

28 February 2011  
Rachel Fletcher  
Partner, Distribution  
Office of Gas and Electricity Markets  
9 Millbank  
London SW1P 3GE

Dear Ms Fletcher,

### **Open letter consultation on the regulatory asset lives for electricity distribution assets**

Consumer Focus welcomes the opportunity to respond to this consultation. Our comments below are closely related to points raised in our response to Ofgem's consultations on strategies for gas distribution and electricity and gas transmission price controls (17 December 2010)<sup>1</sup>. These points are summarised below.

#### **Regulatory asset lives**

We are in broad agreement with the RIIO principle that regulatory asset lives should reflect the average expected economic life of the related network assets. This should help ensure a fair balance between the interests of current and future consumers as the funding for such networks is spread on the basis of who uses the assets.

The CEPA report shows that the technical and economic asset lives of electricity network assets are likely to be far greater than 20 years (or the regulatory asset live). As such we agree with Ofgem's view that the regulatory assets lives for electricity distribution assets should be increased to somewhere between 45 and 55 years. We believe this will ensure a fairer balance between the interests of current and future consumers as the funding for the assets will be more closely aligned with the use of these assets (due to the lengthening of the depreciation profile). We would also note that the proposed regulatory asset lives are broadly consistent with the accounting depreciation policies already applied by the DNOs.

#### **Depreciation profiles**

We agree with Ofgem that a straight line depreciation profile for electricity transmission and distribution should be retained. This will ensure a fair balance in the funding of network assets by

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<sup>1</sup> Please see <http://www.consumerfocus.org.uk/files/2009/06/Consumer-Focus-response-to-Ofgems-strategy-for-the-next-gas-distribution-and-transmission-price-controls.pdf> p24-25

current and future consumers. This is justified as there is greater certainty in the future energy scenarios analysis that peak electricity consumption will increase in future<sup>2</sup>.

### **Transitional arrangements**

We are of the view that the onus must be on the network companies to clearly demonstrate that a change (or no change) in assets lives and/or depreciation profiles will lead to insurmountable difficulties in their ability to efficiently finance their regulated activities. Only then would transitional arrangements, as discussed by Ofgem, be warranted. We would also want the benefits of transitional arrangements to network companies (and potentially customers by a reduction in the cost of capital) to be weighed against the drawbacks to current consumers through higher charges than would be the case if there were no transitional arrangements.

Furthermore, we note the RPI-X@20 conclusions in that Ofgem have stated it is for the network companies themselves to address short term falls in cash flow metrics: 'the onus would be on the company to resolve the situation, including by injecting equity and/or reducing dividend payments as they see fit'<sup>3</sup>.

We understand that there is significant investor interest in infrastructure assets. Therefore such interest should improve the ability of the networks to manage their cashflows via other means (such as equity injections) rather than by transitional arrangements. Other market methods, such as reductions in dividend payments must also be considered. These methods are more likely to balance the interests of current and future consumers in a fairer way.

We hope you find these comments helpful. If you have any queries about any of the points we have raised in this letter please contact Cem Suleyman on 0207 799 7932 or [cem.suleyman@consumerfocus.org.uk](mailto:cem.suleyman@consumerfocus.org.uk).

Yours sincerely,



Cem Suleyman, Senior Policy Advocate, Energy team

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<sup>2</sup> See for example the Redpoint 'Gas Future Scenarios Project – A report on a study for the Energy Networks Association Gas Futures Group' (November 2010)  
[http://energynetworks.squarespace.com/storage/ena\\_publications/ena\\_gas\\_future\\_scenarios\\_report.pdf](http://energynetworks.squarespace.com/storage/ena_publications/ena_gas_future_scenarios_report.pdf)

<sup>3</sup> Ofgem, Regulating energy networks for the future: RPI-X@20 Recommendations: Implementing Sustainable Network Regulation (July 2010)