

# **DISTRIBUTION PRICE CONTROL REVIEW 5 STAKEHOLDER PRESENTATION AND WORKSHOPS**

**JANUARY 2010**

# OBJECTIVES

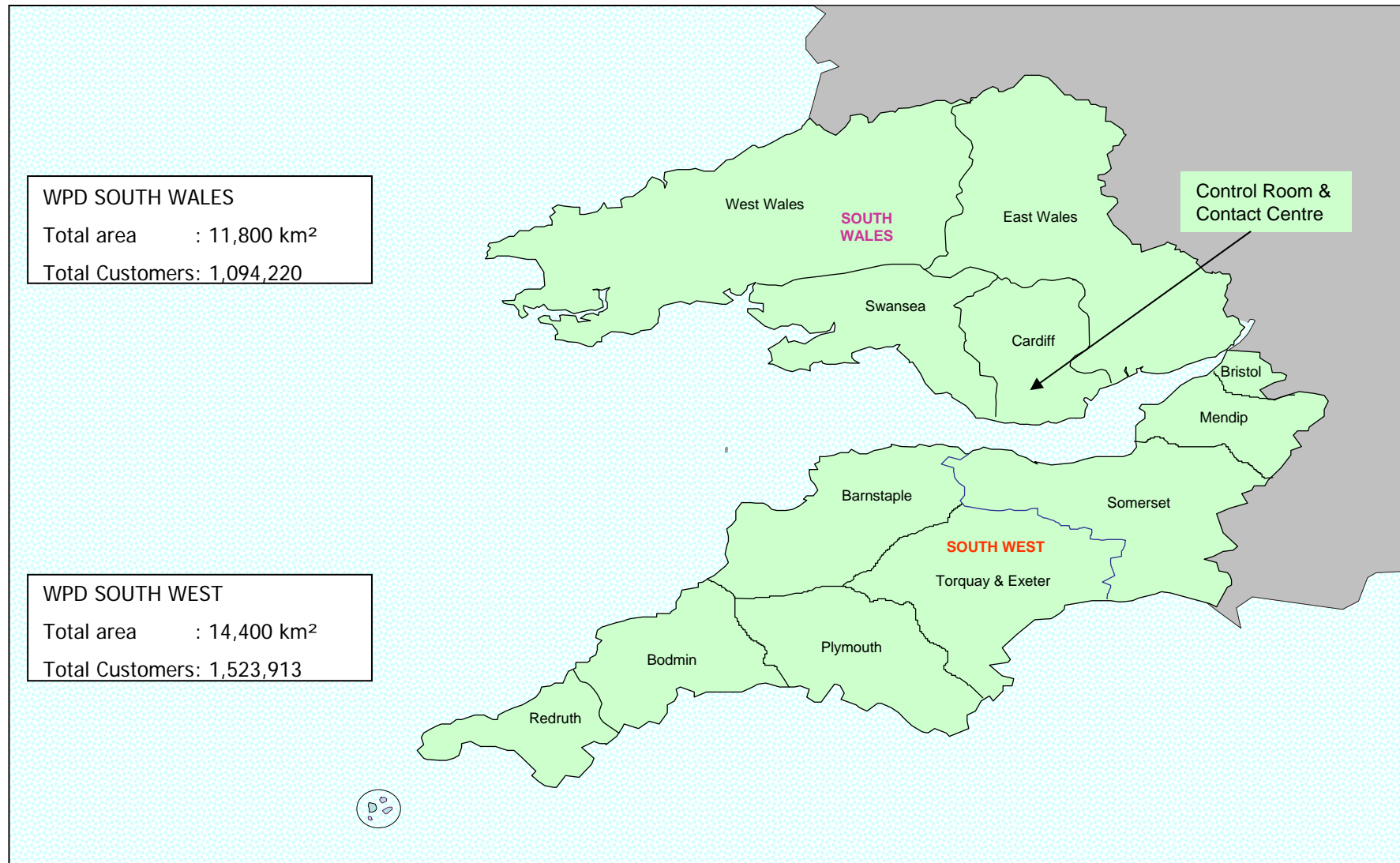
**Previous workshops** – introduced WPD, our role and sought views on our plans for investment in the network

