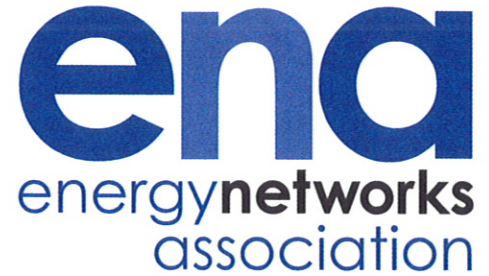


29 November 2012



Hannah Nixon
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Dear Hannah.

RIIO-T1/GD1: Office of National Statistics (ONS) review of Retail Prices Index (RPI) methodology

I am writing to you on behalf of the Energy Networks Association's Gas and Electricity members following the publication of your open letter in relation to the National Statistician Consultation on Possible Options for Improving the Retail Prices Index (RPI).

Our members welcome Ofgem's letter and the acknowledgement that it is appropriate to consider the impact on network companies of any change to the methodology to calculate the RPI arising from the current ONS review.

As stated in our letter dated 12th October, any changes to the calculation of the RPI would come in to force at a very unfortunate time period within the RIIO cycle for our Gas Distribution and Transmission Members.

Whilst for our electricity distribution members the changes would impact both the remainder of their current price control period and on-going work to set the RIIO ED1 price control.

Our members are supportive of Ofgem's proposal to include a provision for a reopener for RIIO GD1/T1 settlement which would provide networks with the right to make a request to Ofgem to reconsider their allowed revenues in the event of a change in ONS' methodology for calculating RPI.

Further to the questions raised on the open letter, ENA do not agree that the provision of an application window would aid in the decision making process and reduce regulatory costs. Any change to RPI will impact our members to the same extent and at the same time. It would therefore be more efficient to allow a-reopener, triggered by either Ofgem or a NWO, following any implementation of changes to the RPI calculation. The existing RPI should continue to be used until the impact of any proposed change has been agreed. In addition, any change will clearly have a material impact on our members and, as such, we do not believe a materiality test will be required.

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For our Electricity DNO members, it is important that there is a distinction between the remainder of their existing DPCR5 price control and RIIO ED1. In our view:

- 1) For DPCR5 there should be a full adjustment to revenues because the DPCR5 settlement implicitly assumed that there would be no change to the RPI methodology. In practice for the DNOs the change will impact 2014/15 revenues which are based on the July to December 2013 RPI and RAV indexation for 2013/14 and 2014/15 based on average of March and April RPI for the end of those years. Rather than having a re-opener process, a more pragmatic approach would be to adjust the associated RPI indices to take account of the RPI formula effect.
- 2) For ED1 any impact on a DNO's cost base above the new RPI should be handled through the RPE (real price effects) allowance and by ensuring that real cost of debt index and real cost of equity are calculated to take this change into account.

I trust that you find these comments useful, we would be happy to meet with you and the relevant members of your team to discuss this further.

Yours sincerely

A handwritten signature in cursive script that reads "David". The signature is written in black ink and has a long, sweeping underline that extends to the right.

David Smith
Chief Executive

cc: James Grayburn