

Towards Smart Regulation

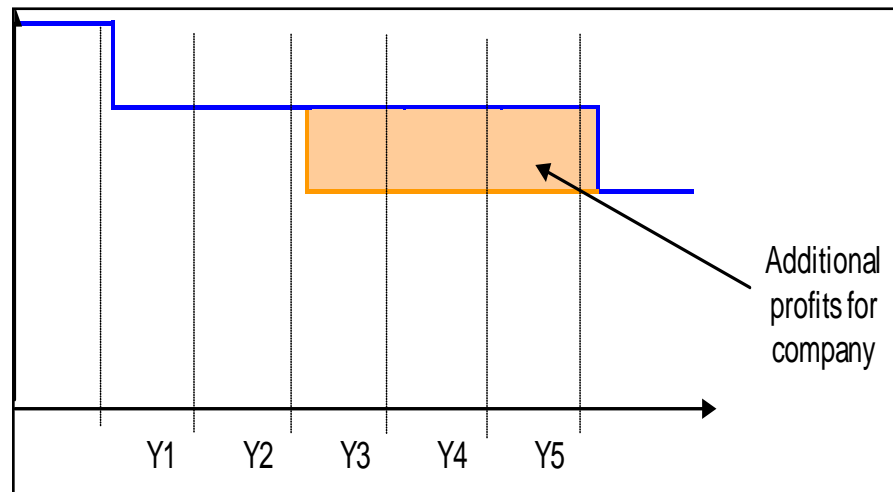
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Chairman
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ofgem

- Revenues set for five years
- Companies have strong incentive to cut costs
- Competitive pressure from league tables
- Substantial real decline in network charges
 - More than 30% reduction in electricity distribution charges (1990 – 2015)
- Significant improvement in reliability and customer service



BUT

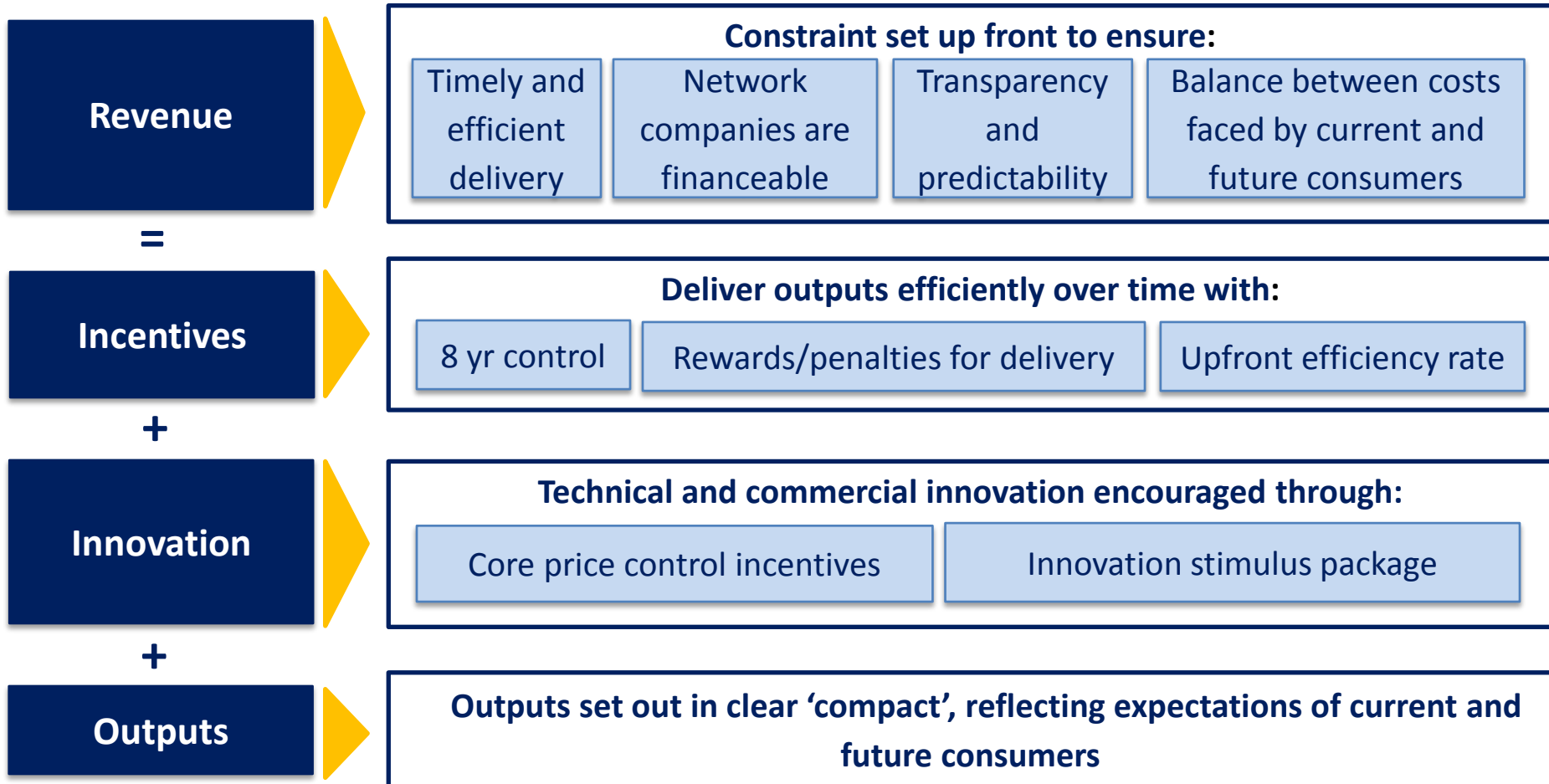
- Companies focussed on short term
- Cyclical business flows for supply chain
- Innovation squeezed out
- Bias to capital expenditure
- Very prone to gaming

Shortcomings of RPI-X mattered more as circumstances became more complex



As networks get smarter, regulation needs to be smarter

RIO - A New Approach to Network Regulation



RIO – A New Approach

Builds on RPI-X but:

- Focus on company business plans
- Outputs agreed after consultation with customers and other stakeholders
- Strong financial incentives calibrated to ensure financeability
- Encourages longer term planning
- Encourages innovation
- “Fast track” option – financial incentive to produce good quality business plans

Alternative Approaches

- Competition in distribution connections
- Offshore transmission – competitive tendering
 - Introduced in 2009
 - Investments totalling £2.2bn tendered
- Onshore transmission – “Strategic Wider Works”
 - Caithness Moray £1bn project approved January 2015
- Onshore transmission – potential introduction of competition
 - Large, separable projects
 - Projects not already allowed for in price control

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