## **Today**

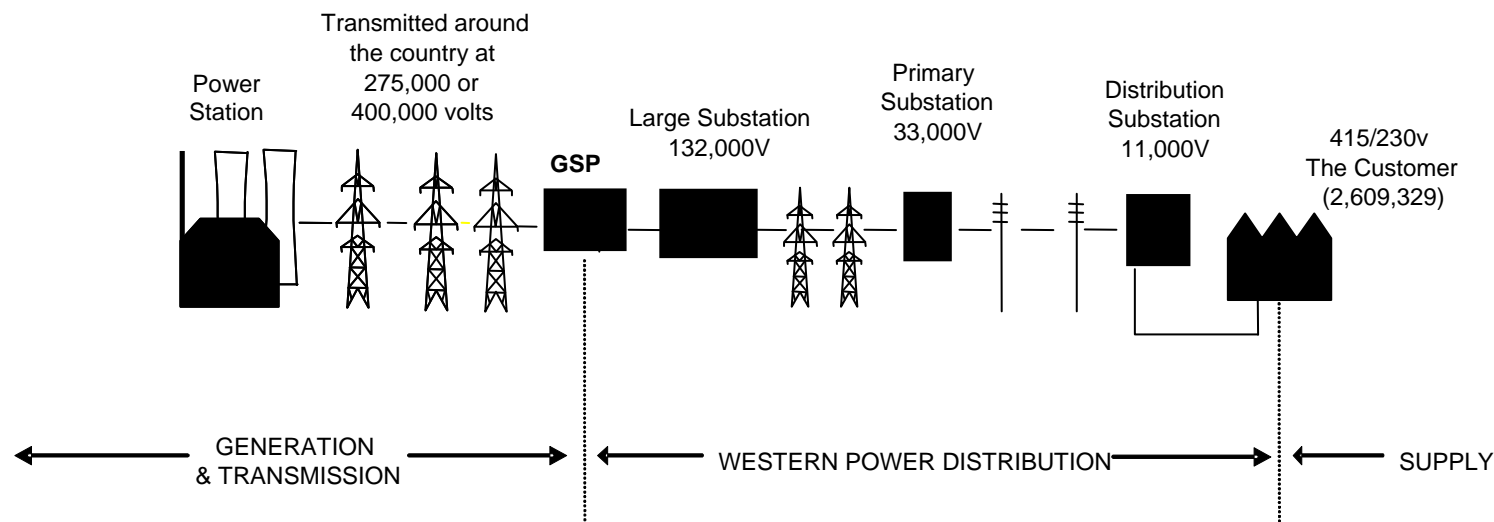
An update on recent developments including;

- The outcome of our negotiations with Ofgem for DPCR5
- Our proposals for our allowed levels of investment
- The impact on electricity bills
- Your views on how we should measure what we do and how we should keep you updated with our progress

# WPD AREA



# THE ELECTRICITY NETWORK



- We deliver electricity to 2.6m customers by taking electricity from the National Grid
- We earn income by charging electricity suppliers who are responsible for sending out bills and reading the meters
- We are regulated by Ofgem (Office of Gas and Electricity Markets) who set our revenues
- Revenues are set every five years and the fifth distribution price control period (DPCR5) commences April 1 2010

