

# Regulatory update

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## **Major current issues (not being addressed elsewhere)**

- Timing of the next main price reviews
- Opex incentivisation
- Capex remuneration and incentivisation
- Security of supply
- Pensions

# Timing of next NGC and Transco price reviews

- Status quo
  - New NGC control from April 06
  - New Transco control from April 07
- Ofgem's decision / proposal
  - New (gas and electricity) transmission price controls from April 07
  - New (gas) distribution price controls from April 08
  - Roll-forward of NGC control for extra year on 'semi-extrapolative' basis

# Opex incentivisation

- 5 year rolling incentivisation likely to happen
- Likely to run from 2003 / 04
- Form likely to approximate to water mechanism
- Interaction with delays for NGC and distribution price reviews

# Capex remuneration and incentivisation

- General issue is how companies should be remunerated / incentivised in relation to capex which not anticipated at a price review
- Particular issues include
  - Treatment of distributed generation in DNO price review
  - Treatment of transmission reinforcement to facilitate growth of renewable generation
- Recent Ofgem documents suggest uneasy combination of
  - 5 year rolling incentive to underspend against price control assumptions
  - Revenue drivers' approach as for Gas SO incentives
  - Cost pass through
- Signs of increased pragmatism on this issue in Ofgem

# Security of supply - NGT regulatory issues

- NGC's role in relation to security of supply
- Reform of the wholesale market, including basis for setting imbalance prices in electricity
- NGT's ability to optimise across the gas and electricity systems

# Recovery of pension costs

- Ofgem has reaffirmed its commitment to Principles for recovery of deficits from customers put forward in July but has also recognised
  - “The lack of clarity as to how pension costs have been treated at previous price control reviews”
  - The particular lack of clarity in relation to the past use of pension fund surpluses to fund severance programmes and the resulting need for a ‘proportionate’ approach
- Methodology statement (on how principles will be implemented) expected in December
- Final resolution of numbers at next price reviews but timing of price reviews should not itself have value effects