



**Electricity Distribution Price Control Review  
Initial Licence Drafting Consultation (128a/09)  
Response by SP Energy Networks**

**Introduction**

SP Energy Networks ('SP'), on behalf of SP Distribution and SP Manweb, welcomes the opportunity to comment on the draft licence conditions for DPCR5 issued on 5 November.

We note that that document omits a number of relevant licence conditions, in particular

- (i) The first 7 price control conditions, containing the general algebra and terms for price control;
- (ii) A number of appendices, for example those relating to exceptional events in the Quality of Service price control condition (CR3).

The DNO members of the Licence Development Working Group (LDWG), that has been working with Ofgem on the legal drafting of licences, have submitted a joint commentary on the licence conditions, which we broadly support. This response contains SP's additional views on the current drafting.

Particular comments on individual licence conditions appear below.

**CRC1 to 7**

We would like to see these draft conditions as soon as possible as these contain important definitions and the overall structure of the price control conditions. We also note that conditions CRC17 to 21 have not yet been published.

**Distribution Losses (CRC8)**

We note that this licence condition is incomplete at present. For example, there is not as yet a mechanism for the proposed 'cap and collar' arrangements.

The provision for a review of the allowed losses percentage in paragraph 8.11 (b) where there has been a change in the "quality of information" used to derive units distributed or units entering the licensee's system is broadly similar to that in the current licence. This is not intended to address revealed

variances between actual and allowed losses as such, but only to apply to cases where there has been a recognisable change, such as an error, in the information used in the losses calculation.

Our main concern centres on the lack of arrangements to address significant or sustained variances between reported and target losses other than the 'quality of information' procedure mentioned above or the cap and collar mechanism.

The stated intention of this condition is "... to adjust the calculation of the licensee's Allowed Demand Revenue ... in order to reflect the licensee's performance under the Distribution Losses Incentive Scheme". (draft CRC8, paragraph 8.2).

Given the variability of measured distribution losses, even after taking into account final (RF) settlement data, it seems clear to us that a mechanism for review should apply where a significant variance between actual and allowed losses occurs that cannot reasonably be attributed to the licensee's actions in managing losses. This should apply in addition to the cap and collar mechanism. A symmetrical review procedure should apply, with any change in the Allowed Losses Percentage to be subject to the Licensee's consent, not to be unreasonably withheld.

### **Quality of Service (CRC9)**

There is as yet no formula for the "qct" term in paragraph 9.19.

We note that the published draft conditions do not include Appendices 1 to 4 (covering the treatment of exceptional events). Based on the draft versions previously circulated to the LDWG, our comments are as follows.

- (i) Appendix 2 – A2.1(b) (Exceptional Requirement for severe weather events)

We note the provision for the end of a severe weather exceptional event to be linked to a number of HV incidents. We are concerned that this does not take into account LV incidents. Because the impact of faults restored outside this window would be disregarded, this approach could perversely influence a DNO to delay the restoration of HV incidents until LV incidents had been fixed.

In practice a DNO will normally fix HV incidents first. The tail of an exceptional event is determined by how quickly LV incidents are tackled. We therefore believe that linking the end of the event to restoration of LV incidents that were associated with the severe weather event would be more appropriate. In paragraph A2.1 (b) (referring to the end of the exceptional weather event) there should accordingly be an explicit reference to restoration of the last customer off supply due to an LV incident linked to the underlying cause of the severe weather event.

- (ii) Appendix 3 - A3.1(a)(ii) (Exceptionality requirement for other events)

We note the requirement for the internal cause “... *not to be attributable to any culpable error of the licensee in relation to the installation, operation or maintenance of a Distribution System asset.* “ This could allow a DNO to be denied the protection of this provision on the grounds that with the benefit of hindsight, there were actions (over and above good industry practice) that could have been taken and might have prevented the event concerned from occurring. In order to avoid the possibility of such an interpretation, we would prefer if the above clause was reworded to refer to “...*an internal cause that could not reasonably have been foreseen or avoided by the licensee.*”

- (iii) Appendix 4 - A4.1(a) (Criteria for preventative and mitigating actions)

As with point (ii) above, we believe that the references to the licensee’s actions or lack of actions should be qualified to avoid a situation where a DNO’s claim is dismissed due to actions that are identified only with the benefit of hindsight. We would therefore suggest that instead of the test that “*a licensee’s actions (or lack of actions) were not contributory factors to the occurrence of the event*”, this should read “... *the licensee had taken all reasonably practicable steps to ensure its actions (or lack of actions) were not contributory factors to the occurrence of the event.* “ Sub-paragraph A4,1 (b) should be edited along similar lines.

### **CRC 12 (Distributed Generation)**

There are no figures as yet for the GLt term (allowed revenue for DPCR4 connected generation).

### **CRC13 (Connection Activities, Margins and Competition)**

We believe that the definitions used for Relevant Market Segments should be consistent with those used for Guaranteed Standards and financial reporting in order to avoid DNOs being required to report against two or more different, but overlapping sets of market definitions.

### **CRC16 (Excluded Services)**

Paragraph 16.6, last line, refers to paragraph 19.7 (should be 16.7).