

Price Control Regulation: Is Simplicity Possible or Desirable?

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Complexity

- Does regulation have to be like brain surgery?
- Distinguish between complexity and volume/burden
- Complex mechanisms can work well as long as they are well designed and understood by those that need to understand them

Ofgem – Interruptions and GSS

- Guaranteed standards:
 - supply restoration
 - customer liaison
- Individual payments to customers
- Overall targets for:
 - customer interruptions
 - customer minutes lost
- Rewards/penalties at DNO level

IQI (Ofgem) / CIS (Ofwat)

Ratio of forecast to baseline	95	100	105	110	115	120	125	130	135	140
Incentive rate	0.53	0.50	0.48	0.45	0.43	0.40	0.38	0.35	0.33	0.30
Allowed expenditure	98.75	100.00	101.25	102.50	103.75	105.00	106.25	107.50	108.75	110.00
Additional income	3.09	2.50	1.84	1.13	0.34	-0.50	-1.41	-2.38	-3.41	-4.50
Actual expenditure										
90	7.69	7.50	7.19	6.75	6.19	5.50	4.69	3.75	2.69	1.50
95	5.06	5.00	4.81	4.50	4.06	3.50	2.81	2.00	1.06	0.00
100	2.44	2.50	2.44	2.25	1.94	1.50	0.94	0.25	-0.56	-1.50
105	-0.19	0.00	0.06	0.00	-0.19	-0.50	-0.94	-1.50	-2.19	-3.00
110	-2.81	-2.50	-2.31	-2.25	-2.31	-2.50	-2.81	-3.25	-3.81	-4.50
115	-5.44	-5.00	-4.69	-4.50	-4.44	-4.50	-4.69	-5.00	-5.44	-6.00
120	-8.06	-7.50	-7.06	-6.75	-6.56	-6.50	-6.56	-6.75	-7.06	-7.50
125	-10.69	-10.00	-9.44	-9.00	-8.69	-8.50	-8.44	-8.50	-8.69	-9.00
130	-13.31	-12.50	-11.81	-11.25	-10.81	-10.50	-10.31	-10.25	-10.31	-10.50
135	-15.94	-15.00	-14.19	-13.50	-12.94	-12.50	-12.19	-12.00	-11.94	-12.00
140	-18.56	-17.50	-16.56	-15.75	-15.06	-14.50	-14.06	-13.75	-13.56	-13.50
145	-21.19	-20.00	-18.94	-18.00	-17.19	-16.50	-15.94	-15.50	-15.19	-15.00

Guidelines

- So, if you are using complicated incentives, what are the rules?
- Be absolutely clear of the objective
- Be sure you can make it work in practice:
 - measurement and audit
- Be sure you can explain it to the companies – and they can understand it
- Think though whether it will have the desired effect
 - interaction with other incentives

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