

Consultation: DPCR5

BP Response –Final

BEAMA Ltd
Westminster Tower
3 Albert Embankment
London
SE1 7SL

Tel: 020 7793 3000

To:

DPCR5 Response
Electricity Distribution
Ofgem
2nd floor,
9 Millbank
London
SW1P 3GE
020 7901 7026
DPCR5.reply@ofgem.gov.uk

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Dear Sirs,

The Power Sector of BEAMA Ltd (BP) is the Trade Association representing the principal suppliers of equipment to the UK's Electricity Transmission and Distribution sectors.

Our Members welcome the initiative shown by Ofgem and appreciate the opportunity to express their views.

Our detailed comments are given below.

Nigel Grant
Director
(signed electronically)

Chapter	Q No	Question	BPL Response
Chapter 1: Introduction and overview			
1	1	Do you agree with our assessment of how the DPCR4 settlement has performed in practice?	<p>In paragraph 1.30, our Members would expect Ofgem to have a stronger understanding of why CAPEX is under spent. We would also expect Ofgem to make a comment about the timing of CAPEX spend through the regulatory period.</p> <p>Additionally Ofgem could comment more on the need for published KPI's on network age and reliability as a mechanism of understanding the appropriateness of CAPEX spend under DPRC4, and thus the implications for DPRC5.</p>

Chapter	Q No	Question	BPL Response
1	2	Do you agree with the main lessons we have drawn from this assessment?	<p>BEAMA Members positively note consultation document paragraphs 1.37 to 1.39.</p> <p>BEAMA Members welcome paragraph 1.52 and would urge Ofgem to publish these indicators as a mechanism of encouraging the DNO's to make the appropriate investments in improving the performance of the networks.</p> <p>BEAMA Members do however have a concern about paragraph 1.59 – specifically carbon footprint (2nd bullet) – and ask where would SF6 fit in this. Ofgem is urged to ensure that the wider Carbon Footprint measures are taken into account, rather than just counting SF6 emissions and applying an appropriate multiplier.</p> <p>We direct Ofgem to the content of the Ecofys SF₆ study final report available from http://www.capiel-electric.com.</p>
1	3	Have we identified appropriate measures to address our concerns and deliver a settlement that provides better rewards/penalties for highly performing/poorly performing companies?	<p>In support of wider Climate Change objectives, both in the UK and Europe, we suggest Ofgem gives further consideration to:</p> <ul style="list-style-type: none"> • age profile of equipment • efficiency of key components • measures to encourage procurement based on lifecycle costs in preference to lowest first cost.

Chapter	Q No	Question	BPL Response
1	4	Do you think our proposal to base DNOs' incentives for under/outperformance around their effective return on equity is appropriate?	BP has no comment to offer on this topic
1	5	If you do, what range of return on equity do you think would represent a fair balance between customers' and shareholders' interests to reward increased efficiency, better service and innovation, whilst maintaining strong incentives for shareholders of any poorly performing DNOs to improve performance?	BP has no comment to offer on this topic
Chapter 2: Environment			

Chapter	Q No	Question	BPL Response
2	1	Do you agree with our view of future uncertainties and the need for DNOs to change their way of working and thinking to encompass innovation and flexibility?	<p>BEAMA Members are broadly supportive of paragraph 2.7– but not in a simplistic application if including SF6.</p> <p>Para 2.12 – BEAMA notes that it has not been contacted.</p> <p>BEAMA Members are broadly supportive of paragraphs 2.19 & 2.20 but as key suppliers to the DNO’s our Members need information, certainty of direction, and, key to this, explicit Government support to trial solutions.</p>
2	2	What are your views on our proposals for DNOs to provide more information to help low carbon initiatives and have we adequately identified and defined the information requirements?	BP has no comment to offer on this topic
2	3	Do you agree with our proposal that all distributed generation should pay use of system charges, and if not, can you provide evidence to substantiate your specific concerns?	BP has no comment to offer on this topic

Chapter	Q No	Question	BPL Response
2	4	Do you agree that the distributed generation (DG) incentive should be retained? Should embedded transmission be deemed relevant DG?	BP has no comment to offer on this topic
2	5	What are your views on our proposals on innovation and flexibility? How would you rate their feasibility and which option is most likely to drive the more innovative and flexible behaviour that we are seeking?	BEAMA Members have a concern about the long term nature of innovation being treated within a 5 year regulatory review, and believe this would be better dealt with outside the 5 year time constraints. BEAMA Members further remind Ofgem that DNO's cannot achieve these objectives by themselves – there should be recognition that DNO's have to work closely with main suppliers – and this requires dialogue, certainty, long term commitment, and clarity of objectives.
2	6	What are your views on our proposal to set an incentive on transmission grid exit charges?	BP has no comment to offer on this topic
2	7	What are your views on our losses proposals, and do you have any additional comments on the option to install smart meters on low voltage substations?	Ofgem should be aware of the implications of the EuP Directive and how the next phase of implementation considers Distribution and Transmission transformers. Ofgem should be aware that the manufacturers can manufacture low loss transformers, but it is for the DNO's to specify. Ofgem perhaps needs to look closely at the capitalisation formulae used by DNO's.

