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Anna Rossington  
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*Our ref*

*Your ref*

*Date*

26 September 2014

Dear Anna

**RIIO-ED1: Draft determinations for the slow-track electricity distribution companies**

I am writing on behalf of Western Power Distribution (East Midlands)plc, Western Power Distribution (West Midlands) plc, Western Power Distribution (South Wales) plc and Western Power Distribution (South West) plc, in response to Ofgem's consultation on the Slow-track Determination.

Yours sincerely



ALISON SLEIGHTHOLM  
Regulatory & Government Affairs Manager

# WESTERN POWER DISTRIBUTION RESPONSE

## CHAPTER TWO: SUMMARY OF ASSESSMENT

**Question1:** Do you think our assessments for each of the five criteria are appropriate?

Ofgem's assessment of each of the five criteria would appear to be appropriate.

## CHAPTER FOUR: ASSESSMENT OF EFFICIENT EXPENDITURE

At the Cost Assessment bilateral meeting of 28<sup>th</sup> August 2014, we stated our views relating to both the overall approach and detailed cost assessment undertaken by Ofgem. In summary, there is significant scope to improve the cost assessment in respect of both the overall approach and detailed cost assessment undertaken by Ofgem.

Our responses to the specific questions raised by Ofgem in the draft determination consultation reflect our summary of the views expressed at the Cost Assessment bilateral.

**Question1:** Do you agree with our total expenditure benchmarking?

There are fundamental problems associated with total expenditure benchmarking. Its use should be limited to cross checking other more effective cost assessment approaches.

**Question2:** Do you agree with our disaggregated benchmarking?

Disaggregated benchmarked is the most robust approach because logical activity drivers can be selected for each activity.

Our views of the activity drivers used by Ofgem for the slow track cost assessment were expressed at the cost assessment bilateral.

**Question3:** Do you agree with our forecast of RPEs?

We have no further comments relating to RPEs at this point in time.

**Question4:** Do you agree with our assessment of potential smart savings?

As outlined in the Cost Assessment bilateral, our view is that there are some fundamental issues associated with the assessment of potential smart savings undertaken by Ofgem.

**Question5:** Do you agree with our approach to combining the cost assessment models?

In principle, our view is that total expenditure benchmarking approaches should only be used to cross check other more effective cost assessment approaches.

However, we note that in the fast track cost assessment applied a 25% weighting, in total, to the total expenditure benchmarking, but applied a 50% weighting in the slow track cost assessment. The application of a 50% weighting to the unreliable total expenditure benchmarking approaches cannot be justified.

**Question6:** Do you agree with our design of the IQI?

The calibration of the IQI matrix for application to the slow track DNOs would appear to be appropriate.

## **CHAPTER FIVE: ASSESSMENT OF EFFICIENT FINANCE**

**Question1:** Do you agree with our cost of equity proposals?

We have no comments relating to the cost of equity proposals.

**Question2:** Do you agree with our cost of debt proposals?

We have no comments relating to the cost of debt proposals.

**Question3:** What are your views on our assessment of financeability?

We have no comments relating to the assessment of financeability.

**Question4:** Do you agree with our proposals to modify the three financial policies?

We agree with Ofgem's proposals on treatment of tax pools and disposals for the calculation of the efficiency incentives.

## **CHAPTER SIX: UNCERTAINTY AND RISK**

We have no comments relating to the uncertainty mechanism that have been proposed for the slow track DNOs in the draft determination.