

Karron Baker
Policy Manager
Distribution Team

Tuesday 30 March 2010

Dear Karron,

ELECTRICITY DISTRIBUTION PRICE CONTROL REVIEW – REVIEW OF PROCESS

Reviewing elements of the Price Control process has been a useful exercise for Central Networks, in terms of how we can organise ourselves differently for DPCR6. We have provided a summary of the key points below.

Overall the risk in the final decision was greater than in previous price control reviews as a result of the number of late outstanding issues e.g. pensions treatment. There was a feeling that Ofgem tried to micromanage companies and broadened the breadth of activity which considerably increased the amount of work and detail in the final proposals.

Timeliness of providing and requesting significant information was an area that we felt could have been handled better and would have lead to a smoother, more efficient process.

The documentation was generally very well presented, and it was evident that a great deal of thought had gone into producing documents in a format more appropriate to the user.

Meetings with Ofgem, both workshops and bi-lateral meetings were generally helpful and informative, but it became apparent that the initial willingness to engage faltered towards the end, when it was needed most, this was frustrating and led to challenging times for the teams involved that could have been avoided.

Set out below are our thoughts in the areas you set out for

Central Networks East plc
Pegasus Business Park
Castle Donington
Derbyshire
DE74 2TU
central-networks.co.uk

Tom Bolger
T 02476 187785
Tom.bolger@central-networks.co.uk



Central Networks East plc
2366923

Central Networks West plc
3600574

Central Networks Services Limited
Registered Office:
Westwood Way
Westwood Business Park
Coventry CV4 8LG

consideration in Attachment 2:

1 In keeping us informed of the DPCR5 process

The use of the Extranet site was a particularly effective way of disseminating information, the version control process clearly needs to be more robust, but overall this worked very well.

Ofgem showed it was keen to embrace change (e.g. Low Carbon Networks Fund, DG incentives etc) and was keen to give a clear vision of the future role of Networks in a low carbon world, this clarity at the start of the process was most helpful.

2 In making yourselves available to those who had queries or concerns

We believe we had a fair opportunity to present our approach to the GEMA Board, and access to Ofgem's DPCR5 team in general. They took time early on to listen to our concerns and correct any errors that we had identified.

After a good start, the availability of the Ofgem team seemed to deteriorate; this was particularly evident in the environment area. More bi-lateral time would have been helpful, and towards the end of the process this lack of engagement led to a belief that decisions had already been made, and that changes, however important, were unacceptable to Ofgem.

3 In writing accessible decision documents that explained the underlying rationale for final proposals

Consultation documents were clearly laid out and relatively easy to read. Consistent separation of issues into Network, Environment, Customers etc was particularly helpful.

The form of the FBPQ workbook was useful, however a reduced workbook which focussed on the key information required for Ofgem's benchmarking would also have been beneficial.

However, we often felt the rationale to be flawed, rather than the articulation. The published documents would have been clearer

with 'track change' identification or a change control list. Additionally there seemed to be sudden changes from 'seeking views' to 'decisions made' with no interim validation. Documentation was not always in a consistent written style, a compilation of different inputs required a master editor approach.

4 In providing an opportunity for us to put our views across and influence the process

The FBPD process ran smoothly with sufficient time being afforded for responses.

Revenue profiling issues were raised by ourselves at the bi-lateral meetings, but the importance of these issues was not fully appreciated by Ofgem until very late in the process.

Centrica's involvement and equal status at Authority Meetings seemed disproportionate and inappropriate.

5 In planning the project and setting the timelines for deliverables and responses to consultations etc

The financial model generally remained consistent once it was issued, but it would have been useful to have it earlier in the process. We also had to highlight errors in the model on a number of occasions, which caused confusion.

A better QA process and version control here would have helped.

It was difficult to properly debate some areas (e.g. Cost of Capital / Speed of Money) as they were left to the end. We were continually told to consider the 'whole package', but we didn't know what this package was.

There was an exponential increase in complexity between DPCR4 and DPCR5. This did not appear to be recognised in the price control timescales leaving significant issues unresolved until late in the process.

A high level of pro-rating /use of assumptions resulted in relatively meaningless data rather than useful information. Up front engagement with DNOs re what was trying to be achieved and how we could meet this would have helped.

We should have had access to benchmarking data and models used earlier to allow for error identification / correction.

There were often requests for significant additional data to be collected at relatively short notice, again, this was not efficient.

Ofgem had expectations beyond the ability to deliver e.g. RIGs timelines. Development of a clear upfront plan would have been useful, and needs developing for future price controls.

6 In requesting information and the type, form and level of information

Overall we believed that Ofgem did inform the higher level process and structure, however at a lower level, information requirements were not always clear, this led to DNOs committing large amounts of resources with questionable returns.

Connections changes were introduced late in the process. They were initiated by data requests, rather than an explanation of what was trying to be achieved and why, these could have been handled better.

In the Cost Analysis, requests were made to split out costs (e.g. RPEs, connections, sub-categories, workforce renewals etc) part way through the process. Neither the information required, nor its intended use was made clear from the outset, which led to significant duplicated effort 'back engineering' and reconciling tables. More clarity upfront would have resulted in reduced effort and the provision of better quality information earlier on.

We would appreciate clarity of requirements going forward as we are still not clear what the reporting formats will be required in DPRC5 (FBPQ/RRP etc) or what the LCNF mechanics will be.

It appeared that requirements continually changed as new ideas emerged. Spreadsheets changed and grew leading to inefficient reworking.

New templates were introduced with little explanation of why they were required. More up-front planning of requirements and adherence to these plans would have helped.

Data collection was for a single year only and not validated to same extent as RRP data, this was not helpful.

7 In the level of resources we employed throughout to deliver the project

Ofgem's good initial focus on stakeholders seemed to drift away throughout the process. We found this initial engagement to be valuable and it would have added to the review if the focus was maintained.

There was a perceived shortage of quality staff in Ofgem, and a lack of continuity (e.g. network engineering knowledge, and in some cases UK context). Ofgem's teams did not always appear to have read consultation responses prior to deliberating on them.

8 In the number type and form of meetings working groups and workshops

The working groups were very valuable (environment, Connections, QoS, Outputs). Working level bi-lateral meetings were similarly beneficial to progress the process.

9 In the issues that may arise in light of the process in regards to implementing the finding of the RPI-X@20 project

RORE is a useful concept, but its significance was introduced very late in the process, which resulted in little opportunity to assess whether it is the appropriate tool to calibrate returns. Significant developments such as this one need to be introduced at the start of the process to enable robust testing to take place.

Yours faithfully

Tom Bolger, DPCR5 Programme Manager.