

**Legal & Regulatory**

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26th November 2012

Dear Hannah,

**Consultation on our minded-to position for the determination of a re-opener application in respect of additional income associated with the Traffic Management Act (and Transport for Scotland Act) under the fifth electricity distribution price control review (DPCR5), document 144/12**

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.

We do not consider that there has been an appropriate level of transparency and consultation in respect of this particular revenue adjustment if it is to be applied to 2013/14 revenues.

- This consultation is insufficient notice for a potentially material change to allowed revenues in 2013/14. UK Power Networks (UKPN) 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.
- Additionally, we believe Ofgem should perform a more robust benchmarking assessment using upper quartile unit costs.

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 UKPN, 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 UKPN 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.

UKPN 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 UKPN have not included any forecast revenue in the Price Control Re-opener line of Table 1 for the LPN region for both 2013/14 and 2014/15 and explicitly stated in their assumptions that there are “*No issues agreed or nearing agreement at this time*”. 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.

We are also concerned with the leniency of the proposed assessment of LPN’s efficient costs. Ofgem have either accepted UKPN’s own unit cost information (for permits costs) or used industry average unit costs (for incremental admin and permitting condition costs). We consider it appropriate to perform a more robust benchmarking assessment using upper quartile unit costs for at least some of these categories, particularly those for incremental admin and permitting condition costs.

We note that upper quartile benchmarking may well take the LPN costs below the materiality threshold required to trigger this price control re-opener (1% of 2010/11 base revenue after application of the IQI incentive rate). We would request Ofgem present analysis of the materiality test for LPN in its final decision document.

In summary, we believe that a more robust benchmarking assessment using upper quartile unit costs is appropriate for LPN’s re-opener application. Provided this efficient level of cost still passes the materiality test then any revenue adjustment should not begin until 2014/15 given the poor level of advance notice from Ofgem and UKPN.

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,

Andy Manning  
Head of Network Regulation, Forecasting and Settlements  
British Gas  
[via e-mail]