

Rachel Fletcher
Director, Electricity Distribution
Ofgem
9 Millbank
London
SW1P 3GE

Avonbank
Feeder Road
Bristol
BS2 0TB

Telephone 0117 9332000
Fax 0117 9332001

<i>Our Ref</i>	<i>Your Ref</i>	<i>Direct Line</i>	<i>Date</i>
	47/09	0117 933 2175	29 May 2009

Dear Rachel

Ofgem Consultation: Electricity Distribution Price Control Review Methodology and Initial Results Paper May 8th 2009

This response is provided on behalf of Western Power Distribution (South West) plc and Western Power Distribution (South Wales) plc. In addition to this letter we attach an annex of answers to the specific questions raised in the document together with any additional comments associated with the document appendices.

The Methodology and Initial Results Paper demonstrates a significant difference of robustness in Ofgem's approach to opex and capex benchmarking.

The opex benchmarking is considerably more robust than in previous reviews and has benefited from the collection of cost data in a consistent format via RRP since 2004/05. In addition, considerable resource has been employed by Ofgem and DNOs to derive appropriate cost drivers and understand the cost base. The results across a wide range of benchmarks show highly consistent answers with SSE and WPD being the two efficient DNO Groups.

The initial asset replacement modelling that has been undertaken by Ofgem is not robust enough to be used in setting prices.

Ofgem's initial asset replacement modelling is flawed for the following reasons;

DNOs failing to deliver during DPCR4

Ofgem's asset replacement modelling makes no consideration of DNOs failing to deliver their requested and promised capex in DPCR4. Ofgem use the longest of all DNO weighted actual or forecast lives in its model and because companies have not replaced assets as planned, asset lives have been unrealistically extended in the model.

The HSE investigation into decayed pole replacement following a fatality in 2007 shows that only 8 companies out of 13 could provide adequate data for pole replacement, and one company would appear to have an average replacement time of 10 years before an identified pole in dangerous condition was changed. This area of asset replacement represents one of the largest potential risks to network resilience and public safety and so asset records, together with replacement, should be of the highest priority.

Ofgem must therefore seek written assurances from companies that they are carrying out maintenance and asset replacement in accordance with their declared policies. We have previously provided Ofgem with a template to achieve this.

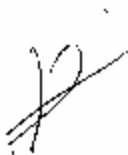
Input data flaws

It is evident from Table 4.4 in the initial results paper that DNOs have provided data on an inconsistent basis. For example, SSE Hydro and SSE Southern are shown blanked out, indicating that Ofgem have been unable to assess data on the same basis as for other DNOs.

Ofgem should ask DNOs to comment on asset types where the DNO's forecast activity volume is materially lower than Ofgem's forecast activity volume, as this may begin to reveal omissions and inconsistencies.

We look forward to further constructive discussions with you and your colleagues in order to resolve the outstanding issues between now and the publication of initial proposals in July 2009.

Yours sincerely

A handwritten signature in black ink, appearing to be 'AS', written over a faint horizontal line.

ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager