

# Leading the way

Delivering  
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# DPCR5 – Initial Consultation

**Environmental Issues - Implementing a workable and balanced set of incentives aligned with energy policy objectives**

**Customers - Developing an effective and equitable framework that is in the interests of the end customer**

**Networks - Investing to preserve the safety and continuity of energy supplies and ensure that networks are sufficiently resilient to severe weather events**

**Financial Issues - Ensuring that electricity network companies are able to continue to attract investment against a background where successive price reviews have significantly increased the risk borne by DNO**

# Environmental Issues 1

Implementing a workable and balanced set of incentives aligned with energy policy objectives

## Losses:

DNOs have a significant role to play in reducing greenhouse gas (GHG) emissions, however the DPCR4 losses incentive mechanism does not facilitate this role and requires to be replaced with a 'quasi outputs' based approach

## Carbon Footprint:

Beyond Losses we believe that DNOs should be monitoring the impact that their operations have on the environment as a matter of good corporate practice. However, the DNOs already interact with a host of regulatory bodies in these areas, including environmental agencies, and given the added complexities and a host of other factors that would need to be considered we believe any additional incentives in this area should be limited

## Distributed Generation Incentive Mechanism:

We believe the existing principles of the DGIM are perfectly compatible with the objectives of connecting distributed generation and propose that the existing mechanism should continue with only minor modification to deal with areas where there is only sparse existing infrastructure

# Environmental Issues 2

Implementing a workable and balanced set of incentives aligned with energy policy objectives

## Growth Term:

We agree that the current DPCR4 growth term should not feature in DPCR5 as it is incompatible with energy policy and the existing mechanism is fundamentally flawed.

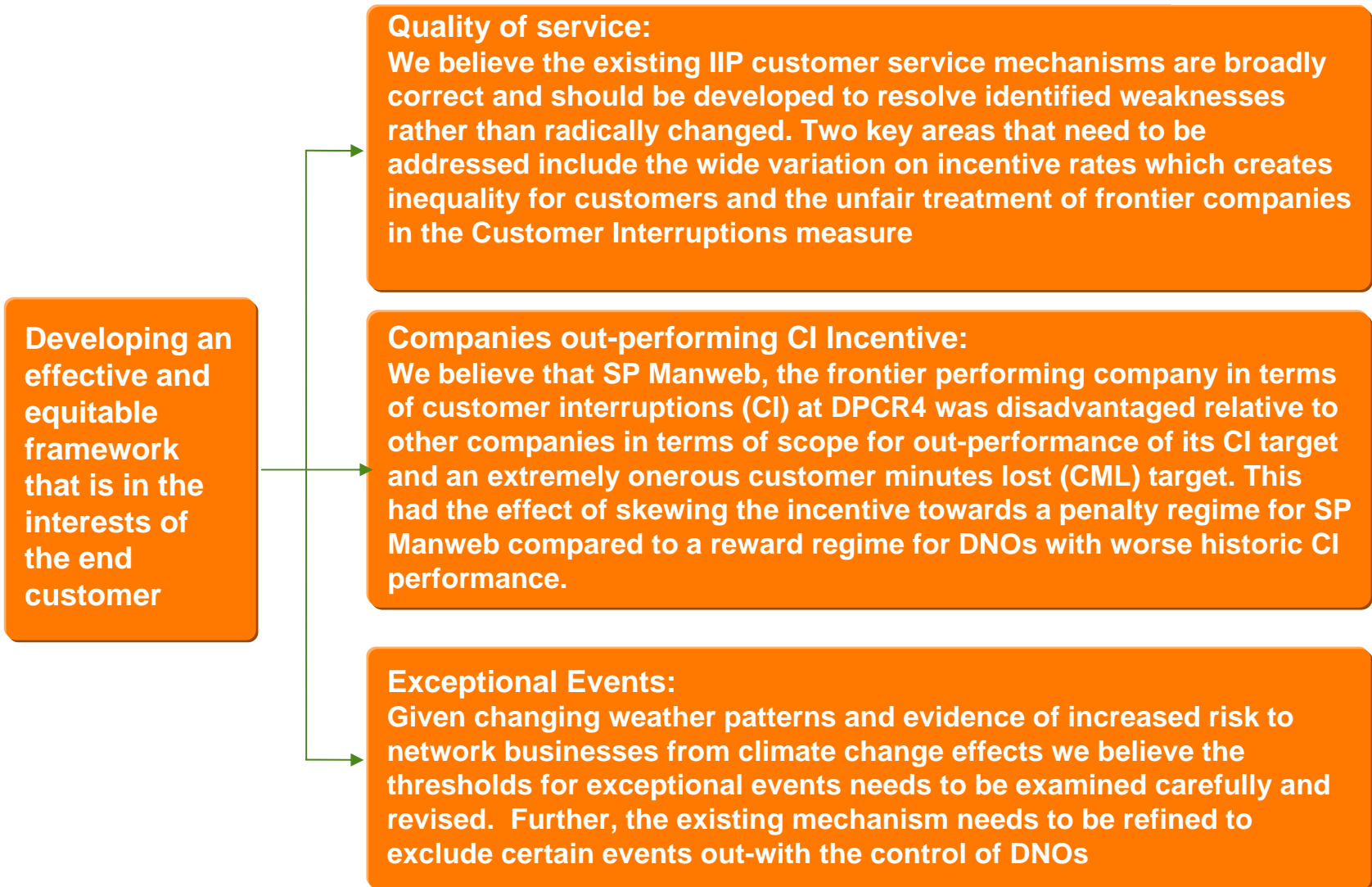
## Under-grounding:

