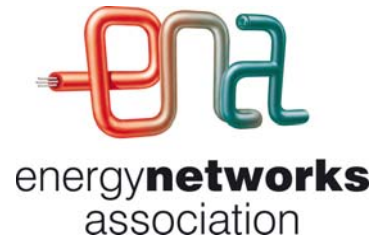


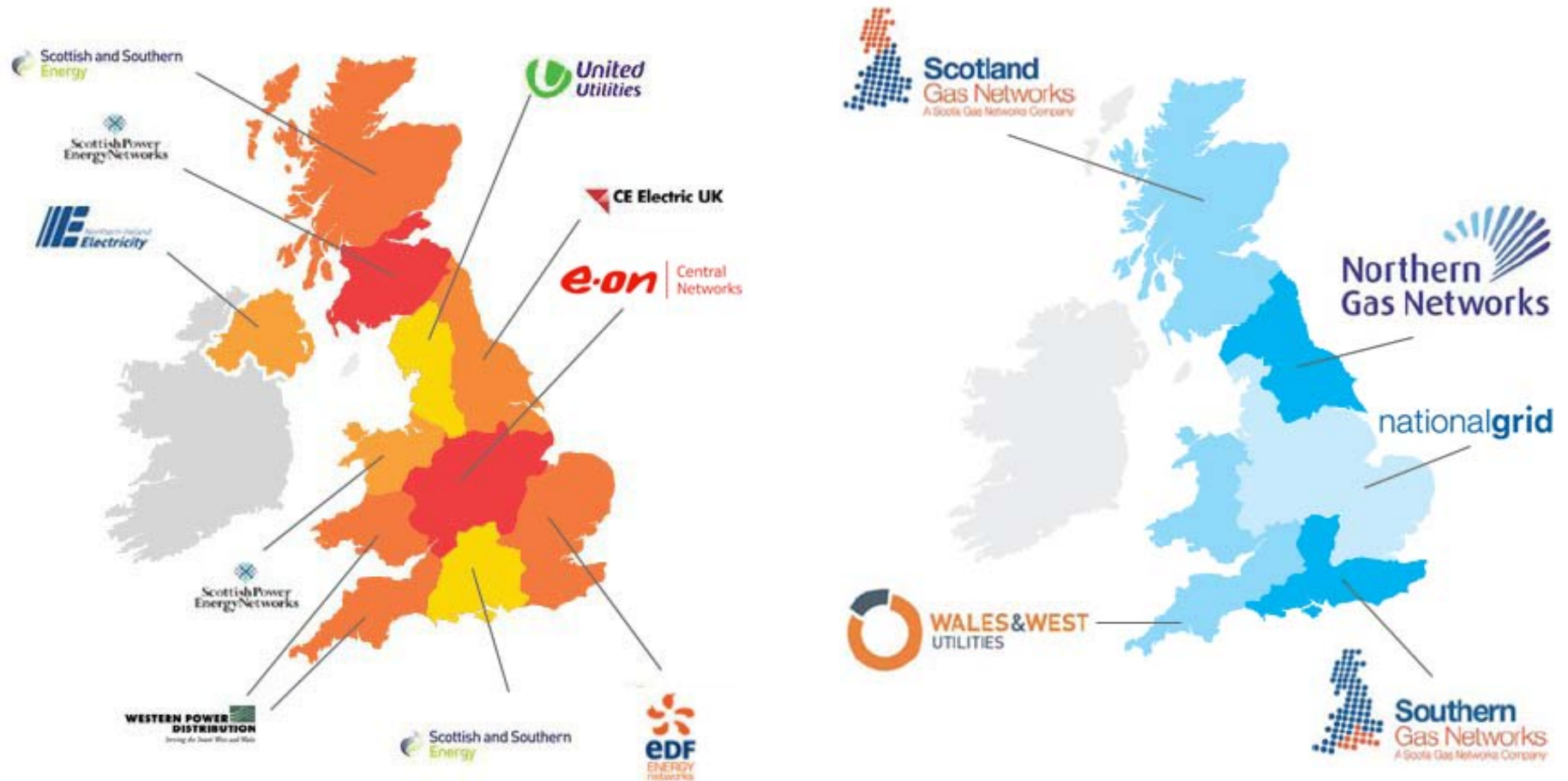
Great Expectations



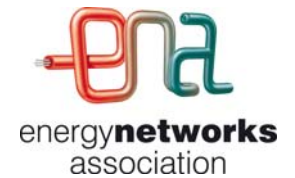
Regulating Electricity Distribution in GB – A Model for Europe?

