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Dear Karron

### **Electricity Distribution Price Control: Review of process**

I refer to the above and welcome both the opportunity to comment and the willingness of Ofgem to engage and listen to constructive suggestions. Our key issues are summarised against the nine points listed in Appendix 2 of your letter.

- 1. In keeping you informed of the DPCR5 process**
- 2. In making ourselves available to those who had queries or concerns**
- 3. In writing accessible decision documents that explained the underlying rationale for Final Proposals**

We had no issues in relation to access and availability of key Ofgem personnel and think Ofgem did a good job in relation to points 1-3 and also in raising the profile of environmental issues during the review.

### **4. Providing an opportunity for you to put your views across and influence the process**

A number of key policy issues were developed by Ofgem at too late a stage in the process. These included: RORE; pensions and revenue profiling. It was very difficult to have a meaningful and detailed debate on these major issues when all stakeholders were facing significant time constraints due to the lateness of detailed proposals on these key issues from Ofgem.

We are also unclear how much the stakeholder engagement that DNOs undertook influenced Ofgem's views and we would appreciate some feedback on this aspect of our evidence submission in the future.

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

In planning the project, the level of resource is crucial and we have made some detailed comments on resources below. We also think that Ofgem's detailed work should have started a little earlier in 2009. If a review is going to cover so many complex issues, it is imperative that Ofgem give themselves, the DNOs and other stakeholders sufficient time to engage on all aspects. It is interesting to note that many of the evolutions to the regulatory framework developed in DPCR5 have now been adopted into the RPI-X@20 project. The juxtaposition between the amount of time available for contemplation and exploration of new ideas within the RPI-X@20 project and within DPCR5, considering all of the other cost base issues that occupied all parties, is stark. For the compressed DPCR5 process to have yielded most of the new thinking now taken forward in RPI-X@20 is a great credit to Ofgem's DPCR5 team, but also a clear illustration that the project probably tried to cram too much change into the time available. This compression may mean that the DPCR5 developments were sub-optimal and may require reworking within the RPI-X@20 project.

We also suggest that future plans must allow additional time to ensure that the implications of policy decisions are consistently applied across all aspects of the price control. On a significant number of occasions throughout the price control process we found inconsistencies between the approaches of the various Ofgem teams; these inconsistencies suggested that your teams had not been fully aware of policy decisions made elsewhere within Ofgem. For example, your Initial Proposals included inconsistent approaches between baseline setting and financial modelling that resulted in adjustments for excluded services that were double counted and penalised all DNOs. Late decisions regarding connections policy resulted in very hurried changes to FBPQ formats and modelling approaches and consequently further undermined DNOs' confidence in modelling. A number of contradictions existed even in your Final Proposals where the losses roller was incorrectly modelled and where a number of contradictory statements about connections cost treatment can be observed.

## **6. In requesting information and the type, form and level of information**

It was very disappointing to find that after having spent 4 years of industry-wide effort developing a robust, audited and consistent data set within the RRP, this data was not then used to drive comparative efficiency modelling. Instead all historical data had to be resubmitted with very little opportunity, time or process to enable industry-wide verification and challenge of the veracity, accuracy and, most importantly, consistency of this data. This development surely indicated that a significant proportion of the millions pounds of customers money that has been spent on the RRP process was wasted. It also results in a comparative efficiency result that has no better validity or industry-wide acceptance than was the case at the end of DPCR4. At the great risk of repeating calls from the DPCR4 lessons learned exercise, the approach and therefore the data requirements for comparative efficiency modelling must be developed and agreed in advance. This will enable appropriate data to be captured and audited across the DPCR5 period. The desired end result should be the publication of an annual report from Ofgem, using RRP data, that indicates the relative efficiency of all DNOs. This would assist the process of ensuring that these issues are well

understood by all stakeholders prior to the commencement of a price control review and all parties have greater confidence in the assessment techniques, data and results.

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

We were concerned with the level of resources Ofgem had available during the review and this was reflected in the constant rework required of Ofgem's calculations and your own admission of significant errors in both the May document and Initial Proposals. Ofgem's view of ENW may have been influenced by the initial, erroneous calculations, and a new 'company specific' approach to price control reviews might have resulted in us going through a detailed review process when actually a lighter touch may have been more appropriate when the true picture became clear. We do not believe that Ofgem had available sufficient resources with the right skill levels on the key priority areas of the review process. For instance, we found ourselves repeatedly assisting Peter Rice and made repeated calls for more resources to be dedicated to the comparative efficiency analysis. Our comments in relation to both point 6 and point 7 also reflect a need for greater quality assurance within the Ofgem processes.

#### **8. In the number type and form of meetings, working groups and workshops; and**

We think it would have been useful on some of the major issues to meet members of GEMA in circumstances other than the main set piece meetings. We found that the short duration of the bilateral meetings with Authority members meant that we often had to curtail discussions in order to allow time for discussion of key issues; we believe that increased opportunities for exploration of key issues with Authority members outside of formal meetings would have both increased Authority members understanding of key issues as well as making formal meetings more satisfactory.

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

We will be responding in detail in the coming days on RPI-X@20, please note our comments above under points 5 and 7.

I hope our comments are of assistance and would welcome a discussion with Rachel Fletcher to clarify any of the points made.

Yours sincerely,

**Paul Bircham**  
**Regulation Director**