

Hannah Nixon
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Dear Hannah

Strategy consultation for the RIIO-ED1 electricity distribution price control

Please find attached UK Power Networks' response to the strategy consultation for RIIO-ED1 which was published by Ofgem on 28 September 2012. This response should be regarded as a consolidated response on behalf of UK Power Networks' three 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. Please note that our response is not confidential and can be published via the Ofgem website.

UK Power Networks welcomes Ofgem's RIIO-ED1 strategy consultation. We recognise the detailed work across all stakeholder groups that has gone into developing the regulatory framework. We believe that this puts the Distribution Network Operators (DNOs) in an excellent position for developing well-justified business plans in response to the challenges within the next regulatory price period 2015–2023.

The consultation document largely confirms the work undertaken to date and there are few areas of surprise. More work needs to be completed to finalise a few specific areas, but we believe that the processes Ofgem has in place should enable this to be completed before the final document is published at the end of February 2013.

Our main focus areas in the consultation are as follows:

- We believe that the Broad Measure of Customer Satisfaction incentive should operate with fixed, company specific point score targets, rather than the current relative targets. It is extremely difficult to forecast incentive income based on relative targets, and as a result very challenging to justify an investment case for changes in training, processes or systems. A fixed absolute target would deliver a stronger more predictable incentive and therefore would stimulate more strategic responses from the DNOs to customer service (as the IIS has so successfully for quality of supply). A fixed target would also be consistent with the Broad Measure as introduced for RIIO-GD1, and with other well proven incentives in electricity distribution such as IIS.
- We strongly support Ofgem's proposal to introduce a time to connect incentive as it is simple, measurable and will drive the appropriate behaviour within companies. Since

stakeholder feedback and our experience indicate that large customers value flexibility, we propose a target for those customers based on a customer agreed time to connect. For smaller customers we agree that it is appropriate for targets to be based on an average network specific time to connect

- UK Power Networks welcomes Ofgem's continued commitment to and development of the health and load indices for RIIO-ED1 as a way of ensuring companies are focused on delivering to a level of output that stakeholders value. The health and load indices remain an important incentive to ensure that companies are flexible and deliver an appropriate volume of work to achieve their agreed network outputs
- UK Power Networks, due to the high load densities in the area in which it operates, has developed a number of innovative techniques that enable it to manage its network efficiently with higher load indices thresholds. We believe that the work that Ofgem is promoting to develop a common framework for load indices should ensure that DNOs propose efficient volumes of network load investment for RIIO-ED1 and do not underutilise their networks
- We recognise that DNOs should be doing more to actively engage with all stakeholders under the social obligation output. One reason for the lack of historic engagement across the industry is a lack of direct incentive under the regulatory framework. UK Power Networks is therefore supportive of the development of a specific and separate social obligation discretionary award incentive
- UK Power Networks supports Ofgem's proposal to ask companies to submit their business plan justified by their own core scenario, with a comparison reference scenario based on one of DECC's forecasts. Our internal load related reinforcement model (developed with Imperial College) is significantly more robust, detailed and customised to our network than the Smart Grids Forum Workstream 3 model. Therefore it is essential that we are allowed to derive our core business plan scenario from our own models. We are happy to provide a bridge to a WS3 model output scenario

The attached document provides detailed responses to all the consultation questions..We look forward to working with you and your team over the coming months to finalise the regulatory framework by February 2013.

If we can be of further assistance, please do not hesitate to contact either Keith Hutton or me.

Yours sincerely



Ben Wilson
Director of Strategy and Regulation & CFO UK Power Networks

cc	Ofgem	Andrew MacFaul, Consultation Co-ordinator
	UK Power Networks	Anna Rossington, Head of RIIO-ED1
		Basil Scarsella, Chief Executive Officer
		Keith Hutton, Head of Regulation