

Pants On Fire, episode 12

by Franck Latrémolière on Thursday 25 June 2015

1. Ofgem's decision on DCP 206 includes the two sentences quoted in exhibit 1.

Exhibit 1 Ofgem claims about the grounds of the DCP 206 change proposal

The grounds for the change proposal relate to the tension that exists between the backward-looking actual cost concept that lies behind DNOs' allowed revenues and the forward-looking cost concept that lies behind economic costs and the structure of tariffs that deliver those allowed revenues. These two concepts are not in conflict because they address separate economic objectives.

2. Ofgem's claim in the first sentence quoted in exhibit 1 does not reflect the change proposal or in the change report. This looks like pure invention by Ofgem.
3. Ofgem's claim also does not make sense:
 - (a) It is untrue to say that there is a "backward-looking actual cost concept that lies behind DNOs' allowed revenues". Under Ofgem's system of price control, a significant driver of allowed revenues seems to be forward-looking business plans extending to 2023. (If that were not the case, then Ofgem has caused a lot of industry time, effort and money to be wasted on these business plans.)
 - (b) Talking about "the forward-looking cost concept that lies behind economic costs" is a sign of economic illiteracy. Economic costs cannot be just forward looking, otherwise there would be no economic value in assets requiring no significant future costs — such as land or radio spectrum rights. Also, a measure of economic cost has to take account of the cost of bringing a service or asset into existence in the first place as well as the costs of maintaining or expanding it, otherwise the business of investing in the service or assets would be unviable, and the service or asset would not exist.
4. Ofgem misrepresents the proposal that was put to it, and purports to replace it with patent nonsense for the purpose of its decision.

A reminder from episodes 1 and 4

5. The phrase "straw man" is sometimes used to refer to the logical fallacy which consists in falsely describing one's opponent's position as something different and less robust to what it is (the man of straw), and then attacking the fictional position.
6. It is a cowardly way of putting up a pretence of argument in circumstances where you are either wrong or not equipped with the skills to address the argument actually made. It is also an accurate description of the Ofgem conduct outlined in this episode.