

Appendix 1 – Network Cost Assessment

Question 1: Do you consider the volume drivers proposed for customer demand connections to be appropriate?

Yes, the proposed volume driver for high-volume low-cost (HVLC) connections is appropriate. Ofgem should seek to understand the wide range in gross unit cost and reward those who provide connections at an efficient level. The method for truing up at the end of the period should be clearly defined. For example changes in the net to gross ratio from that assumed when setting the price control will apply symmetrically.

Question 2: Do you consider the proposed reopener for low volume, high cost connections and general reinforcement appropriate? Is it set at the right level?

The forecast Ofgem baseline general reinforcement combined with the DUoS funded high-cost, low-volume investment for each DNO appears to be in the range of £20m through to £200m. Hence a simple 20% threshold for a reopener may lead to a reopener at a £4m threshold, which is not material. A threshold of 20 % subject to a minimum value of £10m would be better.

Question 3: Do you agree with the proposed mechanisms (reopeners/logging-up) for dealing with uncertain costs?

Gas distribution companies have a reopener mechanism, special condition E7. This has no limits on the timescale for application and requires a minimum of 6 months data. Ofgem's proposals for DPCR5 are unnecessarily restrictive.

It is not clear how Ofgem proposes the electricity reopener to work.

Ofgem appears to propose that DNOs have forecast costs in certain areas that it has been unable to assess adequately. Therefore if DNOs can put forward 12 months cost evidence by 31 March 2012, then Ofgem will allow cost recovery during DPCR5, otherwise costs must be logged up for recovery in DPCR6.

For DNOs who put forward 12 months costs data is Ofgem going to allow the DNO to forecast expenditure for the 2012/13-2014/15 and recover 4 years costs during DPCR5? Or is Ofgem only going to allow expenditure incurred up to 31 March 2012 to be recovered in DPCR5?

We agree that a materiality threshold of 1% of base revenue continues to be appropriate. This should continue to be a cumulative materiality threshold across the various reopeners.

In addition we would like to see a reopener for potential compensation payments to pre-2005 generators if they become liable for use of system charges and a taxation reopener similar to that in gas.

Question 4: Do you agree with our proposed methodology for setting flooding expenditure allowances for DPCR5?

The methodology results for WPD South Wales meet in full WPD's investment proposal. However, the outcome for WPD South West results in a reduction of 7% from £6.8m to £6.3m which we do not believe is justified when set against the extent of independent assessment already embodied within WPD's submission.

Some 80% of WPD's flood expenditure investment proposals have been directly obtained from site-specific flood risk assessment reports prepared by independent flood risk consultants (RPS Group), the remaining lower cost sites based on estimates which have been derived from the site-specific report costs.

As previously stated, costs per customer will vary site by site depending largely on depth of floodwater and, where that is above a threshold that permits asset only protection, the physical size of the site. Ofgem's methodology should recognise the important issue of flood depth, which is considered in WPD's proposals.

Appendix 2 - Network Investment Policy

Question 1: Do you consider our proposals for an application window to be appropriate?

We can see that a mid term reopener will smooth out price volatility and reduce the catch-up effect into DPCR6.

We do not understand the deadline of 31 March 2012. To recover costs over 2.5 years, DNOs would need to notify suppliers by 1 July for a price increase on 1 October. Ofgem would need to make a determination by mid June, which is less than the four months required by Ofgem and therefore not an achievable timescale. In which case there will only be a 2 year period in which to recover the additional costs. DNOs would need to give suppliers notice on 31 December for a price increase on 1 April.

A deadline of 30 June 2012 would be more realistic for DNOs to submit 6 or 12 months worth of data and still enable costs to be recovered from 1 April 2013.

Ofgem need to issue templates for a reopener application by 31 March 2012 to ensure that DNOs can provide data on a consistent basis.

Question 2: Do you consider our proposed approach for TMA costs to be appropriate?

It is appropriate for Ofgem to:

- Set an ex ante allowance for traffic management excluding permitting costs; and
- Consider additional costs arising from the introduction of permitting schemes as part of the re-opener during DPCR5 or at DPCR6.

Traffic management administration costs should not be analysed as part of the traffic management costs. These administration costs should be added back to the Engineering Management & Clerical Support indirect activity, and analysed as an integral part of Group 2 Indirects.

The scope of the re-opener for permitting schemes is too restrictive as it specifically excludes lane rental schemes. Central government has recently indicated their renewed interest in introducing lane rental schemes. Consequently, the scope of the traffic management re-opener should be extended to include lane rental schemes.

We consider that the wording of the gas special condition E7 reopener part C for TMA costs to be a good model for electricity, with the addition of lane rental costs.

Question 3: Do you consider our proposals for assessment of the load related reopener to be appropriate?

Yes the proposal is appropriate. This reopener covers general reinforcement and the DUoS funded element of shared assets for high-cost low-volume (HCLV) connections. With regard to HCLV connections, the assessment should recognise expenditure that takes place in advance of the connection actually being made. The more significant connections in this category may incur considerable expenditure over a 24 month period prior to the 'connection' to the system. We would support the smoothing of any adjustment, but believe this should be limited to no more than three years.