

Regulation – the old regime

RPI-X

- In existence for over 20 years
- Prices rise / fall in line with RPI
- 'X' is the efficiency factor
- Promotes more for less
- Has driven efficiencies since privatisation

But the world is changing...

ofgem

RPI-X@20



RIIO

*RIIO will apply to Gas Distribution, Gas Transmission & Electricity Transmission from April 2013
RIIO will then also be implemented in Electricity Distribution in 2015...*

RIIO – the bits you need to know

REVENUE

OUTPUTS

$$R = I + I + O$$

INCENTIVES

INNOVATION

RPI-X vs. RIIO

RPI-X

- ~~5 year price control~~
- Most allowances set up front
- Uncertainty mechanisms
- ~~Capex, repex and opex~~
- Strong efficiency incentives

RIIO

- **8 year** price control
- No change
- **More** uncertainty mechanisms
- It's now all about **totex**
- Yes, but **greater focus on outputs and stakeholders**

Our **Output** commitments

Our output categories / priorities:

Safety

“Keep People Safe”

Reliability

“Be Reliable”

Environment

“Safeguard Future Generations”

Social

Customer

Connections

“Deliver Quality Service to All”

Based on what stakeholders want
And are prepared to pay for...

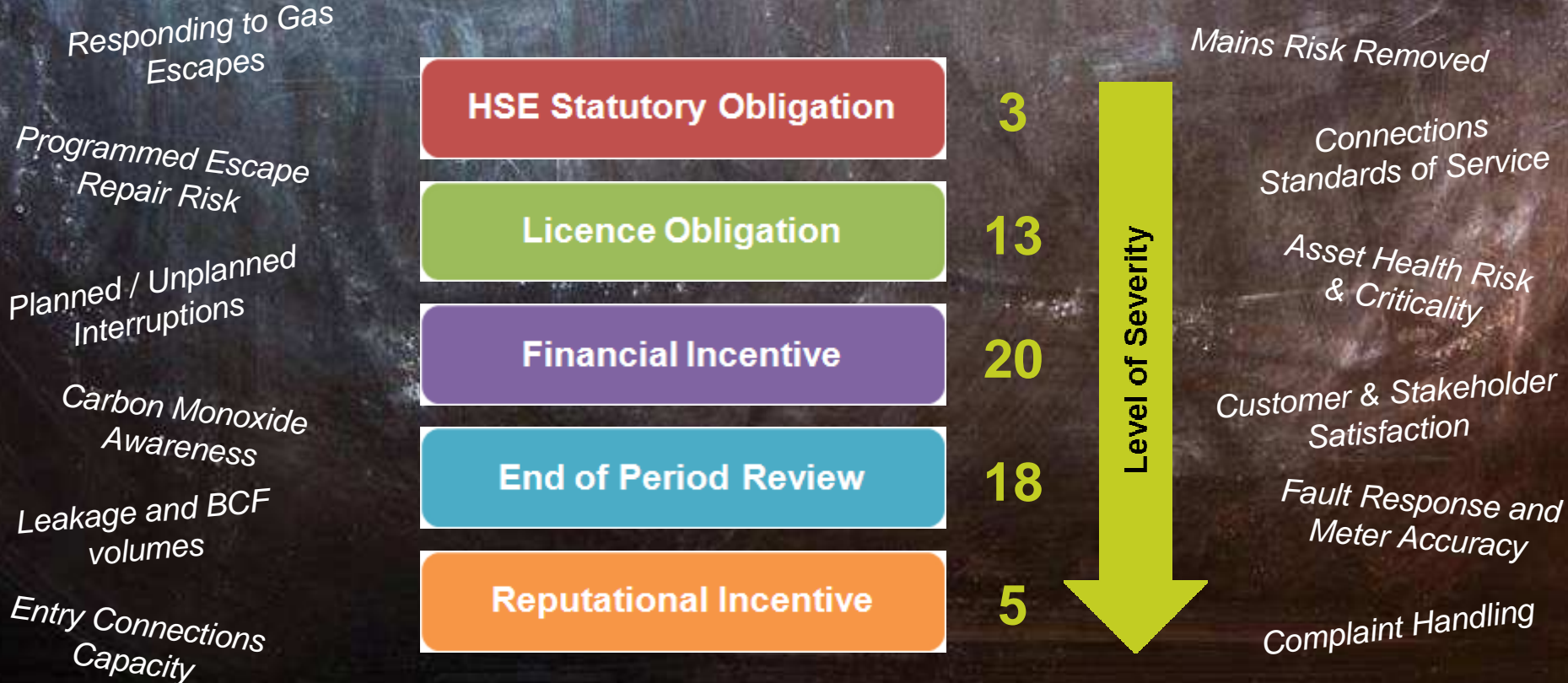


Non-delivery
is not an option



Our **Output** commitments

We have over 50 specific outputs commitments:



The role of Incentives

To encourage us to deliver our outputs:

1. Efficiency incentives
2. Reputational incentives
3. Output incentives

Our Output Incentives:

- Environmental Emissions Incentive (uncapped)
- Shrinkage Allowance (uncapped)
- Capacity (uncapped)
- Customer Satisfaction (+ / - £8m per annum)
- Complaint Handling (- £8m per annum)
- Stakeholder Engagement (+ £8m per annum)
- Discretionary Reward Scheme (+ £4m every 3 years)



Innovation will be vital if we are to succeed

Not just innovation with a big 'I'

- Traditional Research & Development

Funded via:

- *Network Innovation Allowance (NIA)*
- *Network Innovation Competition (NIC)*

Also innovation with a small 'i'

- Process improvement
- Commercial innovation
- What else?
 - Think about your current job... what are the things that frustrate you i.e. the small irritations that make a bad day worse?



Totex – what is it and why is it important?

'Totex' = total expenditure
= opex + capex + repex

Under RPI-X

Under RIIIO

