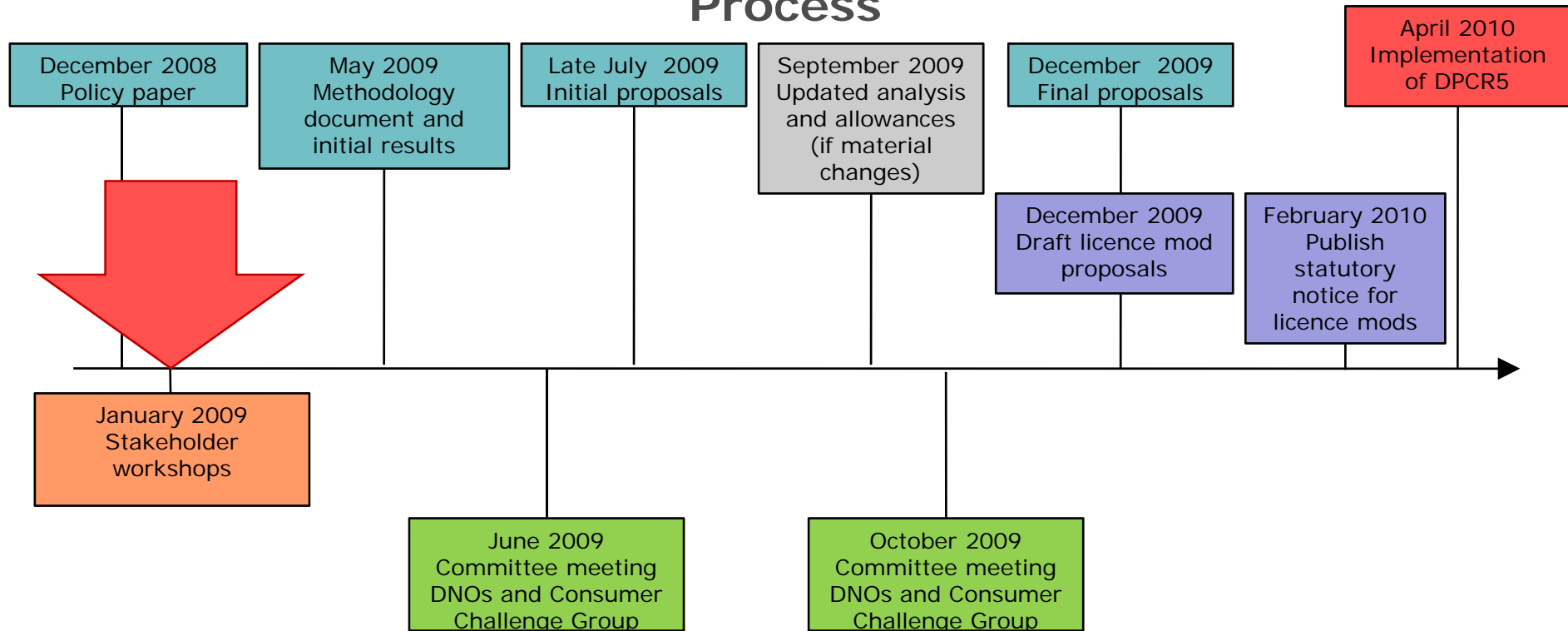
There is a lot of customers' money at stake. DPCR5 also presents an opportunity to shape the kind of network companies we have.

