EIUG recognises that greater comparative competition between regional distribution networks could help generate efficiencies from which customers would benefit at future price reviews. In practice however, we expect there would be very limited gains to customers, especially in the short-term.

Separation would mean the current network business facing up-front transitional costs in order to establish separately functioning regional organisations. We would not expect a future allocation of the existing regulatory asset base to result in a significant step-change to current local distribution charges, but there are likely to be incidence effects as regional prices diverge. There would be duplication of a number of functions that are currently carried out centrally. Separation also has implications for Ofgem itself, which will presumably need to conduct eight price reviews in place of the current one.

It has been argued that separation might result in more cost-reflective local distribution charges. If this is indeed the goal, it would make more sense to address the outstanding issue of the LDZ capacity/commodity split, which is set at an arbitrary 50:50 level. In our view, this results in excessive cost-recovery from high load-factor industrial customers who are effectively subsidising the remaining customer base. This has been a matter of contention for a number of years, and we are at a loss to know why Ofgem has so far failed to address it.

As with all such proposals, we believe Ofgem should establish a clear cost-benefit case for change. The likely costs should be weighed against realistic assumptions about future benefits (e.g. capex/opex efficiencies, improvements in customer service, etc.). Unless such an analysis demonstrates that there is a high probability of a significant potential gain to customers, we would not support a change being made to the current regulatory regime.

Please do not hesitate to contact me if you have any queries about our position on this matter.