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Dear Sir/Madam

Consultations on Strategy for RIIO-GD1 and RIIO-T1 price controls

UK Power Networks welcomes the opportunity to respond to Ofgem's consultation on the strategies for the RIIO-GD1 and RIIO-T1 price controls.

For simplicity we have prepared a single response which encompasses our views on both price controls. Within these we have concentrated on the more generic aspects of the price control process and the mechanisms within it, hence leaving specific industry issues to those companies who are directly involved. Furthermore we have focused our comments under a number of broad headings and sought to address those issues which we believe have a direct read-across to the electricity distribution industry. These can be found in the attached detailed response.

We were pleased to be an active participant in the RPI-X@20 project, and are supportive of many of the outcomes that emerged from those discussions. We agree with Ofgem's fundamental tenant that good performing Network companies should be rewarded for the outputs that they have delivered. This is clearly in the interests of both customers and shareholders, enabling the regulatory framework to reward those companies that deliver the most. We also welcome a more direct link between the rewards a network company earns compared to the outperformance/underperformance against agreed outputs. The broad spectrum of outputs that Ofgem have proposed for the Transmission and Gas networks appear appropriate and it is sensible to test these against the broader spectrum of stakeholder requirements. UKPN looks forward to working with our stakeholders in refining these for the specific circumstances in the South East of England in general and London specifically for the RIIO-ED1 settlement in 2015. A process we have already embraced and started in 2010.

We particularly welcome the direction of travel with regard to innovation, building on the bold introduction of the low Carbon Networks Fund in DPCR5. Although this fund is in the early stages of development Ofgem should be encouraged by the quality and level of the bids that DNOs submitted in 2010. Linking the innovation allowance to the submission of the longer business plans will ensure that Network companies build successful innovation into their networks for the benefit of both customers and shareholders. The introduction of a revenue adjustment mechanism to allow companies to apply for additional revenues to speed up the implementation of new techniques, technologies and solution is warmly welcomed. We would expect that Ofgem would recognize the additional risks that innovative DNOs will be taking through increased potential returns either through incentives or allowed returns.

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We are keen to work with Ofgem in translating the solid principles that underpinned the development of the RIIO framework, into practical and workable processes. We have included, as an appendix to this response, a summary of options for developing the TOTEX framework. We would welcome the opportunity to work further with Ofgem in developing this framework.

If we were to try and distill our concerns into a single point, it would be that the transition to a low-carbon economy will bring considerable uncertainty to our industry. This would lead you to expect a regulator to attempt to either introduce certainty where possible as a means of mitigating this risk, or alternatively recognize that investors will require a greater return on their investments in exchange for taking on greater risk. Instead, through these proposals, Ofgem's actions all too often do neither, raising legitimate questions in our mind about regulatory commitment and suggesting a regulatory environment where discretion plays a much greater role.

We believe that the clearest example of this is Ofgem's initiative to extend regulatory asset lives. As we enter a period of increasing investment, we agree that there is a strong case for reforming Networks financing such that the burden is appropriately shared between current and future customers. However, Ofgem's proposal to extend asset lives appears to be one-sided, placing the burden of reduced cash flows, equity injections and delayed dividends on the shoulders of shareholders. It is surprising that Ofgem has not allowed for further consideration to complementary proposals presented by the companies. Given the weight of response within previous RIIO consultations it is not clear why Ofgem have ruled out the revaluation of the RAV to reflect the actual value of the asset base, back ended depreciation profiles or the introduction of the extension of asset lives to new assets only.

If you have any queries, please do not hesitate to contact me on 0207 397 7715.

Yours sincerely

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