Purpose of today's workshop



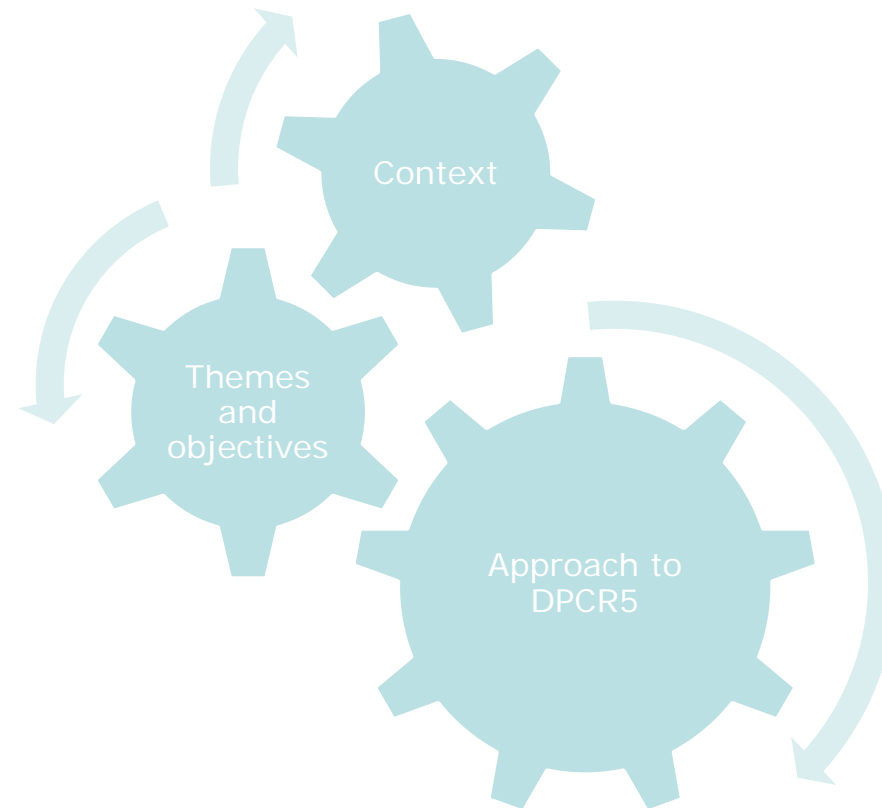
- We recognise that the consultation documents are quite technical and can be hard for non-DNO stakeholders to understand.
- We want to use today to provide background information, discuss your initial views and help to inform your responses to the Policy Paper

Process



- The consultation period for the Policy Paper closes on Friday 13 February
- We are happy to set up further meetings with stakeholders if you are interested – please let us know

Overview of DPCR5



Context for this review

The economy

- Credit crunch
- Economic downturn
- Fuel poverty

The environment

- Immediate need to manage DNO carbon footprint
- Possible radical change in use of networks long term as smart meters rolled out and more DG comes on stream

Lessons from DPCR4

- Incentives can be an important driver of the value of the settlement to DNOs
- Scope to improve the link between DNO returns and DNO performance

RPI-X@20

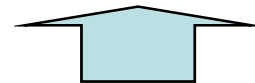
- project in visionary phase
- lessons from DPCR5 will inform the project
- no departure from incentive regulation for DPCR5

Themes and objectives for DPCR5

Protect the interests of customers
Set the price control at a level that allows an efficient DNO to finance their business



Theme	Our objectives
Environment	Encouraging DNOs to play a responsible and innovative role in tackling climate change
Customers	Creating customer centred DNOs
Networks	Incentivising DNOs to invest efficiently and to consider how customers' needs might change into the future