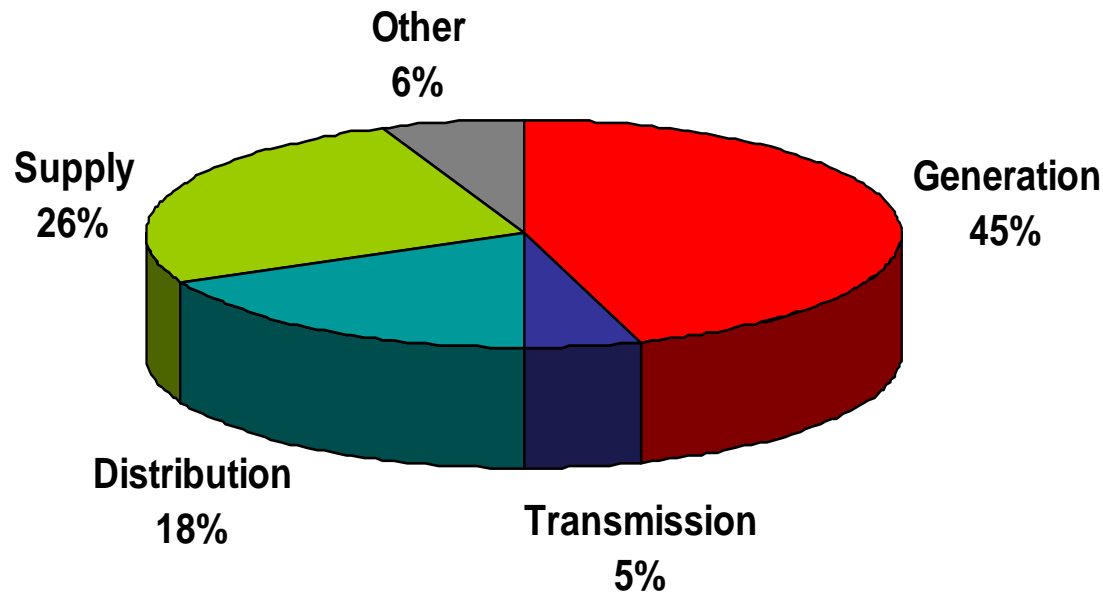
# OUR NETWORK

- We manage the following assets
  - 46,544 km overhead line
  - 38,604 km underground cable
  - 72,278 items of switchgear
  - 91,845 transformers
- We take electricity from the National Grid at 21 locations and deliver to 2.6 million customers
- We have enough electricity circuit to go twice around the world
- It would cost £8billion to replace the network

# OUR ACTIVITIES

- WPD's key activities are;
  - Maintaining the network
  - Delivering a reliable supply
  - Restoring power quickly when faults occur
  - Connecting new demand and generation across the region
  - Reinforcing the network to cope with changes in demand
  - Customer call centre
- WPD does not buy, sell or market energy
- Our revenue comes from charges that we make to suppliers for use of the electricity network

# TYPICAL ELECTRICITY BILL



- The average domestic customer currently pays £90 per year for our service
- The average small business currently pays £270 per year for our service
- The average medium business currently pays £2,600 per year for our service

# AGENDA

Topic	Time
Registration	09:30 – 10:00
Welcome and Agenda For the Day	10:00 – 10:15
Outcome of DPCR5 and Impact on Prices	10:15 – 10:45
WPD Business Plan 2010 - 2015	10:45 – 11:15
Coffee	11:15 – 11:30
Workshop 1	11:30 – 12:30
Workshop 2	11:30 – 12:30
Feedback from Workshops and Next Steps	12:45 – 13:15
Lunch and Close	13:15

