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20th February 2004

Dear Gary

Electricity Distribution Rebates to Suppliers - Decision Document (December 2003)

This response represents the combined views of East Midlands Electricity and Aquila Networks.

We support the decisions made by Ofgem in relation to the Electricity Distribution Rebates to Suppliers. In particular, we are pleased with the decision to continue to allow the provision of rebates, albeit under closer scrutiny. This will allow DNOs to make adjustments for occurrences of a 'one-off' nature that will have a stabilising effect on use of system prices. We note that such one-off events may be outside the DNO's ability to either influence or forecast.

The probability of the need arising to make rebates may also be mitigated to some extent by reducing the required notice period for price changes. A move to three months notice would have the advantage of allowing 2 months additional data to be taken into account by DNOs when revising prices. However, we do have concerns about the proposed three months notice for two reasons. Firstly, for an April price change, tariff setting and communication to suppliers would coincide with the festive season, probably forcing either 'unsocial working' by all involved, or completion of the work well in advance of the deadline – effectively eroding the advantage of the reduced notice. Secondly, there will be very little time between the publication of indicative tariffs in (say) late December, and their confirmation in mid February. It seems to us that it might be better to do away with indicative tariffs altogether and move to a single announcement of final tariffs with (say) forty days, or two months notice.

We welcome the introduction of a 'deadband' of 2% for small under / over-recoveries, and the proposed reduction of the penal interest rate to 3% over base. We would expect that the application of penalty interest would be subject to Ofgem's discretion in cases where the drivers of over-recovery were outside the DNO's ability to forecast or correct – especially if a proposed rebate had been disallowed. With respect to the calculation of the deadband, we

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assume that the percentage will be based on the full amount collected by the price controlled tariffs (i.e. the allowed income plus NGC exit charges).

As you are aware, EME have aligned the structure of their distribution tariffs to the price control formula. This has significantly reduced the risk of over or under recovery, and has allowed EME to stay within the proposed deadband (before rebates). It would be regrettable if, as a result of the current review of the structure of charges, such alignment was no longer possible. In these circumstances it would be necessary to widen the deadband, and to expect greater volatility of prices.

We agree that it would not be appropriate to make modifications to Standard Licence Conditions at this time. With further modifications expected due to the Price Control Review and Structure of Charges review, it would be more appropriate to make the modifications at the same time.

I hope these few comments are helpful.

Yours sincerely

Andrew Neves
Tariff & Connection Pricing Manager