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Patrick Cassels
Head of Electricity Access
Ofgem
10 South Colonnade
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London E14 4PU

Our ref

Your ref

Date

5 August 2021

Dear Patrick

Consultation on DNOs' request for directions to disapply the notice periods set out in the electricity distribution licence SLC 14.11 and in clause 19.1A of DCUSA Section 2A in regulatory years 2023/24 and 2024/25

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 support the joint DNO request made on 5 May 2021 by the Electricity Networks Association to dis-apply notice periods in regulatory years 2023/24 and 2024/25, and the ENA response to the above consultation. We wish to highlight to Ofgem our concerns that setting prices 15 months ahead across price control periods has significant risks of price volatility. Therefore in these years the 15 month notice requirement is unlikely to achieve its policy outcome of reducing price volatility.

We do not support the alternative options proposed by Ofgem.

Please see attached responses to the specific questions raised in the consultation.

If you wish to discuss further please contact Simon Yeo at syeo@westernpower.co.uk

Yours sincerely



PAUL BRANSTON
Regulatory & Government Affairs Manager

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Consultation on DNOs' request for directions to disapply the notice periods set out in the electricity distribution licence SLC 14.11 and in clause 19.1A of DCUSA Section 2A in regulatory years 2023/24 and 2024/25

1. Do you agree with our initial views on whether to issue directions that the relevant DCUSA and licence conditions do not apply? Please provide evidence to support your views, including on whether any or some directions should be issued and the benefits and risks with each option. If we do issue a direction (or directions):

i. Should these apply for 2023/24 and 2024/25, or just 2023/24?

The direction should apply to both years for the reasons set out in the ENA letter "DNO DUoS Price Setting for the start of RIIO-ED2. This will provide certainty to suppliers and users of the DUoS prices for both years with prices based on Final determinations. This seems the logical approach, as to do otherwise would mean the first two years of the 5 year price control period would be based on non-final allowed income figures potentially resulting in large K factors for the next two years of the price control period.

ii. Should it be a direction only disapplying DCUSA Section 2A clause 19.1B or also electricity distribution licence SLC 14.11?

It should apply to both

iii. If both, what should the notice period be and why?

For April 23 prices it should be 40 days' notice i.e. 31/1/23. For April 24 prices, a notice period of at least 3 months' notice i.e. by no later than 31/12/23 60 days' notice; although prices could be set much earlier in 2023.

This is all subject to final determinations being issued by Ofgem by December 2022.

2. Can you provide any specific evidence about the impact of varying notice periods on contractual arrangements and budgeting?

No comment as this is a supplier issue.

3. Do you agree with our initial views on the potential for a letter of comfort being sufficient to mitigate the main risk for DNOs? If no, please provide evidence of what the remaining risks are with this option?

The letter of comfort is helpful in mitigating penalty interest charges around high K factors resulting from allowed income changes. However, the main risk is to our customers in terms of significant price volatility in the first 4 years of ED2. This is the primary purpose of our request to change notice periods

4. Do you think the benefit of advanced notice of charges outweighs the risk of significant under/over-recovery over multiple years? Please provide evidence to support your preference.

We think the benefit of advanced notice of charges in this case is considerably reduced by the under/over recovery risks. Although the initial years prices would be known with certainty the later years are then very uncertain – so it is merely transferring risk further out. It could lead to quite strange sets of prices being set year on year which wouldn't be helpful for the end customer experience.

5. Do you agree with our views on the option to use the code modification process to address the timing issues between price controls? If not, can you provide any evidence regarding the benefit of applying a code change?

Yes we agree. Our strong preference is for Ofgem to provide direction in a timely manner which provides certainty for all parties concerned.

6. Do you have any further evidence or information that you think is relevant and can help inform our decision?

Current indications are that to accommodate changes to the connection boundary as outlined in the Access SCR minded to decision, quick win solutions to the DuoS methods/modelling may be required. To consider these changes DNOs would need to know by approximately September 2021 to include any changes in the April 23 prices if they are to be set with a 15 month notice period. This is not possible in the time available as such changes would need to be directed by Ofgem, go through the DCUSA change process and then for CDCM/EDCM models to be updated.