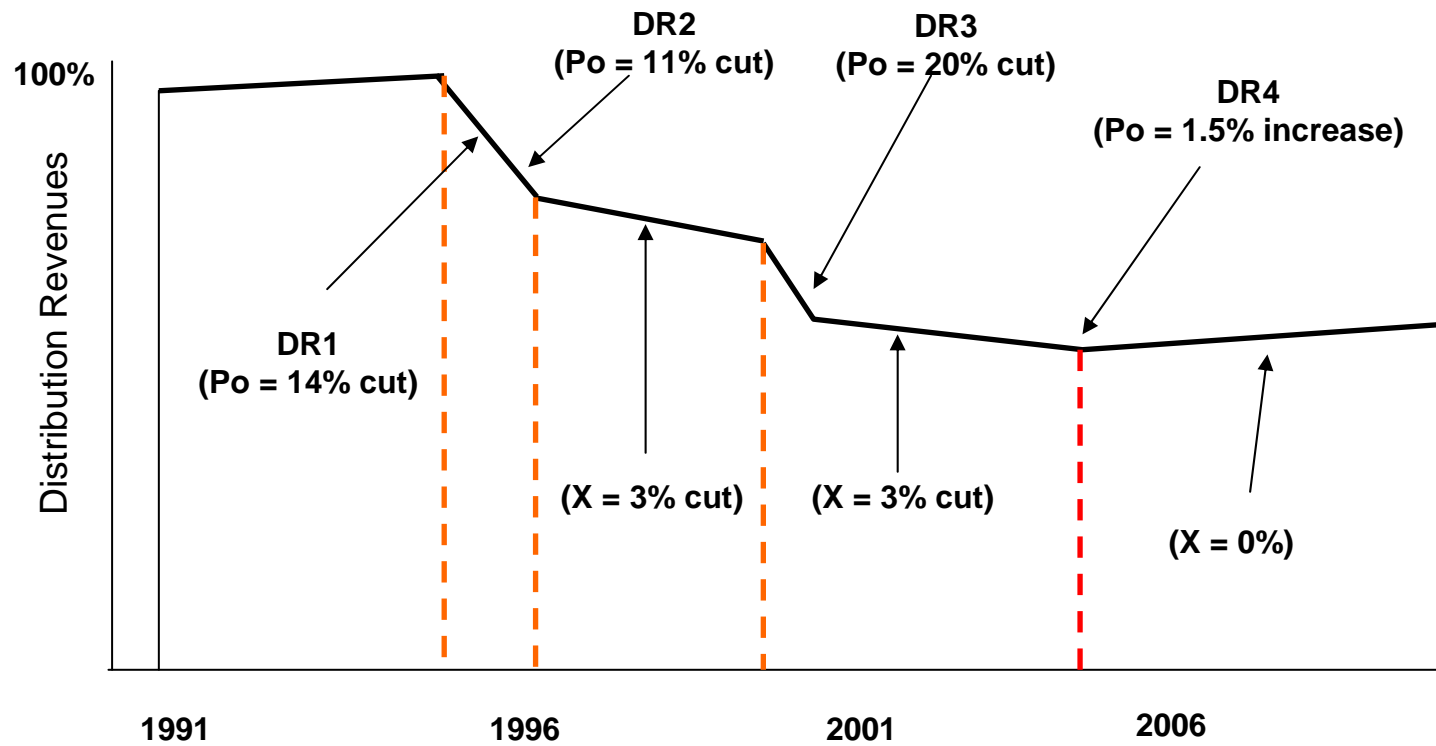


# OUTCOME OF DPCR5 AND IMPACT ON PRICES

# DISTRIBUTION PRICE CONTROL REVIEW

- Ofgem set the revenues we can recover from suppliers based on an assessment of:
  - Our capital investment requirements
  - The operating costs that an efficient company of our size would need
  - The return we will need to make to attract investors
  - The depreciation (decline in value) of our existing assets
  - Our pension liabilities and tax bill

# PREVIOUS PRICE CONTROL REVIEWS



Successive reviews have reduced revenues to around 55% of 1990 levels

# DISTRIBUTION PRICE CONTROL REVIEW 5

- DPCR5 will take effect on April 1 2010
- Sets the revenue that WPD can recover from suppliers
- Headlines:
  - 30% increase in overall investment levels
  - 6.2% South Wales, 7.5% South West annual increase in revenue
  - Average increase in a domestic bill of £7.88p.a in South Wales and £6.66p.a in South West

# DISTRIBUTION PRICE CONTROL REVIEW 5

- In exchange for its DPCR5 revenues WPD will have to commit to delivery on a range of obligations, targets and incentives
- Ofgem are proposing a package that covers three areas:
  - customers
  - environment
  - network
- Ofgem will publish an annual report for each DNO setting out their progress in each of these three key areas
- Performance against the plan will be carefully monitored

# FOR CUSTOMERS....

- Being truly customer centred
  - Listening to stakeholders and developing an enduring two-way relationship regarding our performance in all service areas
  - Network reliability, tighter targets for interruptions and outages
  - Significant new standards for connections
  - Initiatives for remote rural customers

# FOR THE ENVIRONMENT....

- Taking an active role in mitigating against climate change
  - Engagement with stakeholders and businesses on the designs for a low carbon future
  - Undergrounding schemes in National Parks/AONB
  - Flood mitigation plans
  - Continuing to monitor and reduce our carbon footprint

# FOR THE NETWORK....

- Efficient investment for security and reliability at a reasonable cost
- Network output measures covering;
  - Condition indices (how close assets are to requiring replacement)
  - Load indices (how close assets are to full capacity)
  - Fault rates
- WPD will be required to report annually on the recruitment and training of its workforce