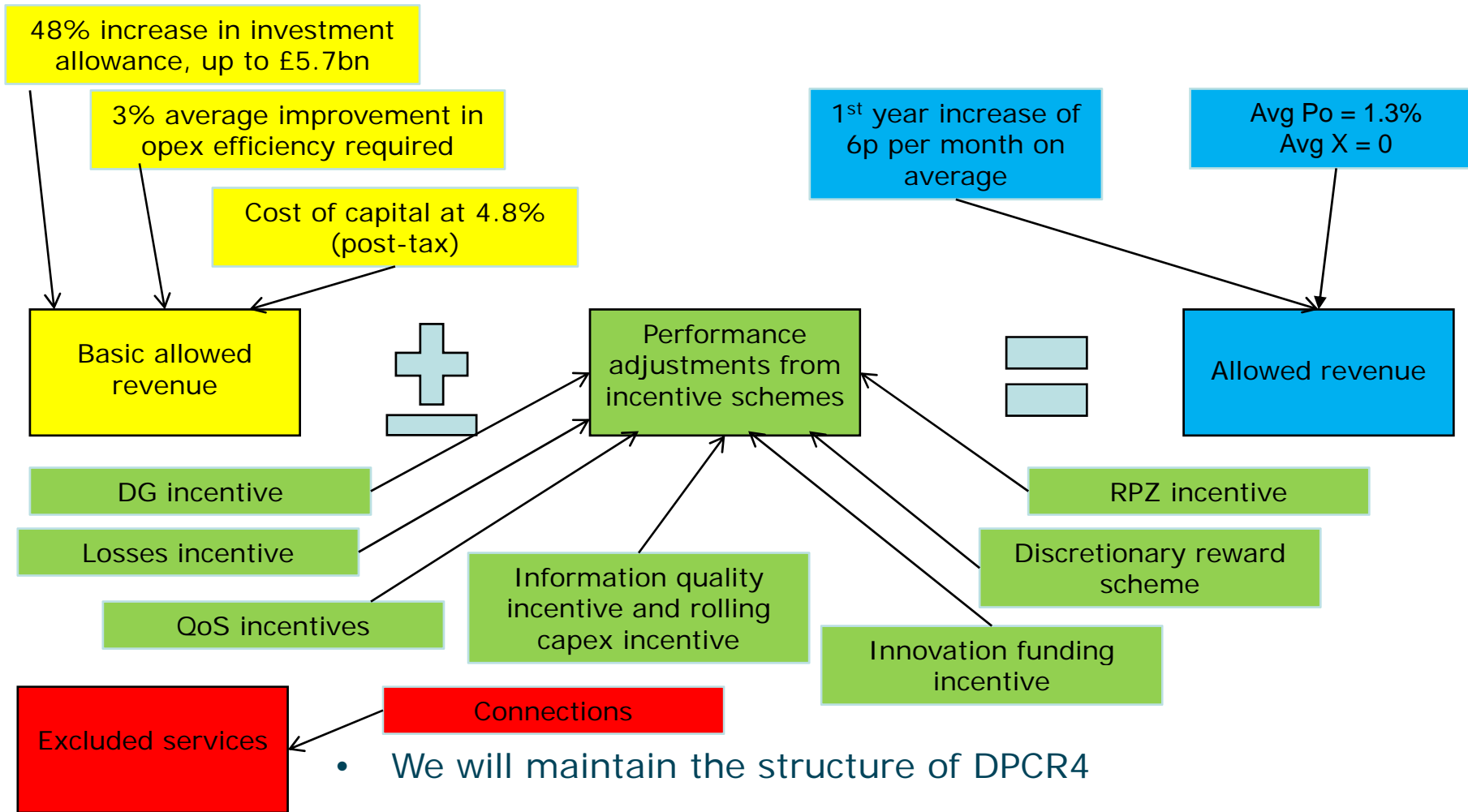
To meet these objectives, DNOs must be more proactive in setting their business strategies taking account the needs of their customers

DPCR5 will have been a success if the regulatory settlement provides reasonable rewards for delivering the above objectives, and the best performing DNOs earn the highest regulatory returns

Features of the proposed overall approach

<p>Include outputs in the regulatory settlement</p>	<ul style="list-style-type: none"> • Each DNO required to deliver a predefined set of outputs in a sustainable manner, in return for the revenue they earn
<p>Holistic approach to calibrating the settlement</p>	<ul style="list-style-type: none"> • Likely range of return on regulatory equity • Relative rewards for performance across different areas • Appropriate allocation of risk and return between DNOS and customers
<p>Better targeted incentives</p>	<ul style="list-style-type: none"> • Closer link between rewards & performance (incl on IQI) • New measure of customer satisfaction • More use of caps/collars to avoid windfall gains/losses
<p>Tools to manage uncertainty</p>	<ul style="list-style-type: none"> • Considering capex drivers, debt triggers, input price indexation, and sharing factors for legislative changes to corporate tax rates
<p>Measures linked to low carbon network use</p>	<ul style="list-style-type: none"> • Equalising incentives – capex/opex • Building block for flexibility investment • Challenging DNOs on case for investment deferral • New incentives to encourage DNOs to consider needs of future customers

What is familiar for DPCR5? - Overview of DPCR4



- We will maintain the structure of DPCR4
- We intend to retain, but improve, most incentive schemes

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