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Dear Gary,

**Electricity Distribution Rebates to Suppliers – Decision Document**

Thank you for the opportunity to comment on these proposals.

In summary, we regard your proposals as a reasonably balanced set of measures. However, we feel they will not address the primary concerns expressed by major energy users that relate in the main to the actions of suppliers. The only means of ascertaining whether end customers see benefit from reduced distribution charges (whether through rebates or any other means) is to investigate supplier's pricing policies directly.

Generally we believe this issue has not merited the resources that have been applied. A minority of DNOs have given rebates, the amounts involved are a very small percentage of overall DUoS revenues and the level of rebates has declined to zero in 2004. Selective investigation of those DNO's giving rebates regularly on annual basis would have been a more appropriate approach. Indeed before proceeding to implementation of these proposals Ofgem must consider whether further action impacting all DNO's is justified given the current position.

We will consider the appropriateness and detail of the licence amendments when Ofgem proposes them. In principle any changes related to procedure should be applied consistently across all DNO's and therefore should be done through amendments to the standard licence conditions rather than special conditions. If Ofgem proceeds with its proposals regarding rebates then such procedure should include the mechanism for obtaining consent.

The proposal to reduce the notice period for amending DUoS charges from five months to three months is welcomed. However, the challenge of accurately forecasting DUoS revenues going forward is increasing for a variety of reasons as we set out in our previous response. Given that adjusting charges is preferred to rebates it may be appropriate to allow a shorter notice period for tariff changes (e.g. 28 days) where there are exceptional events in a particular year that are outside the control of the DNO. The shorter the notice period the lower the scale of changes that will be necessary.

There were some specific points raised in the consultation document that we would like to comment on;

- Para. 2.5, United Utilities did in fact inform Suppliers by letter of the decision to issue a rebate. This included the methodology for determining the size and value of their rebate amount. We therefore did not consider it necessary to include details of the rebate in the DUoS Condition 4 statement. However, we would happily include a paragraph in the Condition 4 statement detailing the methodology used to calculate a rebate.
- Para. 2.7 states that a supplier's cash flow is effected when a rebate is given as a credit on the final DUoS bill received by the supplier after the implementation of the final rebate. This was not the case with the rebate issued by United Utilities. In the majority of cases we raised cheques and physically paid money back to the suppliers before the end of the regulatory year. Only in a very few cases, where the rebate was small and uneconomical to issue a cheque did United Utilities provide a credit to the suppliers account.
- Para. 2.8, we agree with the respondent who suggests that if a rebate is based on the number of customers registered when the rebate is given, rather than the average over the year, it favours new entrants rather than incumbent suppliers. United Utilities calculated the average count of customers registered over the year and then applied the rebate. This method gave the best representation of the number of customers registered over the year rather than a snapshot count.

I hope you find these comments helpful and if you wish to discuss any of the issues raised please do not hesitate to give me a ring.

Yours sincerely,

**Stephen Parker**

**Senior Regulatory Analyst**