# WPD BUSINESS PLAN 2010 - 2015

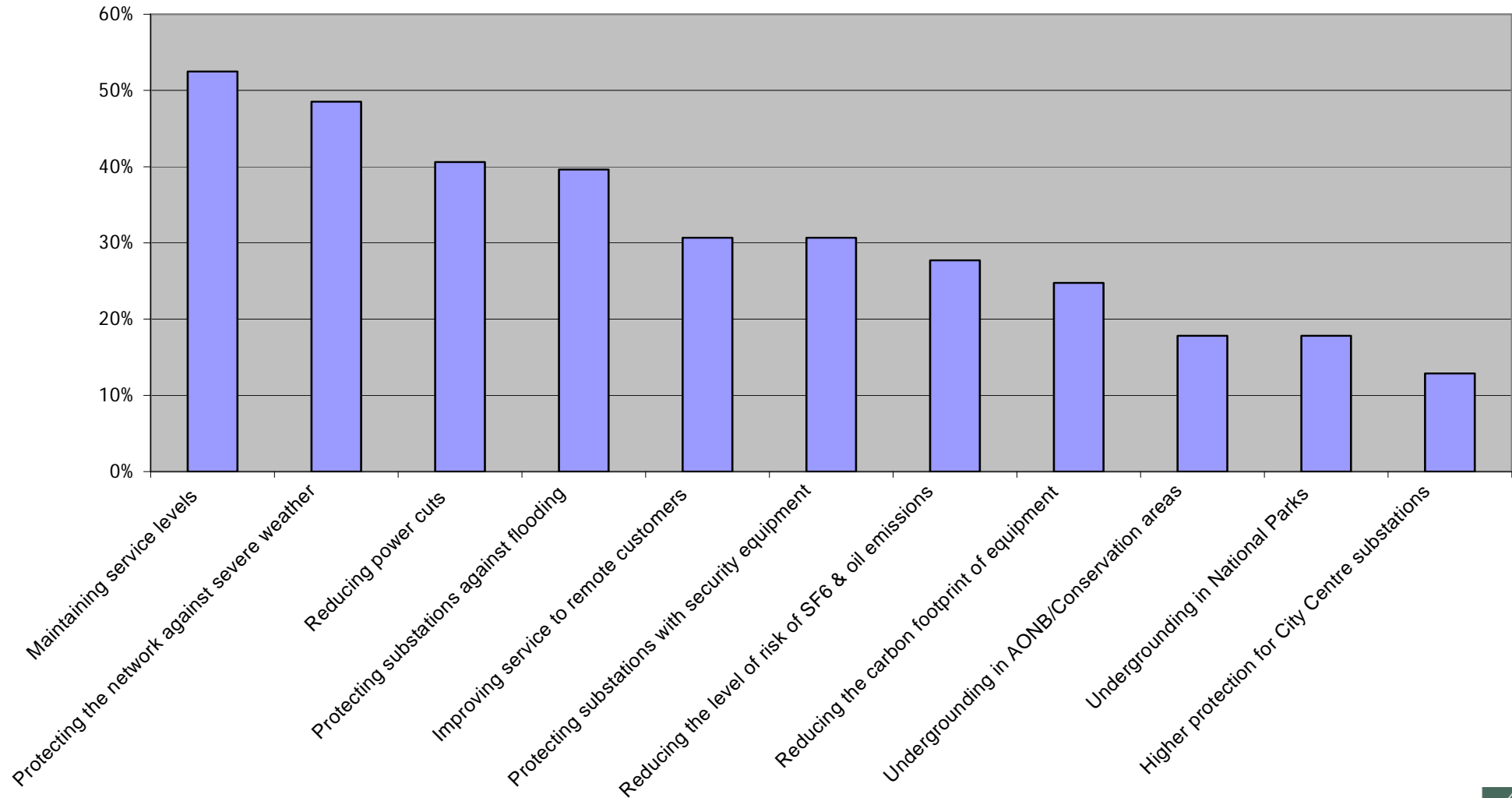
# OUR INVESTMENT PLANS

- Between 2010 and 2015 we are going to invest approximately £1.38bn in the network
- In putting together our business plan for 2010 – 2015 we considered;
  - New and existing legal obligations
  - The views of our stakeholders and our service levels
  - Providing our services in a sustainable and environmentally responsible way
  - New challenges such as climate change
  - The long term future, 2020 and beyond
- Our business plan submission to Ofgem was based on a total investment increase of almost 30% from current levels

