



Promoting choice and value
for all gas and electricity customers

Key Issues for DPCR5 - Networks

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Key Objectives - Networks

“Networks: Incentivising DNOs to invest efficiently so that security and reliability of supply is provided at reasonable cost.” – March Document

We will look to achieve this by:

- Building on lessons learned at DPCR4
- Improving incentives to encourage efficient network investment
- Developing suitable network output measures
- Encouraging DNOs to develop their own business strategies based on the needs of their network
- Requiring DNOs to develop their plan in consultation with their stakeholders
- Making best use of annual cost reporting data
- Removing distortion by reconsidering how costs are categorised

Lessons learned at DPCR4

Forecast business plans too prescriptive

- improved through the use of a “building block” approach
- Encouraging DNOs to develop their own business strategies based on the needs of their network

Inconsistent historical data

- Improved through annual cost reporting

Place more weight on companies forecast

- Addressed through the use of IQI incentive
- requirement for greater stakeholder engagement

Need to develop suitable output measures

- Building on those being developed as part of RRP

Key Network Challenges 2010-2015

Focus on asset stewardship

- Addressing both short and long term needs of the network

Cost and Delivery challenges

- Background of increasing activity

Customer driven uncertainty

- Timing and volume of DG

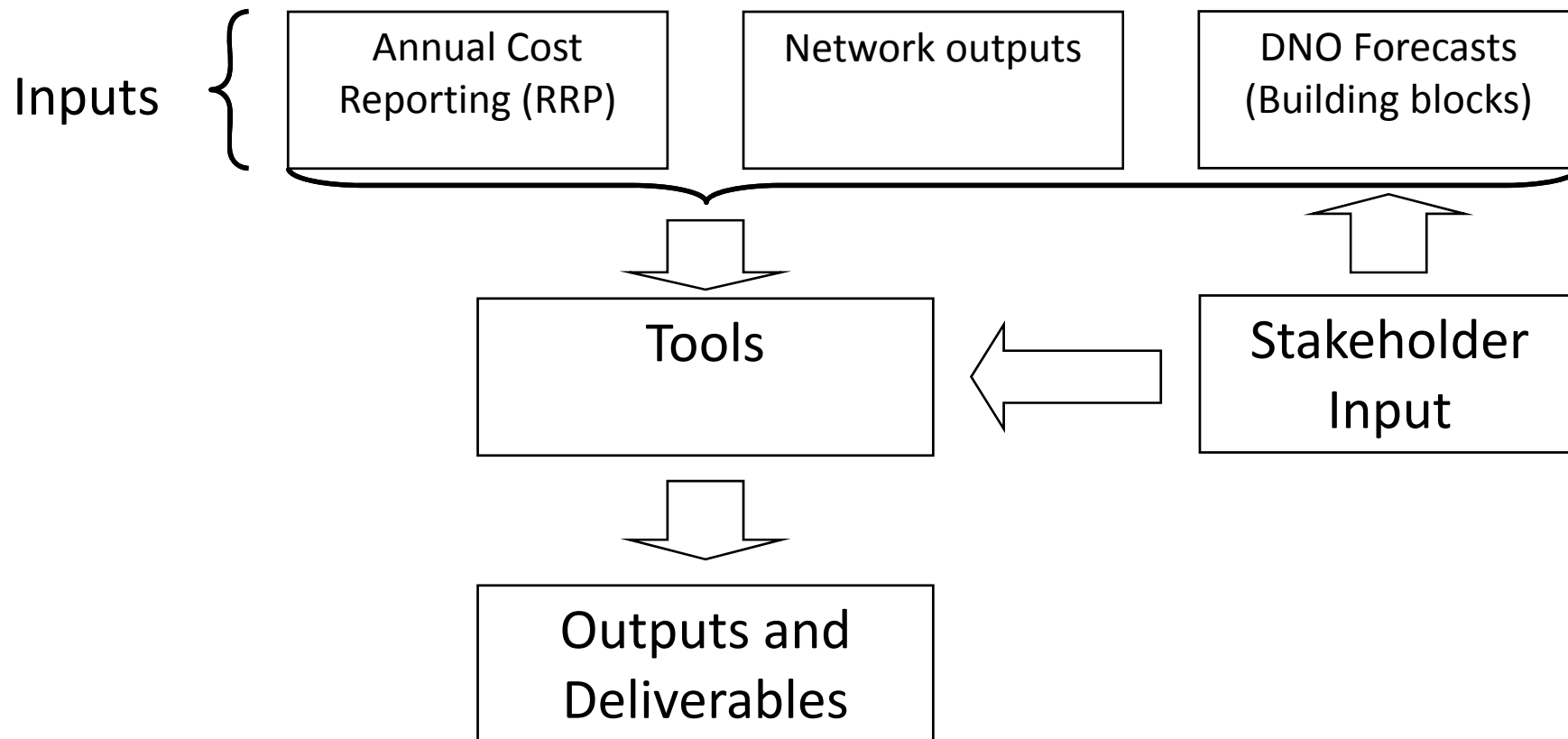
Timing of investment

- When should a DNO invest in capacity?

Environmental challenges

- Physical impact of climate change on the network
- Policy issues to be discussed on Friday

Approach to Cost Assessment



DNO Forecasts - Building Blocks

- “Building block” approach for DNOs to present their forecast.
- Each “building block” clearly identifiable assumptions, costs, and outputs.
- Allows DNOs to make the most appropriate business decisions regarding the requirements of their network while maintaining a consistent structure.
- Developed, in consultation with the DNOs to reflect drivers of investment and approach to forecasting
- The FBPQ was issued on Friday (16th) and will be published on Ofgem web site shortly

Stakeholder Engagement

- Willingness to place more weight on companies forecast but to increase Ofgem confidence in the robustness of their forecasts DNOs will need to:
 - Consult more widely on their plans
 - Provide greater visibility of their assumptions
 - Justify their forecasts based on the outputs they will deliver
- In practice this will require DNOs to engage more widely with their stakeholders.
- We don't want to prescribe how the DNOs go about engaging with stakeholders – DNOs to take the lead
- We are encouraged by discussion we have had with DNOs and events we have attended

Development of Outputs

Important that the regulator, customers and the companies understand what levels of outputs are required.

There is range of network output measures in place such as:

- Reliability measures such as CIs and CMLs
- Compliance with technical and safety requirements

Currently there is a lack of output measures quantifying what actual and forecast investment will deliver particularly with respect to asset driven investment

DNOs to provide greater clarity of the outputs their plans will deliver and how this has been informed by stakeholder expectations and requirements



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