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By email only to [RIIO-T1@ofgem.gov.uk](mailto:RIIO-T1@ofgem.gov.uk)

9<sup>th</sup> September 2011

Dear Hannah,

### **Open letter re RIIO-T1: Transmission companies' business plans**

Thank you for the opportunity to provide views on the initial business plans published as part of the RIIO-T1 price control.

Please note that this response should be regarded as a consolidated response on behalf of UK Power Networks which operates three electricity distribution licence holding companies – Eastern Power Networks plc, London Power Networks plc and South Eastern Power Networks plc. For convenience, the three licensees are collectively referred to as “UK Power Networks” throughout.

I can confirm that this response is non-confidential and can be published via the Ofgem website.

We have studied the business plans with interest, and it is clear that considerable thought has gone into the development of all four plans. The documents are generally accessible and well-structured, however there has been a substantial redaction of information. In our view, this limits the ability of a key stakeholder to review the contents thoroughly. The reasons for the redaction of information are perhaps understandable but this must bring into question whether seeking to engage stakeholders at this point in the assessment process is entirely effective.

UK Power Networks would also wish to make a specific point in respect of financing. The ENA made a submission to Ofgem at the end of February 2011 regarding the Inflation Risk Premium. We would like to restate the argument made, namely that the IBOXX index uses nominal bond yields to derive a debt premium which is then added to a real risk free rate. This leads to errors in the calculation of the allowed return, thus leading to an inflation risk premium which must be paid by companies when they borrow, which is not recognised by Ofgem's methodology.

As nearly all of the debt issued by utilities is on a nominal basis, and there is little opportunity to issue RPI-linked debt, this is a flaw in the method that needs to be addressed.

If I can be of any further assistance in respect of this response, please do not hesitate to contact me on 07875 112948

Yours sincerely

Keith Hutton  
Head of Regulation, Risk and Compliance  
UK Power Networks