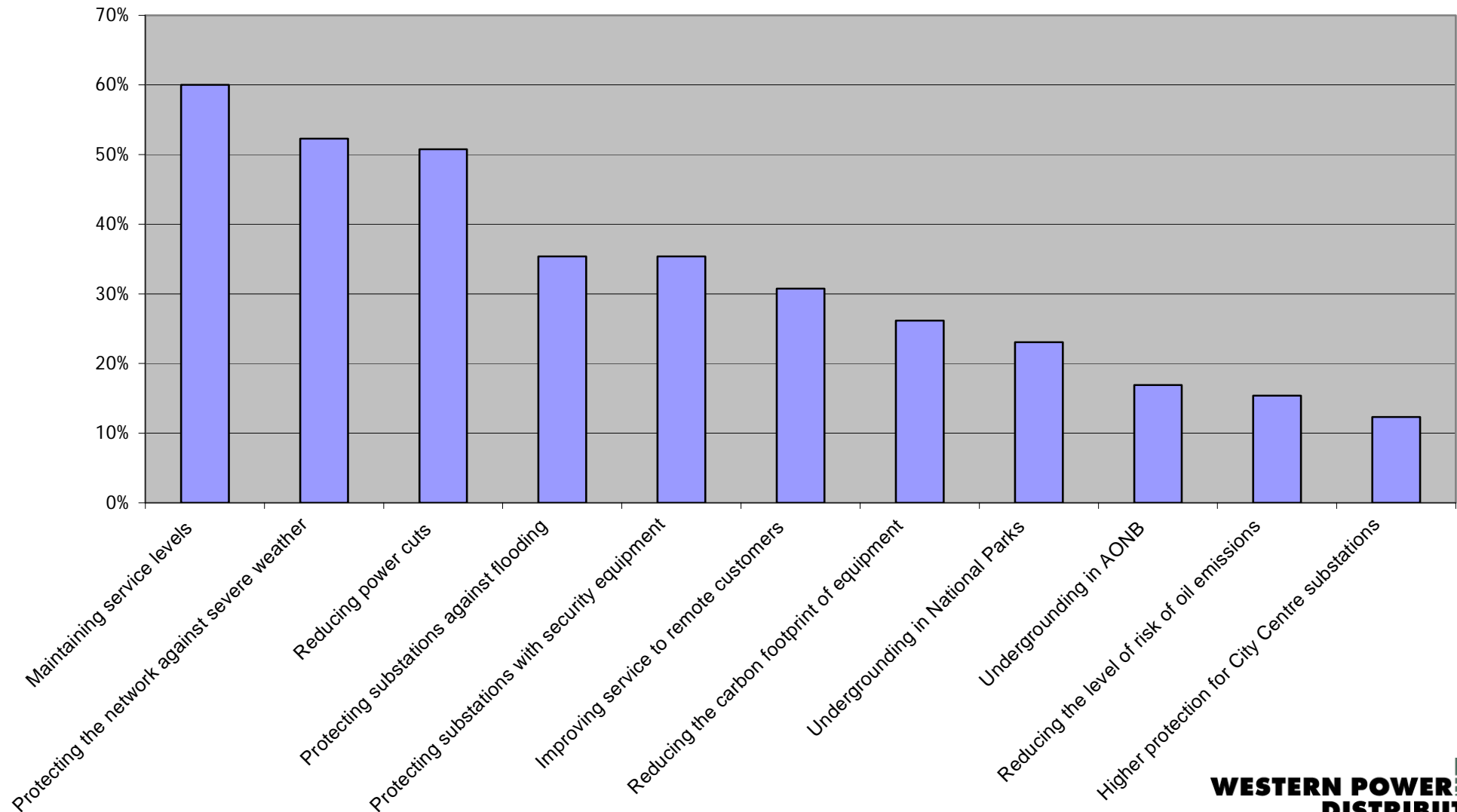
# STAKEHOLDER INPUT

- Stakeholders prioritised expenditure against a number of possible investment opportunities:
  - Maintaining service levels
  - Protecting the network against severe weather
  - Reducing power cuts – network reliability
  - Improving service to remote customers
  - Protecting substations against flooding
  - Protecting substations with security equipment
  - Environmental measures – reducing the risk of emissions of SF6 and oil and reducing the carbon footprint of our equipment
  - Undergrounding in National Parks
  - Improved resilience in City Centres

# WPD SOUTH WEST - % OF RESPONDENTS SUPPORTING EACH OF THE INVESTMENTS SET OUT IN MAY 2008 CONSULTATION DOCUMENT



# WPD SOUTH WALES - % OF RESPONDENTS SUPPORTING EACH OF THE INVESTMENTS SET OUT IN MAY 2008 CONSULTATION DOCUMENT



# WHAT DID WE LEARN ?

- Significant majority consulted appeared happy with the level of service being provide by WPD
- Consultation carried out separately in Wales and West but similar list of priorities
- Clear consensus at workshops that customers now used to high level of service and will not tolerate a reduction
- Written and e-mailed responses identified maintaining service levels, protecting the network in severe weather and reducing power cuts as the main priorities
- Strong support for certain environmental measures, particularly flood prevention
- Undergrounding in National Parks one of the lower priorities in written feedback, but source of heated debate at workshops

# TOTAL OFGEM ALLOWANCE DPCR5

Activity	South Wales	South West	Total
Network Investment	224	339	563
Network Operating Costs	345	477	822
Total	569	816	1,385

