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Timothy Wood,
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Our ref

Your ref

Date

25 June 2021

Dear Timothy

Statutory consultation on proposed changes to the Special Conditions (also known as the Charge Restriction Conditions 'CRC') of the electricity distribution licence

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc in relation to the above consultation.

We have wish to make representations as follows.

- Appendix 1 table not complete:** We would expect to have the opportunity to check that the values in Appendix 1 match the schemes approved in the ED1 Decision Document published on 24 May 2021. This gives the Value for the TGRS term described as the "cap" i.e. the total value of the Agreed Schemes for each DNO. We understand that as per part C of the Condition the Authority may direct an increase in the values of total cap to accommodate additional Agreed Schemes under Part C of the Condition.
- Appendix 2 table not complete:** We would expect to have the opportunity check that the values to be populated in Appendix 2 are correct, as part of this Statutory Consultation. We note that Appendix 2 relates to the licensee specific Totex, rather than DNO Group Totex, which was the position previously discussed with Ofgem. Setting the cap at a ownership group level means that WPD may be overspent in one or more licence areas, even though overall as a Group we are forecasting an underspend. The current drafting as proposed does not facilitate this.

Appendix 2 sets out the threshold values for the Overall Expenditure Condition which is defined as "the requirement that Totex expenditure over the Price Control Period exceeds the value specified in Appendix 2".

The Note in Appendix 2 needs to be clarified. We propose the addition of the following wording in red:

[Note: this value would be set at the higher of:

- the Totex forecast **for the Price Control Period** contained in the 2019/20 Regulatory Reporting Pack for the licensee; and
- Totex allowances **for the Price Control Period** as set in ED1 Price Control Financial Model at the Annual Iteration Process that took place in 2020.]

3. **Clarification on treatment of expenditure continuing in RIIO-ED2:** Ofgem's covering letter states: *This covered the Green Recovery Scheme for the electricity distribution networks, aimed at accelerating low regrets, shovel ready network investment under the remainder of the RIIO-ED1 price control period to 31 March 2023.*

Page 75 of the amended handbook states - *Allowed expenditure on Green Recovery Scheme Project Costs in 2021/22 and 2022/23 will be taken into account in the RIIO-ED2 price control arrangements for the licensee in a way that is consistent with the provisions for the calculation of GRS values in the licence and this handbook in the form they are in as at 31 March 2023. For the avoidance of doubt these arrangements will include Time Value of Money Adjustments and take into account the provisions relating to the licensee's Green Recovery Scheme's allowed expenditure for the Price Control Period.*

We understood from discussions with Ofgem that some Green Recovery expenditure could extend beyond March 2023, and this appears to be reflected in the definition of 'Agreed Schemes' which states 'schemes approved for inclusion....for which expenditure in the Price Control Period and the Next Price Control Period is accommodated under the total cap (TGRS)...'. On this basis we highlighted that a number of schemes were unlikely to complete until after April 2023, in particular three significant schemes that are likely to extend into 2024 due to issues with land consents. Ofgem has approved all of these schemes.

In order to undertake this expenditure as investment under ED1, there will need to be a legacy provision for allowed expenditure on ED1 Green Recovery Projects via the totex mechanism. In addition, *Overall Expenditure Condition* is defined as "the requirement that Totex expenditure over the Price Control Period exceeds the value specified in Appendix 2". This does not assist in clarifying how any Green Recovery expenditure in ED2 is factored into the Overall Expenditure Condition. Currently, the calculations of the additional allowance use ED1 allowances and expenditure, but does not include the ED2 amounts anywhere. The definition of *Overall Expenditure Condition* should be redefined to include expenditure undertaken during ED2. Without such a mechanism we will be unable to undertake these projects.

4. 3N.8 does not make sense, and should be redrafted to align with the Financial Handbook. We would like clarification as to its meaning. The Financial Handbook contains the following explanation of 3N.8 "restating of information under the RIGs where the licensee reported expecting to meet the Overall Expenditure Condition and then did not or only did by virtue of expenditure on Agreed Schemes".
5. In relation to the drafting in the Financial Handbook, we propose that the specific location of data used in the calculations should be included in the Handbook, i.e. worksheet references and specific row headings. This would specify where to find the actual totex expenditure, and the totex allowance and forecast expenditure for the price control used in the determination of the Overall Expenditure Condition. For example, it is not currently clear whether the pre- or post-TIM

totex allowance should be used in the calculation. This would provide transparency behind the values included in Appendix 2.

6. Please confirm that the latest version of the CRC Conditions document is the version that is being updated and it is footnoted with the relevant publication date.

If you have any queries please contact me at pbranston@westernpower.co.uk.

Yours sincerely

A handwritten signature in black ink, appearing to read 'p branston', with a large, stylized loop at the end.

PAUL BRANSTON
Regulatory & Government Affairs Manager