

Rachel Fletcher
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Dear Rachel

DPCR5 – METHODOLOGY AND INITIAL RESULTS PAPER

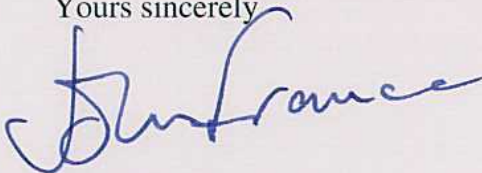
I attach a copy of our response to Ofgem's methodology paper.

You will already be familiar with several of the main themes of our submission as we covered many of these at our meeting on 5 June. Our principal concerns are:

- the cost assessment exercise, particularly the treatment of network operating costs within the regression;
- the design of the IQI matrix and the rewards for submitting challenging forecasts;
- the recognition of real price effects;
- the losses incentive at DPCR5 and the application of the rolling incentive from DPCR4; and
- the setting of IIS targets.

Once again, the length of our response reflects the comprehensive nature of your consultation and, as with previous DPCR5 consultations, we have structured our response around the questions that you set out in your paper.

Yours sincerely



John France
Regulation Director