

James Goldsack
Ofgem
9 Millbank
London
SW1P 3GE

26 September 2014

Dear James,

Consultation on treatment of real price effects for RIIO-ED1 slow-track electricity distribution network operators

Thank you for the opportunity to comment upon the above consultation. In answer to the specific questions within the consultation:

Q1: We think that the criteria detailed in the consultation document are appropriate and sufficient to making the decision.

Q2: We favour the ex-ante fixed allowance approach partly due to timescales and also for the following reasons:

- Implementing an indexation approach introduces extra level of complexity into the price control and revenue calculations
- It would increase uncertainty and volatility into future allowance calculations and revenue formula forecasts as the index can go both up and down
- There is a risk of choosing inappropriate indices
- There is a risk that utilities might influence the outcome of the index if they are included within the sample
- Moving the fixed ex ante allowance can reduce the incentive to manage the RPEs

Q3: We would suggest making the dead band consistent with the other Price Control Reopeners i.e. 1% of revenue.

Q4: We think that Ofgem's proposed indices are appropriate. However, we believe that the number of indices is not appropriate, as reducing the number of indices would increase RPE volatility and therefore risk.

Q5: We believe that disaggregating RPE indices would create another layer of complexity without a clear benefit. It is also inconsistent with the Totex approach under RIIO. This outweighs the risk of using a single mechanism for all the cost types.

Should you have any questions on this response, please do not hesitate to contact me. Our response can be regarded as non-confidential.

Yours sincerely,

A handwritten signature in cursive script, reading "Indre Deksnys". The signature is written in black ink and includes a long horizontal stroke extending to the right from the end of the name.

Indre Deksnys
Regulatory Analyst