

# TPCR4 Adapted Roll-over Stakeholder Workshop

Hannah Nixon  
Partner, Transmission  
13 April 2010

## Agenda

- Objectives of roll-over
- Interactions between roll-over and TPCR5
- Key implications of roll-over
- Timeline
- Scope of roll-over
- Transmission licensees' views on roll-over objectives and scope
- Stakeholder engagement

## Reasons for adapted roll-over

- RPI-X@20
  - review of approach to regulating energy networks
  - final decisions due autumn 2010
  - TPCR5 and GDPCR2 will be first reviews implementing RPI-X@20
- TPCR4 – runs April 2007 to March 2012
- Options for aligning RPI-X@20 and TPCR5, implement TPCR5 from:
  - Apr-2012, i.e. run TPCR5 & RPI-X@20 in parallel (at least in part)
  - Apr-2013, i.e. apply one-year 'Adapted Roll-over' of TPCR4 in 2012/13
- Ofgem decision in Dec-2009
  - implement adapted roll-over in 2012/13
  - enables RPI-X@20 recommendations to be implemented fully in TPCR5

## Adapted roll-over objectives

- Protect interests of existing and future consumers
- Be consistent with Ofgem's wider statutory duties, including:
  - contribute to achievement of sustainable development
  - secure all reasonable demands for gas and electricity are met
  - licensees able to finance regulatory activities
- Be proportionate to one-year control and minimise regulatory burden
- Reflect recent developments in policy
- Not to delay critical investment
- To facilitate efficient process to develop TPCR5

## Adapted roll-over - Key implications

- Committed to current transmission policy workstreams
  - E.g. gas entry charging review, TAR, enhanced TO incentives
- Specific items rolled over and not reset
  - output measures rolled over in 2012/13
    - Expect 2012/13 cost forecasts to be tied to a forecast for the output measures
  - gas baseline obligations and revenue driver values rolled over (entry & exit)
- No new policy issues to be addressed in roll-over & incentive targets rolled over
  - except where major misalignment between TPCR4 baselines and outturn values
- Some TPCR4 policy aspects will need reviewing in roll-over:
  - electricity transmission
    - local driver Unit Cost Allowances (UCAs)
    - relationship between generation volume and investment
    - impact of Connect and Manage access regime

## Interactions with TPCR5

- Adapted roll-over: Jan-2010 to Mar-2012
- TPCR5: May-2010 to Mar-2013
  
- Clearly overlap between the two processes
- Aim is to minimise repetition of work across related work areas and to take advantage of existing information gathering tools such as regulatory reporting pack
- Maximise synergies between adapted roll-over and TPCR5 work

## Adapted roll-over timetable

		TPCR4 "adapted roll-over" Timeline
2010	<b>Spring</b>	Initiate internal planning for one year control Publish Scope consultation document Ofgem led stakeholder workshop
	<b>Summer</b>	Publish scope decision and methodology paper Stakeholder workshop
	<b>Autumn</b>	Issue forecast Business Plan Questionnaires (FBPQ) Receipt of FBPQ responses
	<b>Winter</b>	
2011	<b>Spring</b>	Publish update document Issue updated FBPQ (as appropriate)
	<b>Summer</b>	Publish Initial proposals Stakeholder workshop
	<b>Autumn</b>	Receive updated FBPQ responses (as appropriate)
	<b>Winter</b>	Publish final proposals and draft licence conditions
2012	<b>Spring</b>	Final licence conditions
	<i>1 April</i>	New price control period commences



The background features a collage of images: a large white arrow pointing right, a field of solar panels, a glowing lightbulb, and a close-up of a gas valve. The overall color palette is light and airy, with soft blues, oranges, and whites.

# Principles

Chris Watts  
Peter Trafford  
13 April 2010







## Adapted roll-over scope – Capex and Opex

Capex		
1.	focus on forecast capex, no investigation of historical capex	
2.	focus on forecast capex, supported where appropriate with investigation of historical capex	
3.	full assessment of forecast and historical capex	
Opex		
1.	opex allowance roll-over	
2.	opex rolled forwards based on average actual costs, with consideration of forecast	
3.	opex rolled forwards based on average actual costs, with consideration of forecast and efficiency factor	
4.	full opex assessment	