- Network Investment comprises expenditure on asset replacement, reinforcement and connections
- Network Operating costs comprises inspection and maintenance of equipment and repair of faults
- In total investment terms an increase of approximately 30% compared to DPCR4

# DPCR5 TOTAL ALLOWED NETWORK INVESTMENT

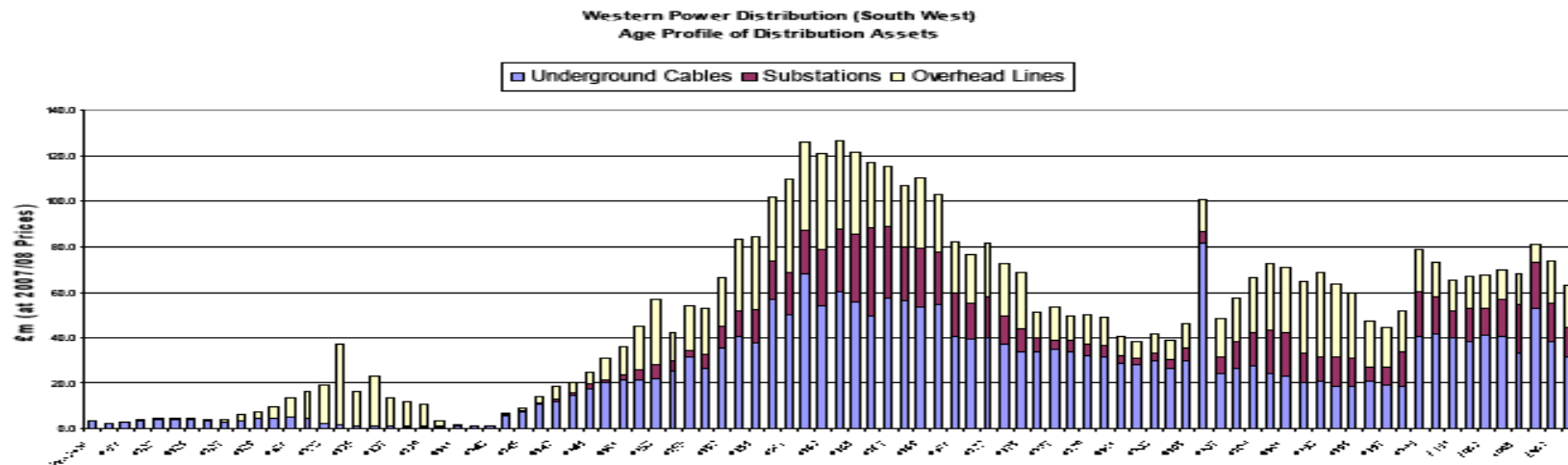
Investment Area	South West		South Wales	
	DPCR4 £m	DPCR5 £m	DPCR4 £m	DPCR5 £m
Asset replacement	155.3	228.7	82.9	147.2
Load related expenditure	61.6	55.6	42.4	38.5
Environmental – Flooding	1	6.4	1	10.8
Environmental – Leak Mitigation	0.6	7	0	3.3
Substation security	0	3.4	0	5.9
Other network investment	30.3	38	28.1	18.5
<b>Total</b>	<b>248.8</b>	<b>339.1</b>	<b>154.4</b>	<b>224.2</b>

Funded at DPCR6				
Undergrounding		1.5		1
Remote rural customers		1.9		3.2



# ASSET REPLACEMENT

- This is the largest component of our investment programme
- All electrical equipment wears out over time and much of our asset base was installed in 1950-1970



- Replacement is based on condition and risk
- We will spend £376m on network replacement

# LOAD RELATED EXPENDITURE

- Two key elements
  - Connecting new commercial and domestic customers
  - We expect to connect 17,000 new domestic properties a year plus new commercial properties
  - Reinforcing the network to accommodate changing demand
- We will spend £94m net on load related expenditure



# FLOODING AND ENVIRONMENT EXPENDITURE

- There has been a national review of electricity substation resilience following the 2007 floods
- Working with the Environment Agency we are assessing the risks to substations in our area
- We have also commissioned site specific flood risk studies and are developing a range of solutions
- As part of a 10 year programme to protect key sites we will invest £17.2m during DPCR5
- Reducing the environmental risk of emissions (oil/SF6) from our equipment an additional £10.3m

# SUBSTATION SECURITY

- The expenditure reflects increasing problems of copper theft, vandalism and other threats
- We will invest £5.9m at key sites to reduce security threats during DPCR5



