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Our ref  
494-31/07/03

Your ref

Date  
27 August 2003

Dear Mr Keane

### **Electricity distribution rebates to suppliers - Consultation Document**

I am writing further to the publication of the above consultation paper on behalf of Western Power Distribution (South West) plc and Western Power Distribution (South Wales) plc.

- *the merits and disadvantages of the initial thoughts set out above on policy; suggestions for other possible measures are welcome*

We believe that the transparent use of rebates is an appropriate method to adjust revenue within a regulatory year. The regulatory formula penalises distributors for over-recovery, whilst giving no cover for underrecovery within a year. A significant cause of changes in actual income results from changes in unit sales during the last three months of the regulatory year due to weather variations. This provides an incentive to over-recover and then provide a rebate. Additionally, the use of rebates can be used to smooth the transition when structural changes in DUoS tariffs are made and this has been used within WPD with Ofgems agreement in the past. We do not believe that it would be in the customers interests to preclude rebates, but these should be treated the same as a tariff level change requiring appropriate notice and the ability for Ofgem to scrutinise the reasons and justification for them.

- *whether there are any circumstances in which rebates could be considered cost-reflective*

Properly structured rebates are cost reflective to suppliers that are the counter party for DUoS charges. Whether the result is cost reflective to the supplier's customers is dependent on the suppliers actions on being made aware of/receiving a rebate.

- *whether rebates distort competition in supply*

We do not believe that the rebates WPD have made distort competition in supply as they have been applied on a non discriminatory basis, are transparent in calculation and predictable in outcome for all suppliers.

- *whether 60 days is an appropriate length time for DNOs to propose minor tariff adjustments, and*

We agree that a shorter time period than 5 months is appropriate for minor tariff adjustments as it would allow some adjustment to be made to revenues during a regulatory year. Whilst this would help, it would not solve the underlying problem.

- *whether it would be appropriate to reduce interest rate penalties on over-recovery.*

In ensuring that we have costs reflective tariffs, we have kept fixed charges to a minimum and this results in relatively large variations in income as a result of weather variations. Additionally, many of the other causes of over-recovery are outside the direct control of distributors and hence we agree that it is appropriate to reduce the interest rate penalties on over recovery.

I trust that our response is helpful. Please do not hesitate to contact me if you require any further information.

Yours sincerely

R G WESTLAKE  
Regulatory & Government Affairs Manager