

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

JANUARY 2010

OBJECTIVES

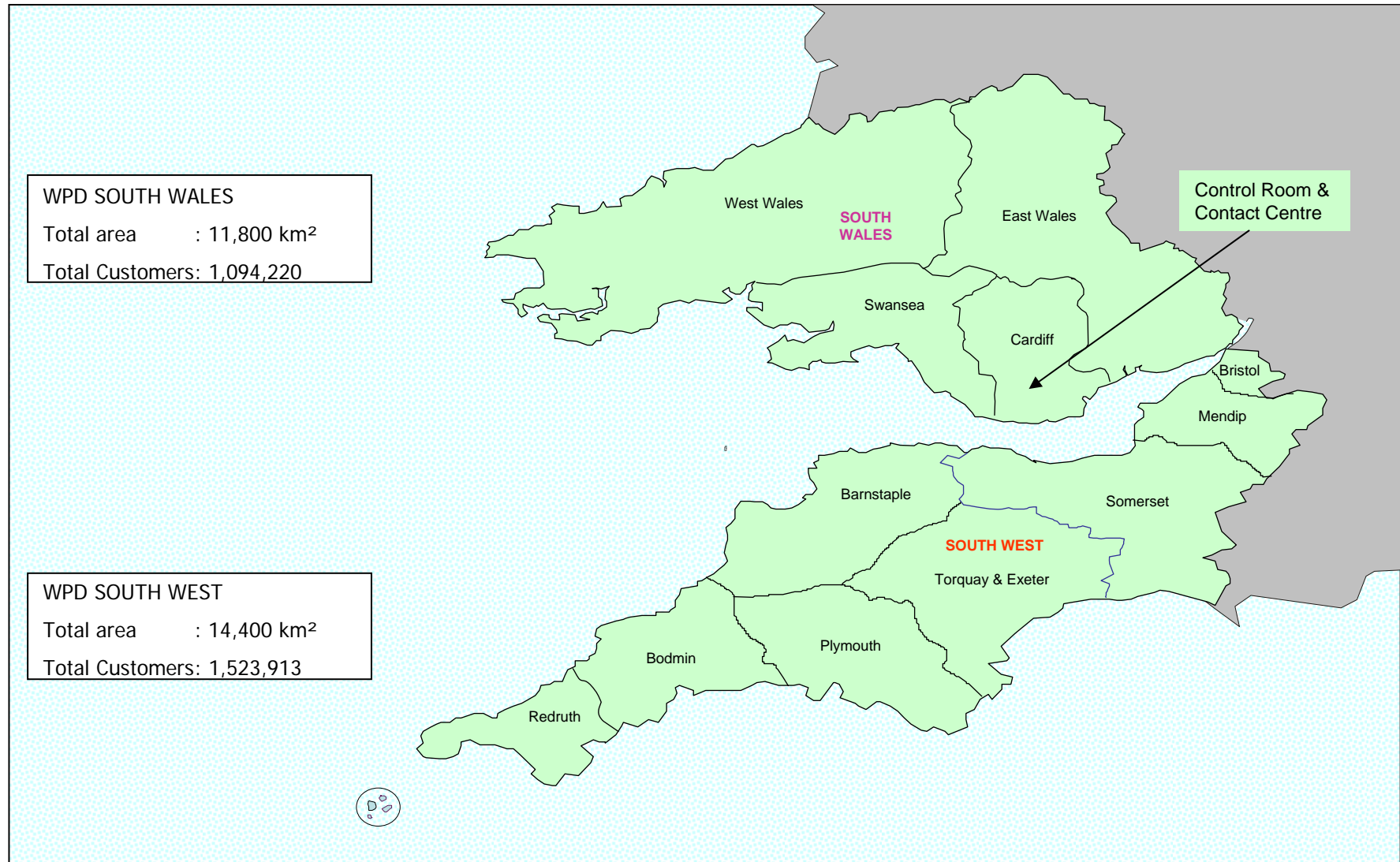
Previous workshops – introduced WPD, our role and sought views on our plans for investment in the network