## Analysis to be used – costs

- Forecast Business Plan Questionnaire (FBPQ)
  - will issue a FBPQ (probably in July) based largely on the Regulatory Reporting Pack (RRP) data categories but extending this where more data is required to understand the plans
- High-level review of operating expenditure
  - will review the key drivers of movements in expenditure over time and relative to allowances
  - overall scope for efficiency improvements
- Non-load related expenditure
  - will use age-based modelling as at DPCR5 for electricity transmission as a tool for challenging the forecasts and review key TO assumptions (e.g. asset lives) together with supporting evidence (e.g. condition based information). Will consider the needs case for gas non-load related expenditure
  - will carry out unit cost analysis (including RPEs and scope for efficiencies)
- Load-related expenditure
  - will review needs case and costing for key load-related schemes
  - also general unit cost analysis
- Approach for ENSG/TO Incentives funding for 2012/13 to be decided, but will look to draw on synergies where appropriate

## Adapted roll-over scope – Financial issues

<b>Cost of Capital</b>		
1.	TPCR4 WACC rolled over	
2.	high level review of WACC to identify material changes	
3.	full review of WACC	
<b>Capitalisation and depreciation</b>		
1.	no change from TPCR4	
2.	full review	
<b>Tax</b>		
1.	Use effective tax rate, defer claw-back	
2.	review tax costs using capital allowances, defer claw-back	
3.	review tax costs using capital allowances, claw-back for excess gearing	
<b>Pensions</b>		
1.	roll forward allowances, use updated valuations, apply TPCR4 recovery period, no true-up	
2.	review pension costs by reflecting pension review conclusions (where appropriate), no true-up	
3.	review pension costs by reflecting pension review conclusions (where appropriate), apply true-up	

## Analysis to be used – Financial Issues

- RRP & FBPO
  - Will form the basis of the tax and pensions analysis.
- Pensions valuations
  - As with DPCR5 we will require updated scheme valuations during the roll over process
- Cost of capital
  - Undertake a high-level review of each component and undertake a more comprehensive review where initial review indicates the possibility of a material change
- Financial Model
  - amend TPCR4 model with developments from DPCR5 and GDPCR
- Return on Regulated Equity (RoRE)
  - we will use the RORE analysis, used in the last two transmission cost reports and developed further during DPCR5, to understand the impact on TOs of the roll-over allowances and inform any appropriate calibration adjustments

The title "Stakeholder Engagement" is centered in a large, bold, black sans-serif font. The background features a large white arrow pointing right, overlaid on a blurred image of a modern building and a glowing light fixture.

Jenny Boothe  
13 April 2010

## What is effective engagement?

### Process that enables:

- Identification of the best routes to obtain information from all stakeholders and making effective use of that information.
- Networks to make decisions about how best to run their businesses focused on, and informed by, the needs of consumers of network services.
- Ofgem/GEMA make robust decisions as better informed by views of stakeholders
- Stakeholders to actively engage during the price control review.

## Adapted Rollover Effective Engagement

### Effective engagement should...

- increase the perceived legitimacy of the TPCR framework from a consumer perspective;
- Encourage network companies and the wider industry to take more responsibility for decision making; and
- Provide Ofgem and the TO with a better understanding of what needs to be delivered.

### Process should not....

- Be burdensome.

## Adapted Rollover Engagement Processes #1

*These processes are built on the good practices that were adopted during the last Distribution Price Control Review.*

*Will consider thinking currently being developed for RPI-X@20 and if appropriate develop and apply aspects for the rollover. For example*

- **Consumer Challenge Group**
  - Small group of experts
  - Critical check function from the consumer perspective
  - Learning opportunity for group → TPCR5
- **Stakeholder Forum (SF)**
  - Stakeholders “in one room”
  - Ofgem to determine the framework of SF
  - Arranged prior key milestone(s)
  - Feed-in forum for other groups



## Adapted Rollover Engagement Processes #2

- Bilateral Meetings
  - Specific issue meetings with the TOs
  - Clarification and understanding on technical issues e.g. FBPOs
- Other Groups
  - TOs undertake their own engagement processes
  - Utilise existing groups and forums where appropriate
  - Establish (if necessary) specific policy working group

**Welcome views from the workshop**

The background is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, a hand is shown holding a white paper airplane. In the bottom left, a blue gas burner is visible. The overall theme is energy and customer choice.

*ofgem*

Promoting choice and value  
for all gas and electricity customers