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Dear Hannah,

Consultation on our minded-to position for the determination of re-opener applications in respect of additional income associated with Rising and Lateral Mains under the fifth electricity distribution price control review (DPCR5)

Thank you for the opportunity to respond to this consultation. This is a non-confidential response on behalf of the Centrica Group excluding Centrica Storage.

- This consultation is insufficient notice for a potentially material change to allowed revenues in 2013/14. Scottish Power Distribution (SPD) failed to provide the industry with any notice prior to this.
- Given these failures, we do not believe it is appropriate to adjust allowed revenue before 2014/15.
- The proposal to allow the full recovery of additional revenue within DPCR5 is inconsistent with the policy contained in DPCR5 Final Proposals.
- DPCR5 Final Proposals require additional allowances to be split between 'fast' and 'slow' cash, and 'fast' cash should be spread over 3 years.
- Additionally, we believe Ofgem should perform a more robust cost assessment.

In Ofgem's recent decision document in relation to measures to mitigate network charging volatility arising from the price control settlement, Ofgem stated that they will continue to seek stakeholders' views in relation to potential material adjustments to NWOs' allowed revenues from additional funding decisions, e.g. as a result of re-opener mechanisms and within period determinations.

This consultation could be viewed as consistent with that statement, however given that the industry had not been informed that an application for additional revenue had been submitted by SPD, we do not believe that this short consultation on a minded-to decision satisfactorily addresses the volatility associated with price control re-openers if it changes allowed revenues in 2013/14.

We are also disappointed that SPD has not provided the industry with notice of their application and its potential effect on allowed revenues. Whilst Ofgem rejected DCUSA Change Proposal 106 (Visibility to DCUSA Parties Regarding Applications to the Authority by DNOs to Change Allowed Revenue), they stated in their decision letter that DNOs should make reasonable endeavours to provide accurate cost information and forecasts as set out in Tables 1 and 2 in Schedule 15 (of DCUSA) and that any extraordinary request should be included under the “significant others” item.

SPD has provided no indication of this potential change to allowed revenues in any of its quarterly Schedule 15 cost forecasts. Even in its most recent forecast SPD have not included a forecast for this application in the Price Control Re-opener line of Table 1 for the SPD regions for both 2013/14 and 2014/15. The values they include in this line are explicitly stated to reflect the tax trigger adjustment. The extent of this poor level of stakeholder engagement is highlighted by the fact the most recent DCUSA forecast was published a day *after* this minded-to consultation.

Ofgem are proposing to allow all of the additional revenue to be recovered within DPCR5. This is inconsistent with DPCR5 Final Proposals. Paragraph 2.23 of the Financial Methodologies document states: “*The only expenditure category which is subject to our uncertainty mechanisms and is funded solely as "fast" money is traffic management permitting costs (excluding administration) - any re-opener for these costs will result in a "fast" money adjustment only. The remainder of the expenditure covered by our mechanisms is subject to the equalised incentive meaning that any adjustment will be made to both "fast" and "slow" money as described above.*”

We therefore expect that any additional revenue adjustments resulting from this re-opener application will only reflect amounts determined after application of the “fast” and “slow” money mechanisms. We expect this will mean that the majority of the additional funding will be recovered as slow money well beyond the end of DPCR5.

Additionally in paragraph 2.22 of the same document, Ofgem state: “*When making any changes to allowed revenues we will look to smooth out any fast money adjustments (subject to any financeability constraints) to reduce the volatility of charges - this might for example result in the fast money adjustments being spread over three years.*”

Given these policy intentions included in DPCR5 Final Proposals, along with Ofgem’s recent decision on measures to address volatility, we do not understand why Ofgem have proposed to allow SPD to recover the full additional revenue within the DPCR5 period. We believe that no revenue adjustment should begin until 2014/15, and that the adjustment from that date should only reflect the appropriate amount after application of the fast and slow money mechanisms.

We are also concerned with the leniency of the proposed assessment of SPD’s efficient costs. Ofgem have proposed a method which uses SPD’s average unit costs. Whilst we understand the difficulty associated with benchmarking when other DNOs have little costs in this area, the fact that Ofgem’s proposed benchmarking approach produces higher total costs than submitted by SPD (Table A5) suggests that it is at best lenient, if not flawed. Whilst Ofgem subsequently propose to use the lower of the two approaches (Ofgem’s vs SPD’s) we would suggest that Ofgem should first of all review their own method to ensure that it properly reflects a realistic view of efficient costs. Then it would be appropriate to use the lower of the two approaches for each SPD region.

In relation to the issue of ownership and responsibility for the inspection, repair and maintenance of RLM, Ofgem state that this is an area that requires further consideration in the remainder of DPCR5 and that it will be necessary to reach a firm landing on prior to RIIO ED1. If this issue does indeed remain open, we do not think it is appropriate to fully fund SPD for the costs of RLM on the basis that the issue has been closed. Such an approach is unlikely to result in SPD seeking to recover any appropriate RLM costs from the owners of the assets. It would seem to us to be more appropriate for Ofgem to continue to assume a proportion of RLM costs will be recovered from customers until such time as the issue reaches a final conclusion.

In summary, we believe that a more robust cost assessment is appropriate for SPD's re-opener application, and that any revenue adjustment should not begin until 2014/15 given the poor level of advance notice from Ofgem and SPD. Furthermore, the level of revenue adjustment should be calculated in accordance with the policies stated in DPCR5 Final Proposals and be subject the fast and slow money mechanisms.

I trust these few comments are helpful, if you have any questions regarding any of the points raised in this response please do not hesitate to get in touch.

Kind regards,

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[via e-mail]