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Dear Hannah and Rachel

**Gas Distribution and Transmission Price Control Strategy Consultations**

Please find attached Electricity North West's response to your Strategy Consultations for the Gas Distribution and Transmission Price Control Reviews. We recognise the importance of the upcoming price controls as they represent Ofgem's first translation of the RIIO principles into a price control which delivers long term benefits for current and future customers. The application of the RIIO principles will have a significant impact on our own price control review in 2015 and we have therefore thoroughly reviewed and considered your proposals.

We support many of the developments in the new regulatory framework. In particular, we support your ongoing work on outputs and will work with you to continue to develop it. We believe that the development of comparable outputs will demonstrate the long term value for money that network companies provide for their customers. We are pleased that you have committed to ensuring that a "fast-track" company is not worse off than others going through a longer price control process, though we are not yet convinced that the fast-track now offers an incentive that is sufficiently strong. We remain concerned that Ofgem currently does not have appropriate comparative models available to objectively determine which companies should be fast-tracked. In developing your approach you must reflect the key fact that efficiency is not just about unit costs. The identification of an efficient volume of activity to be undertaken, combined with the choice of innovative, efficient solutions will have a much bigger impact on overall long term efficiency than delivery of cheap unit costs.

We agree that customers and stakeholders should be consulted about network companies' plans. There are different drivers in different regions of the country and these should be reflected in price controls that properly reflect the needs of stakeholders in the region served by the particular network concerned.

We have a number of concerns, however, with your proposed approach to financeability issues. We are aware that these initial decisions on the implementation of the RIIO principles are being closely scrutinised by the global financial community. It is, therefore, essential that you translate the RIIO financeability principles into packages that encourage investors to provide sufficient finance (both debt and equity) to fund the £32bn of required network investment. Many aspects of your financeability proposals, especially cost of capital components, depreciation lives and

continued reliance on investors to fix financeability issues, are unattractive to investors and will not deliver the required investment. More work is needed to demonstrate how you will ensure that the price control packages that arise from these reviews will attract sufficient investment to deliver the sizeable investment programmes required of network companies.

The ultimate test of the success of RIIO price controls will be whether they allow sufficient revenues to deliver investment for customers and returns to debt and equity investors whilst maintaining appropriate financeability metrics. We believe that this can be achieved if you consider your financing principles as starting positions from which transparent and mechanistic financeability adjustments can be overlaid in a consistent manner to achieve acceptable price control solutions. You must recognise that the financeability adjustments required to achieve acceptable solutions may be very material in the first RIIO price controls, given the need to transition from current modeling assumptions.

We remain committed to working with your teams to develop the principles into a cohesive package which will meet the requirements of current and future customers.

If you have any questions regarding our response please do not hesitate to contact me or a member of my team.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'S Johnson', written in a cursive style.

Steve Johnson  
Chief Executive Officer