PRESENTED BY **Paul Delamare**, Head of Regulation and Compliance Networks Branch EDF Energy

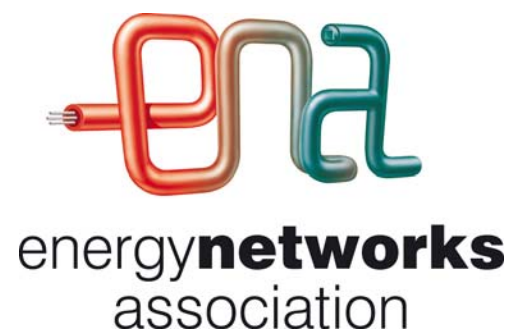
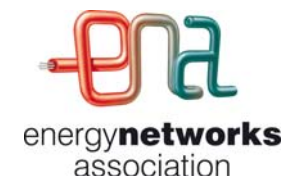
UK Energy Networks



ENA Associate Companies



Trade Associations



Key Issues

- RPI-X Regulation – A successful formula?
- Current Challenges
- A New Regulatory Framework?

Existing Regulatory Regime

- Stable regulatory framework, transparent governance, and limited political influence
- Regulatory price controls for GB electricity distributors = marked success
 - Charges to customers reduced
 - Network reliability improved
 - Shareholders have made returns greater than the cost of capital

Established Price Controls

- 15 years refinement of price control mechanism
- Regulatory consistency provides firm foundation for next Distribution Price Control Review in 2008/09
- Incentives based regime to encourage appropriate behaviour

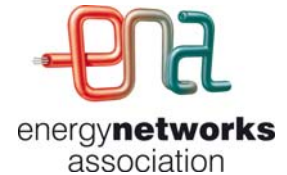
Incentives – a model for Europe?

- **Moved from ‘simple’ RPI-X to more sophisticated (RPI-X) +/-Y**
 - where the extra terms allow for more/less revenue to reflect performance against specified measures
- **All main outputs now subject to incentives**
 - network performance
 - customer service
 - losses
 - generator connections
 - R&D (Innovation Funding Incentive)
 - network undergrounding

Current Challenges

- **Need for additional investment likely to continue to grow over next price control period**
 - Increasing need for asset replacement
 - Twin impacts of climate change
 - Require networks to withstand more frequent severe weather events (floods, storms, heatwaves)
 - Require networks to support response to climate change
 - Interaction of these drivers is important

Long-term Capital Expenditure Requirement



- Peak of assets installed in 50s and 60s, significant proportion approaching end of engineering lives
- Necessary to continue increasing capital expenditure until 2015
 - as renewal expenditure rises to 70% of capex
 - annual capex may reach £2.7 billion
- Expenditure requirements forecast to remain broadly level 2015 to 2030

A New Regulatory Framework?

- Existing framework has produced leaner, fitter businesses
- Duties to develop 'efficient' networks and facilitate competition
- Is this sufficient to meet the challenges of UK Government and EU targets for a low carbon economy?

Developing duties and responsibilities

- Distributors' enduring relationship with customers provides an opportunity to offer new services to suppliers and end customers
 - Smart metering?
 - Demand side management/Energy efficiency?
 - Distributed Generation?
- Longer term thinking – R&D, Skills, etc.
- New incentives – carbon footprint?
- Investment and renewal not cost cutting
- Simple RPI-X – a distant memory?

Thank you!