Today

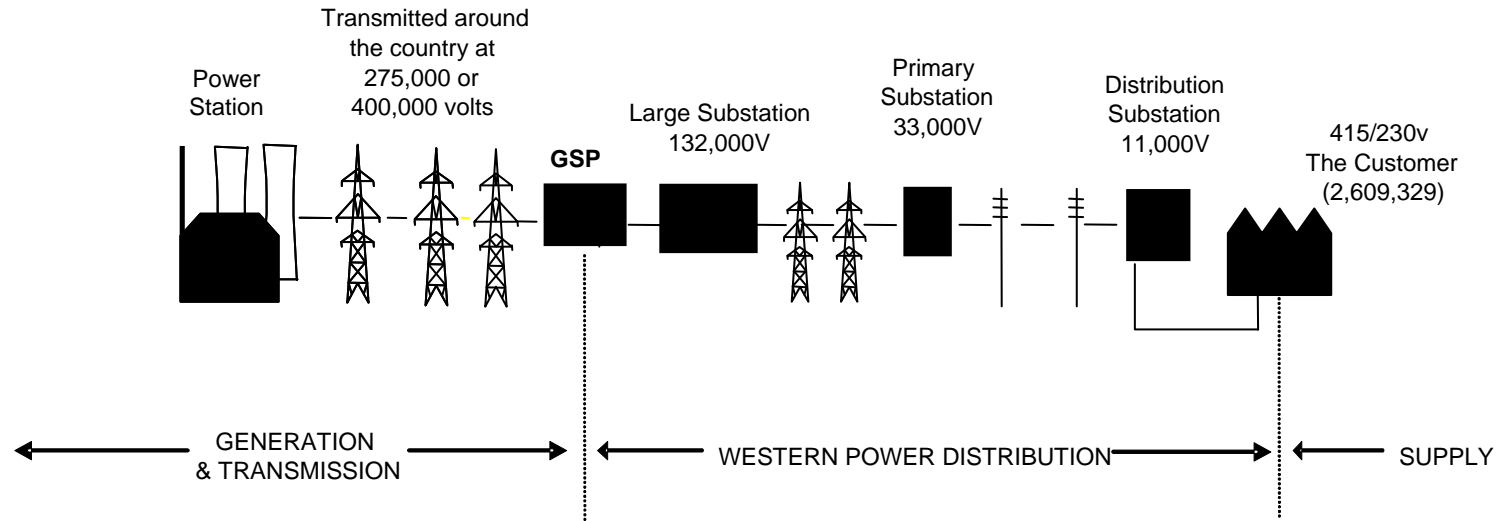
An update on recent developments including;

