

Protecting consumers, promoting value and safeguarding the future



Longer Term Planning

Jonathan Hodgkin
29 November 2007



Longer Term Planning

- Strategic direction statements
- Cost benefit analysis
- Business plans that companies own
- Menu regulation
- Planned overlap



Strategic Direction Statements

- SDS is the company's chance to set out its strategy and direction for the next 25 years
- Sets the context for the five year business plan
- Allows companies to explain investment now that delivers benefits after five years



Cost Benefit Analysis

- Companies to apply CBA to all investment at PR09
- Integral to delivering long term approach
- Helps ensure companies deliver best value for consumers
- Best practice
- Better Regulation Principles



Business Plans Companies Own

- Companies will submit a draft business plan which:
 - Fits with its strategic direction statement
 - Delivers statutory requirements
 - Is in line with consumer priorities

AND

 - Is cost beneficial at the overall and component level
- Companies must own total plan



Business Plans Companies Own

- If optimal plan not feasible companies must identify options to maximise benefits relative to costs:
 - Contribution to outcomes in an innovative way
 - Change scope of certain projects
 - Re-phasing delivery



Menu Regulation

- Companies have an incentive to “pad” their business plans
- Menu allows companies to choose expenditure allowance, subject to incentives
- Designed to encourage realistic and robust plans
- Choice + realistic = greater ownership



Planned Overlap

- Not feasible for all projects to complete within the 5 year price review window
- Planned overlap for enhancement projects ending in AMP6
 - More than 25% of capex in AMP5
 - Individual projects, measurable outputs, specified dates, phased programme delivering evenflow
 - Up to 20% of AMP5 enhancement expenditure
- AMP6 component ring-fenced



Making the difference

- Better business plans
- Better investment decisions
- Lower costs
- Greater value for consumers

