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Our Ref

Your Ref

Direct Line

Date

30th March 2010

Dear Rachel

Electricity Distribution Price Control Review - Review of Process

Thank you for the opportunity to provide feedback on the DPCR5 process. We would like to comment on three areas, communication, principles and process.

Communication

WPD's experience was that communication with our team throughout DPCR5 was effective. Ofgem kept WPD informed of the DPCR5 process and Ofgem staff were made available to answer queries or listen to concerns. WPD was also provided with opportunities to give our views on issues and influence the process, in written responses, bi-lateral meetings and through industry working groups.

Principles

The capital efficiency review worked reasonably well as it was based on a straightforward comparison of unit costs. In contrast the operational cost efficiency analysis was too complicated. There were far too many regression analyses used which led to a position where a single change in data could produce unpredictable results. This was further complicated by the consideration of special factors such as regional pay, contractor adjustments, urbanity etc which did not follow a solid logical base. Determining cost drivers using regression analysis must assume that companies do not have a wide range of efficiency. However WPD believes that the gap between those companies who are efficient and those who are not is large; and so looking for confirmation of cost drivers through regression is flawed. At DPCR6 the opex analysis should resist normalisation factors based on spurious logic and conduct efficiency comparisons on a unit cost basis with volumes determined by drivers.

Process

In terms of process we believe that Ofgem is right to seek out detail through rigorous definitions and audit. WPD had no problems in providing information within the timescales of DPCR5 albeit using fewer staff than most companies. Recent RRP discussions have highlighted inconsistencies between interpretations of activity costs which can only be identified and resolved by looking at the detail. However the complications inherent in an unwieldy analysis coupled to transparency has allowed companies to pick and choose which part of the analysis to attack and which parts to leave alone and this has brought about significant swings in perceived opex efficiency. For DPCR6 Ofgem should persist with focussed information requests because WPD believes that this is the way toward achieving a fair result for all.

I hope these comments are helpful. If you would like to discuss further please call me on 0117 9332175.

Yours sincerely

A handwritten signature in black ink, appearing to be 'AS', written in a cursive style.

Alison Sleightholm
Regulatory & Government Affairs Manager