# UNDERGROUNDING IN NATIONAL PARKS

- WPD will participate in Ofgem's undergrounding scheme
- We have established two forums with the relevant expert bodies who are working on selecting appropriate schemes
- We plan to spend £2.5m to underground overhead lines in national Parks/Areas of Outstanding Beauty

# IMPROVING SERVICE TO REMOTE RURAL CUSTOMERS

- Aimed at small pockets of customers who experience a higher than average number of power cuts
- Typically rural customers at the remote ends of circuits
- Aims to improve poor network performance not addressed by other routine activities
- Focus is on extensive automation to restore supplies more rapidly
- Total investment of £5.1m

# INVESTMENT PROPOSALS SUMMARY



# IMPACT ON TARIFFS

- WPD published indicative prices for suppliers on December 14<sup>th</sup> 2009
- Allowed revenue is that shown in the Ofgem DPCR5 financial model issued on 7<sup>th</sup> December 2009
- Indicative prices include both the impact of DPCR5 and the Common Distribution Charging Methodology
- The 'base price control revenue' used is £191m in South Wales and £246m in the South West
- We have made the following assumptions in calculating indicative prices for 2010/11
  - Losses of 5.1% in South Wales and 6.5% in South West
  - RPI = -1.3% for the last six months of 2009
  - Ofgem approve our proposed charging methodology for EHV customers



# WPD SOUTH WEST 2010/11 PRICE CHANGES

CDCM Tariff Name	Total £ pa			
	09/10	10/11	£ change	% change
Domestic Unrestricted	89.86	96.53	£6.66	7%
Domestic Two Rate	112.04	109.29	-£2.75	-2%
Small Non Domestic Unrestricted	226.20	257.20	£31.00	14%
Small Non Domestic Two Rate	601.42	478.06	-£123.35	-21%
LV Medium Non Domestic	2,336.05	1,598.45	-£737.60	-32%
LV Sub Medium Non Domestic	2,214.63	1,924.10	-£290.54	-13%
HV Medium Non Domestic	3,703.50	2,021.89	-£1,681.61	-45%
NHH UMS	375.64	361.46	-£14.18	-4%
LV HH Metered	5,133.72	4,695.16	-£438.56	-9%
LV Sub HH Metered	7,763.34	8,300.06	£536.71	7%
HV HH Metered	28,812.71	32,913.08	£4,100.37	14%
LV UMS (Pseudo HH Metered)	291,565.13	309,898.64	£18,333.51	6%

# WPD SOUTH WALES 2010/11 PRICE CHANGES

CDCM Tariff Name	Total £ pa			
	09/10	10/11	£ change	% change
Domestic Unrestricted	89.17	97.05	£7.88	9%
Domestic Two Rate	113.74	108.35	-£5.39	-5%
Small Non Domestic Unrestricted	302.29	287.96	-£14.24	-5%
Small Non Domestic Two Rate	448.31	380.44	-£67.87	-15%
LV Medium Non Domestic	2,980.72	2,171.02	-£809.70	-27%
HV Medium Non Domestic	3,754.54	1,786.26	-£1,968.28	-52%
NHH UMS	296.31	329.03	£32.71	11%
LV HH Metered	8,403.54	8,024.41	-£379.13	-5%
HV HH Metered	33,872.79	48,208.35	£14,335.56	42%
LV UMS (Pseudo HH Metered)	184,991.57	221,267.97	£36,276.40	20%

# NEXT STEPS

- Ofgem currently consulting on our proposed EHV charging methodology (affecting approximately 100 customers) and a decision expected by 19 February 2010
- Publish final prices by 19 February 2010
- Start of new price control and implementation of CDCM and tariffs on 1 April 2010
- Full details including pricing model on WPD website [www.westernpower.co.uk](http://www.westernpower.co.uk)

# WORKSHOPS

# WORKSHOP 1 OVERVIEW

- Theme 1      Ways to provide information and updates to stakeholders in the next five years
- Theme 2      What performance measures and other information should we publish?

# WORKSHOP 2 OVERVIEW

- Theme 1      Ways to provide pricing information to suppliers
- Theme 2      What additional pricing information should we provide?

## INFORMATION FOR STAKEHOLDERS

# Thank you for attending

- Slides and feedback will be posted on the website [www.westernpower.co.uk](http://www.westernpower.co.uk)
- If you would like further discussions with us, please contact

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