

From: Jim and Margaret Cuthbert [jamcuthbert@blueyonder.co.uk]
Sent: 07 October 2009 10:01
To: RPI X20
Cc: contact@consumerfocus.org.uk; enquiries@nao.gsi.gov.uk
Subject: Submission to RPI-X@20 review

Dear Sir,

In 2007, we published the paper below, (a copy of which is attached), in the Fraser of Allander Quarterly Economic Commentary: this paper is a critique of the Regulatory Capital Value method of setting utility prices, as applied in Scotland for setting revenue caps for water, and by OFWAT in England and Wales.

Our comments, however, are entirely applicable to the RPI – X method currently used by OFGEM, which is the subject of your present RPI – X review. (We have recently gone through in detail the financial model for DPCR 5, and have checked with your staff how the final process of uprating the constant price output from this model to current prices is carried out: we have confirmed that the process you use conforms exactly to the model as used in the water industry, which was the subject of our paper).

The implication of our analysis is that the model you use will provide distribution companies with a windfall profit in respect of capital investment that they undertake: there is the consequent implication of excess charges for customers – and likely distortion of capital investment priorities.

We would like our critique of the regulatory capital value approach to form an input to your RPI – X@20 review: so we would be grateful if you could publish this email, and the attached paper, on your RPI –X @20 forum. We would also, of course, be grateful for any reactions: either from OFGEM itself, from your economic adviser, or from other interested parties.

We are copying this to Ed Mayo, and Ed Humpherson, at the Consumer Forum and NAO, who, we understand, are both members of your advisory panel for the review: the implications of our paper should be of particular interest to them from their respective consumer protection and value for money standpoints.

Yours sincerely,

Dr JR Cuthbert
M Cuthbert.

7 October 2009

Cuthbert, J.R., Cuthbert, M.: "*Fundamental Flaws in the Current Cost Regulatory Capital Value Method of Utility Pricing*": Fraser of Allander Institute Quarterly Economic Commentary, Vol 31, No.3: (2007).

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