- 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

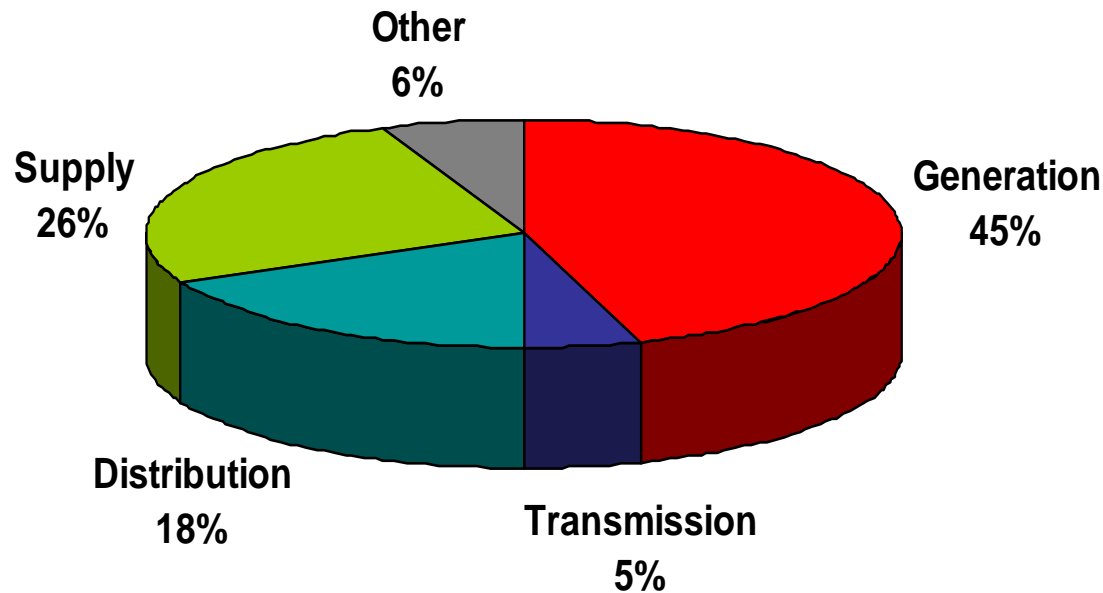
OUR NETWORK

- 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

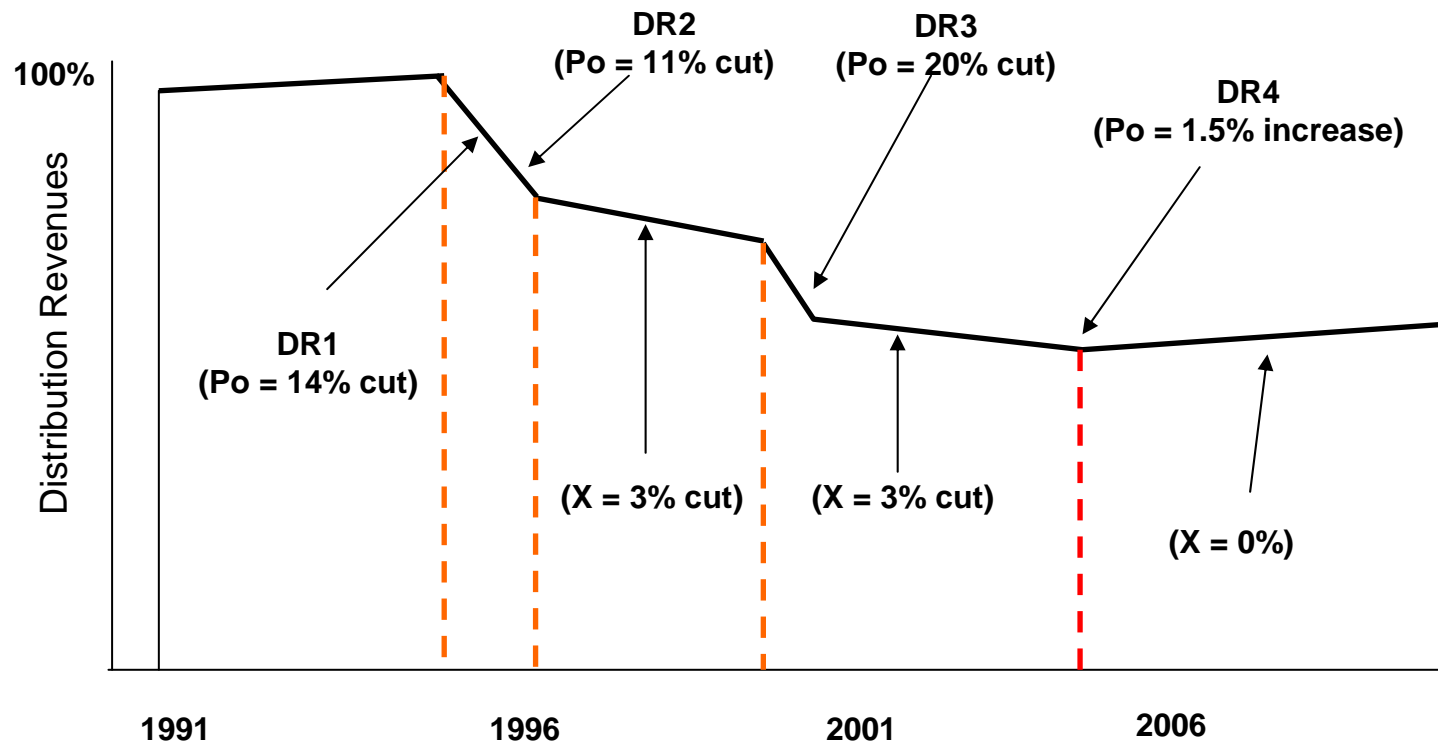
Topic	Time
Registration	09:30 – 10:00
Welcome and Agenda For the Day	10:00 – 10:15
Outcome of DPCR5 and Impact on Prices	10:15 – 10:45
WPD Business Plan 2010 - 2015	10:45 – 11:15
Coffee	11:15 – 11:30
Workshop 1	11:30 – 12:30
Workshop 2	11:30 – 12:30
Feedback from Workshops and Next Steps	12:45 – 13:15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

