

The background of the slide features a large, stylized image of interlocking gears. One gear is a light blue color, and the others are a light orange or yellow color. The gears are partially obscured by a large, white, stylized 'X' shape that runs diagonally across the slide.

Workgroup Discussions – Key Messages and Discussion Questions

Stakeholder workshop
Glasgow, 28 November 2008

Key messages from London workshop

RPI-X regime not necessarily “broken” but...

1. Signals are insufficient to facilitate new investment

- Opex and capex incentives are skewed with rewards for asset sweating
- Five year controls do not facilitate investment but longer time periods could introduce more complexity and greater uncertainty
- Output measures are important but they are difficult to define and could lead to greater complexity

2. Favour the use of an incentive based regime

- Need to ensure coherence in practical application of incentives
- Complexity of incentives make it harder for smaller players to engage

3. Information asymmetry leads to complexity in the regime

Complexity is not bad per se – only where it is unnecessary

Key issues for RPI-X@20

Holistic overview of the RPI-X regime is needed to assess...

Ongoing
complexity and
whether this is
needed

The different
arrangements
across the
networks

Balance of risk
and return for
network
companies

Incentives
towards new
network
investment

Issues to consider:

1. Any change should represent a clear improvement and be assessed against the importance of stability in the GB regime
2. There may not be a one size fits all solution
3. Be clear on the outcomes we are seeking to facilitate
4. Identify whether the regime meets the needs of those that it impacts on and whether it also allows them to engage in the process

Session 1: Getting the right outcomes

For transmission and distribution networks in gas and electricity:

1. What outcomes should the regulatory regime deliver?
2. What mechanisms are in place to deliver these outcomes now?
3. What works within the current regime and what doesn't work?
4. How can we determine the efficient level and timing of investment?
5. How could we monitor network company performance against this?
6. Are returns achieved by network companies commensurate with risk?
7. Are returns achieved by network companies commensurate with performance in terms of the quality of service provided to customers?
8. What future challenges might affect the delivery of desired outcomes?
Could the current regulatory regime be adapted to accommodate these?

Session 2: Getting the right framework and process

For transmission and distribution networks in gas and electricity:

1. What key principles should a regulatory regime should adhere to?
2. Does the RPI-X framework in energy conform to these principles?
3. What aspects need to be simplified, if any?
4. Is the five-year cycle fit for purpose?
5. Are information requirements sufficient or too onerous?
6. Should stakeholders have a greater role in the price control process?
7. Is the appeals process working? What could be changed?
8. Are there concerns about the sustainability of the regime going forward?



Promoting choice and value
for all gas and electricity customers