The current mechanism for under-grounding overhead lines in Areas of Outstanding Natural Beauty (AONB) has been a resounding success in areas of key environmental sensitivity. We would likely to see this mechanism confirmed and strengthened going forward

## Alternatives to network reinforcement:

Significant effort should be made by both Ofgem and the industry to develop regulatory mechanisms to facilitate and incentivise DNOs to interact with customers and generators to deliver alternatives to network reinforcement where economically and environmentally appropriate.

# Customers 1



Developing an effective and equitable framework that is in the interests of the end customer

## GS Payments to Domestic Customers:

The proposal to consider a reduction in the GS trigger for supply restoration from 18 to 12 hours will be problematic for DNOs to deliver as networks have not been designed to deliver this level of service, and without technological developments in fault finding and fault repair together with significant resource increases cannot be delivered

## Worst Served Customers:

Worst served customers were not addressed at DPCR4 and continue to be a concern, therefore we are happy to see that Ofgem propose to deal with this in DPCR5.

## Competition in Connections:

As a Group we are committed to competition in connections provided it is on a level playing field and that the end consumer genuinely benefits in terms of quality and value of service. We do not believe that competition in connections has yielded material benefits or savings for end consumers under the existing framework and think this is an area of activity that needs a fundamental review and overhaul.

Investing to preserve the safety and continuity of energy supplies and ensure that networks are sufficiently resilient to severe weather events

## Building Block Approach:

The building block approach proposed is a generally positive development from DPCR4 and may allow a more coherent settlement across capex and opex allowances.

## Information Quality Incentive:

We propose to work constructively with Ofgem to develop this mechanism towards a more efficient means of allowing companies the opportunity to invest more flexibly and that equally provides adequate protection to consumers.

## Capital Allowances:

We welcome the fact that Ofgem expect the step change in capital allowances required by industry in DPCR4 to continue into DPCR5 as a consequence of the age and condition of the networks and as a consequence of input cost rises

Ensuring that electricity network companies are able to continue to attract investment against a background where successive price reviews have significantly increased the risk borne by DNO

## Cost of Capital:

At a time when a significant proportion of the UK asset base is reaching the end of its operational life it is crucial now, more than ever, to allow a cost of capital that enables DNOs to attract and retain funding to meet a step change in capital expenditure levels.

## Financeability:

Consistent with previous price control reviews, Ofgem should continue to test proposals for consistency with credit ratings comfortably within investment grade

## Accelerated Depreciation:

We believe that accelerated depreciation remains an appropriate means of applying a financeability adjustment in electricity distribution where it is well understood, is predictable and transparent, and is NPV neutral thus ensuring companies have adequate cash-flows for investment and customers are protected financially