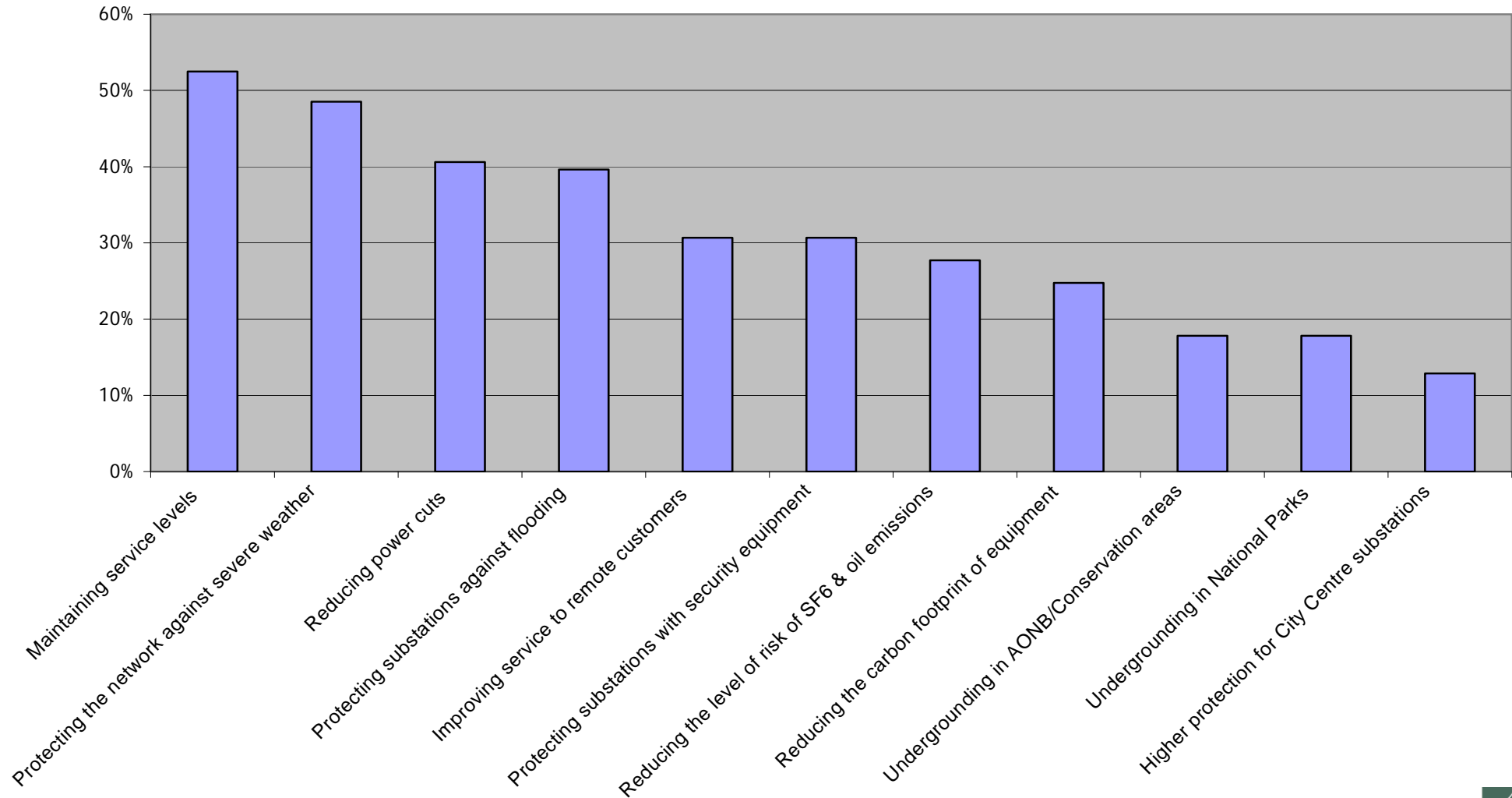
OUR INVESTMENT PLANS

- 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

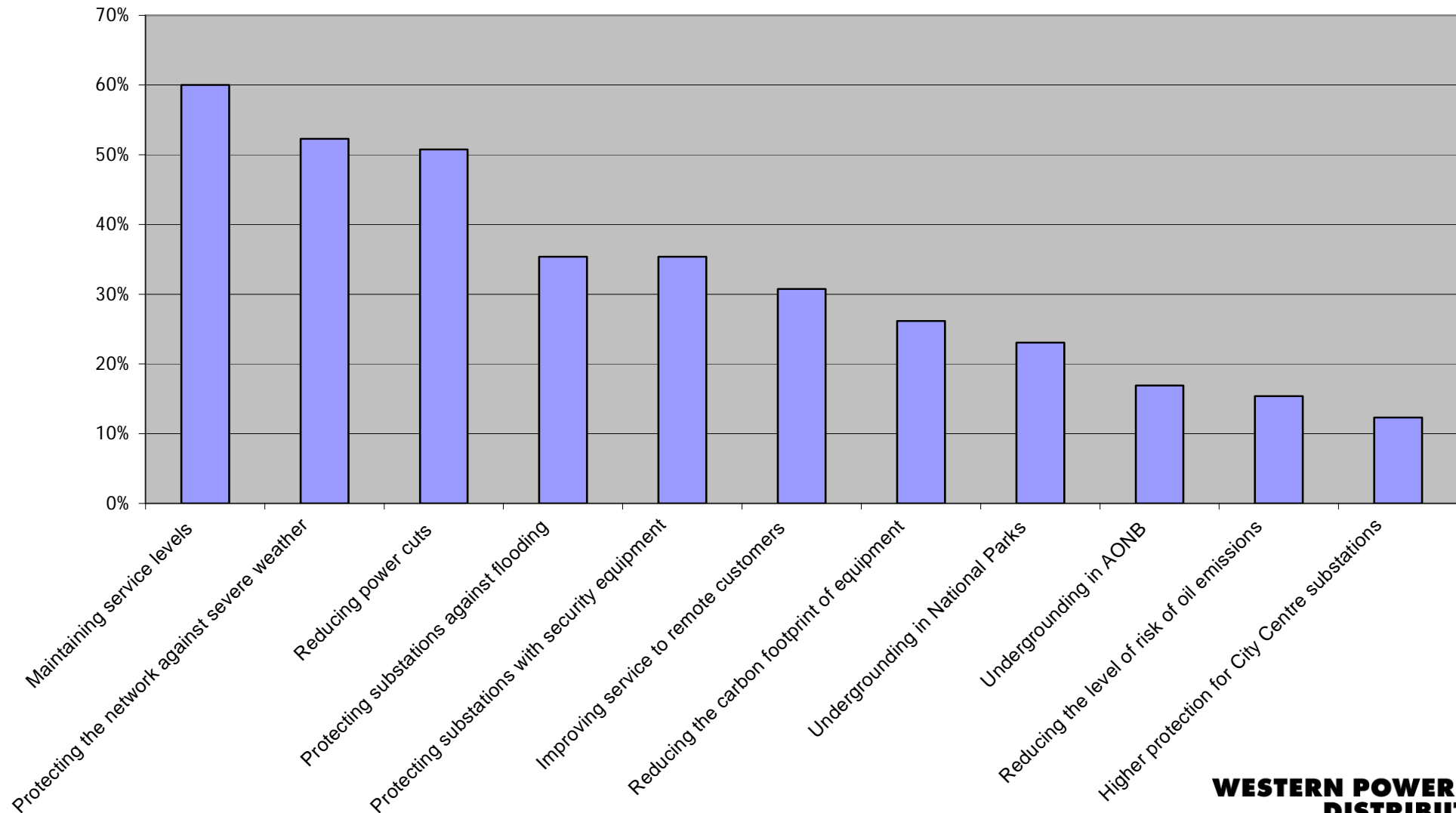
STAKEHOLDER INPUT

- 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

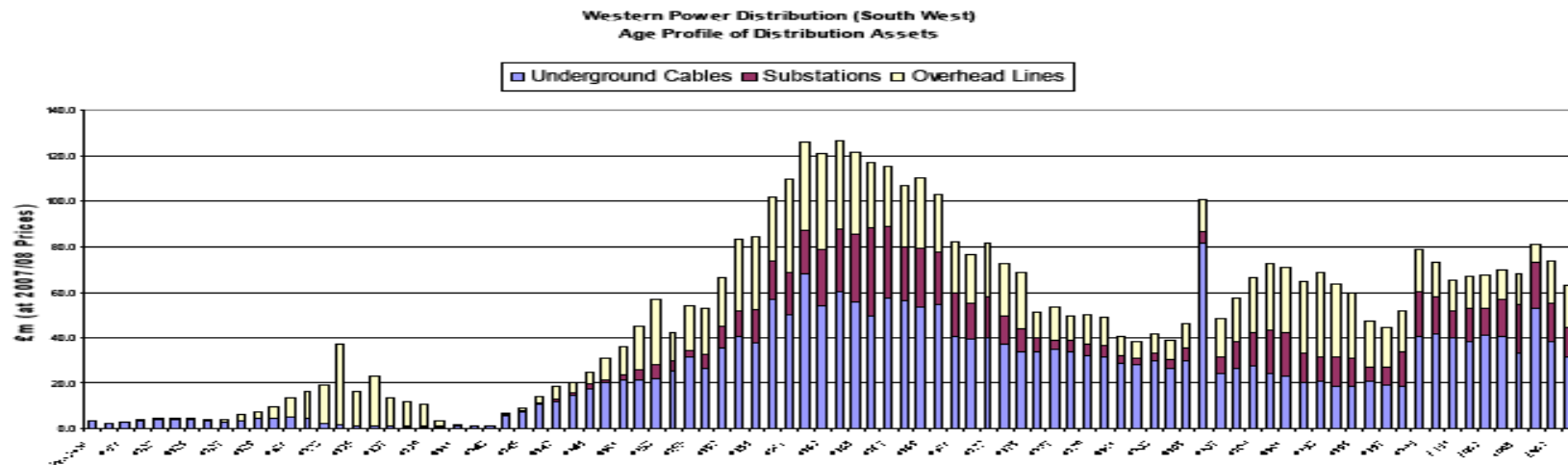
DPCR5 TOTAL ALLOWED NETWORK INVESTMENT

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
Total	248.8	339.1	154.4	224.2

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 14th 2009
- Allowed revenue is that shown in the Ofgem DPCR5 financial model issued on 7th 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		£ change	% change
	09/10	10/11		
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		£ change	% change
	09/10	10/11		
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

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
- If you would like further discussions with us, please contact

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