Chapter	Q No	Question	BPL Response
2	8	<p>What are your views on the various aspects of the business carbon footprint proposals?</p>	<p>BEAMA Members note paragraph 2.104, however they highlight that replacement of older equipment of a different technology could be a positive carbon footprint development and cite the Ecofys SF₆ study final report available from http://www.capiel-electric.com</p> <p>Similarly in paragraph 2.106 – we would again draw Ofgem to the paper cited above.</p> <p>Regarding paragraph 2.112 and Appendix 6 –we believe in appendix 6 paragraph 1.72 – this list should be expanded to ensure that any investment decision takes account the broad BCF of different technologies. This would have 2 benefits – not unnecessarily discriminate against SF₆ technology, and for transformers place an additional incentive to procure low loss transformers.</p> <p>So – unless this is included, it is our opinion that SF₆ should be removed from the list and have a separate incentive.</p>
2	9	<p>What are your views on our proposals for refining the undergrounding scheme? In particular, should we apply caps per km of cable by voltage level or should we remove all voltage caps and just have a single overall cap?</p>	<p>BP has no comment to offer on this topic</p>

Chapter	Q No	Question	BPL Response
2	10	Do you agree with our proposed approach for the treatment of fluid filled cables?	BP has no comment to offer on this topic
Chapter 3: Customers			
3	1	Do you think that the range of existing and proposed arrangements will deliver the levels of service customers expect?	BP has no comment to offer on this topic.
3	2	What percentage of revenue/return on equity should be exposed to customer service and how should it be split between the various areas? Office of Gas and Electricity Markets 117 Electricity Distribution Price Control Review Policy paper 5 December 2008 Appendices	BP has no comment to offer on this topic.
3	3	Do you agree with our intention to develop a broad measure of customer satisfaction and the proposed advocacy approach?	BP has no comment to offer on this topic.

Chapter	Q No	Question	BPL Response
3	4	Do you agree with our proposed approach to connections, which of the options do you support and why?	BP has no comment to offer on this topic.
3	5	Do you agree with the proposed amendments to the IIS (in full) and what are your views on how incentive rates should be structured?	BP has no comment to offer on this topic.
3	6	Do you agree with our proposed long-term objective of DNOs being able to automatically know which of their customers are off supply and the exact times, and if so what is the appropriate timescale to achieve this?	BP has no comment to offer on this topic.
3	7	Do you agree with the proposed focus on worst served customers and which of the options do you prefer?	BP has no comment to offer on this topic.
3	8	We have raised some detailed questions throughout this chapter and the appendix. We welcome views on these issues.	BP has no comment to offer on this topic.

Chapter	Q No	Question	BPL Response
Chapter 4: Networks			
4	1	Have we identified the right behaviours for DNOs? Are there others which should be included?	<p>In paragraph 4.1, BEAMA Members are pleased that Ofgem is recognising level of CAPEX deferral.</p> <p>We would question in paragraph 4.11 whether DNO's have taken into account ability of industry to deliver the CAPEX – and, express concern about the inadequate communication to the “value chain” below the DNO's.</p> <p>The DNO's should be actively encouraged to look beyond the immediate 5 year time horizon so that there is continuity between regulatory periods, and to ensure that the CAPEX is spread through all of the regulatory period rather than years 2 to 4, thus maximising efficiency of resources for the complete industry - including key suppliers.</p>
4	2	What action should we take where a DNO has deferred investment and created a backlog in DPCR4?	If DNO's have created a backlog, there should be additional justification, not only of the CAPEX under DPCR5, but the ability of the DNO's to resource this CAPEX internally, and liaison with key suppliers to demonstrate and ensure that the wider supply chain have been consulted and support the ability to achieve that CAPEX.
4	3	What approach should we manage to deal with volume uncertainty?	See response to Question 4:1 above.

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4	4	What approach should we take to price uncertainty?	If DNO's were prepared to be certain about future expenditure profiles then the suppliers could assist in dealing with price uncertainty.
4	5	Should we be looking to equalise incentives for opex and capex? If so, what approach should we adopt?	BP has no comment to offer on this topic
4	6	Do you consider that we should make refinements to the IQI? If so, what changes should we make?	BP has no comment to offer on this topic
4	7	What action should we take where DNOs provide insufficient output information as part of their February FBPQ?	<p>Whilst BEAMA Members welcomes paragraph 4.69 we believe that Ofgem goes further by developing a set of KPI's that demonstrate that the network is not deteriorating, that the age of equipment is not beyond the original design life, and that efficiency of equipment on the network is being improved.</p> <p>BEAMA Members broadly welcome paragraphs 4.76 and 4.83 and urge Ofgem to find a way of placing this information in the public domain.</p>
4	8	Do you agree with our proposed approach to assessing network operating costs and indirect costs?	BP has no comment to offer on this topic

Chapter	Q No	Question	BPL Response
4	9	Do you agree with our proposed approach for assessing network investment?	<p>In Appendix 8, paragraph 1.106, surely this would encourage older equipment staying on the network. Should there not be a measure of the reliability bathtub curve for equipment, and that should set the maximum asset replacement life. Additionally, if this were greater than design life does risk not have to be factored in?</p> <p>We believe Ofgem needs to undertake further work on this, and our Members are prepared to assist if asked.</p>
Chapter 5: Financial Issues			
5	1	Have your views on the appropriate methodology for setting the cost of capital or on indexing the cost of debt changed as a result of the current turmoil in the capital markets?	BP has no comment to offer on this topic
5	2	What is the appropriate timing of actuarial valuations for setting ex ante pension allowances (see also appendix 10)?	BP has no comment to offer on this topic

Chapter	Q No	Question	BPL Response
Chapter 6: Process			
6	1	We invite views on which format stakeholders would find most useful for the Ofgem workshops to be held in January 2009.	BP has no comment to offer on this topic
6	2	We invite views on our proposed process.	BP has no comment to offer on this topic