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<i>Our Ref</i>	<i>Your Ref</i>	<i>Direct Line</i>	<i>Date</i>
	04/11	01179 332175	23 February 2011

Dear Rachel

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

I am writing in response to Ofgem's open letter on the regulatory asset lives for electricity distribution assets which was published on 14 January 2011.

Although extending assets lives is logical we have concerns with how the current recommendations on asset lives affect DNOs' financeability

In response to the questions raised in your open letter:

1. **Do you agree with our proposed economic asset lives for gas and electricity transmission and gas distribution?**

- a) The economic asset lives proposed are logical because they more closely match the actual asset lives.
- b) Moving to new asset lives for new investment has a gradual impact on credit ratios that could be explained to credit rating agencies and investors as an evolution in regulation. As a result, the effect of longer asset lives for new investment on credit ratios could be compensated for elsewhere in regulatory settlements on an NPV neutral basis.

- c) Moving to new asset lives for all assets after a period of delay has a significant negative impact on credit ratios that could not be compensated for without a significantly higher WACC. As a result, if there is no higher WACC and credit rating agencies do not change their rating criteria, then the wholesale adoption of longer asset lives for all assets would prevent companies from having efficient access to capital markets and would constrain investment in the networks.

2. **Do you agree with our proposals for the depreciation profile?**

We support a straight line depreciation profile.

3. **We invite views on our proposed approach to transition**

- a) To compensate for the adoption of longer asset lives for new investment from 2015 we would suggest that the IQI totex allocation be changed from 85/15 to 70/30 in order to maintain investment grade credit ratings for licensed companies.
- b) Wholesale adoption of longer asset lives for all assets, even after a delay, would restrict companies' ability to invest in networks.

Yours sincerely



**ALISON SLEIGHTHOLM**  
**Regulatory & Government Affairs Manager**