

ELECTRICITY DISTRIBUTION REBATES TO SUPPLIERS: CONSULTATION JULY 2003

Response by SP Transmission & Distribution

1. Introduction

- 1.1 SP Transmission & Distribution acknowledges that some DNOs may be making more frequent use of the rebate option than others are. However, it is important to note that only half the DNOs (A-G) have used rebates in the time period indicated. Rather than removing the option of rebates it may be more appropriate for Ofgem to challenge those that do use the rebate system on a frequent basis. However, a rebate, used sensibly, is an efficient mechanism to ensure DNOs do not over-recover and therefore meet their licence conditions.
- 1.2 It needs to be remembered that projections of allowed revenue can fluctuate significantly within the year, due to weather conditions or movements in the voltage mix of units distributed. Even if the five-month rule for notifying indicative charges is removed, it is important that DNOs retain flexibility in managing their price control position to maintain compliance with their obligations. The rebate option can also assist in reducing volatility in UOS prices.

2. Cost reflective circumstances

- 2.1 SP Transmission & Distribution understands Ofgem's concern that in some cases customers may not pay retail prices that reflect the true cost on the distribution system as there is no requirement for suppliers to pass on rebates to their customers. Rebates when in proportion to Use of System payments ensure charges are cost reflective. Rebates help to protect against fluctuating charges. Therefore if used in the appropriate circumstances rebates may provide greater charging stability. This may become more apparent if the kWh driver in the price control is removed.
- 2.2 The final conclusions to the Structure of Electricity Distribution Charges have yet to be published and it would be prudent to retain the rebate system until the full impact of any changes, agreed as part of the Structure of Electricity Charges consultation, have been assessed. Changes to the structure of charges may result in increased volatility and will possibly increase the need for more frequent price revisions and possibly rebates.

3. Competition in supply

- 3.1 SP Transmission & Distribution believes that allocating and paying rebates to Suppliers in proportion to their charges does not distort competition. Whilst from the evidence presented in the July consultation document it can be seen that some DNOs are making more use of rebates than others, it appears that suppliers are not passing these benefits back to their customers. In a fully competitive market one would expect movements in costs to be passed on to customers whether or not these were one-off or represented alterations in the level of charges. There may be other reasons, such as administrative or transactional costs, why this will not always happen, but one would not expect such considerations to apply only to rebates.

4. Minor tariff adjustments

- 4.1 We support the suggestion made by Ofgem in paragraph 5.12. The Standard Condition 4 requirement for a distribution company to provide five months notice for minor mid-year adjustments to charges is an onerous one and we agree that this period should be reduced. SP Transmission & Distribution believes it would be more appropriate for a reduction in the notice required for issuing price changes to 40 days for minor tariff amendments, which is consistent with the current 40 days obligation in Use of System Agreements.
- 4.2 In addition to a reduction in the notice period, these minor mid-year adjustments to charges should not be subject to Ofgem approval. We consider that Ofgem has sufficiently robust mechanisms to ensure that the charges and revenue are aligned with the Distribution Price Control. This change would minimise workload, satisfying Objective five.
- 4.3 Changing to a 40 day period would lead to a more responsive mechanism with the benefit of quicker reaction to unanticipated changes and the ability to deal with fluctuations and mitigate potential disturbances.
- 4.4 A reduction of the notice period would be essential if the use of rebates were to be removed. However, a reduction of this type would also encourage the use of minor price changes, thus reducing the need for rebates. The frequency of rebates, therefore, would be lessened.

5. Over recovery interest penalties

- 5.1 As stated in paragraph 5.11, eliminating rebates does have the potential to increase cash flow risk to DNOs. Reducing interest rate penalties for over recovery would help to mitigate this risk. However, for the reasons argued above, the option for rebates should be retained, not least in the interests of stability of charges to suppliers. It is frequent or substantial rebates that should be investigated.