

Sara McGonigle
Senior Manager Electricity Distribution Costs and Outputs
Distribution
Ofgem
3rd Floor
Cornerstone
107 West Regent Street
Glasgow G2 2BA

Haven Power Limited
The Havens
Ransomes Europark
Ipswich
Suffolk
IP3 9SJ

email sara.mcgonigle@ofgem.gov.uk

26 November 2012

Dear Ms McGonigle

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)

and

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)

We are writing in connection with the two consultations above relating to revenue re-opener mechanisms under DPCR5. Whilst we note that the DPCR5 framework enables a DNO's allowed revenue to be revisited as a result these costs, we were surprised that this has not been raised sooner by DNOs – i.e. at the end of year 1 when they will have had visibility of the likely level of cost.

Your two consultations only cover 3 distribution areas and not for both re-openers. Although you note there is little indication by other DNOs of costs associated with these activities, there is nothing to stop more bringing forward requests for additional revenue. Simple scaling could lead to ~£126m in relation to Traffic Management Act costs and ~£300m from Rising and Lateral Mains work of additional revenue across all DNOs.

The impact on customers and DNO activity must be taken into account when agreeing the costs. Although you have reduced the amounts requested, there is little evidence that the DNOs have acted to minimise costs in the best interests of electricity customers and no information to benchmark performance. Furthermore, Rising and Lateral Mains costs appear to relate primarily to domestic premises and keeping with cost reflectivity, we would expect that only tariffs for this sector be increased.

Had DNOs exercised these re-openers earlier in the price control, there would have been more time for revenue recovery. As these additional costs have been raised more than half way through, recovery will be loaded to the latter part DPCR5, further increasing costs at a time when substantial increases are already signalled for distribution use of system charging.

In our opinion, it would be preferable to smooth the recovery over 5 years (the price control period) even if this means that some revenue is not recovered until the next price control. It also appears to us that re-openers are isolated and "one-way", allowing DNOs to recover costs incurred. Any re-openers should be considered in the context of the DNOs overall position and take account of additional benefits realised elsewhere.

We would not expect to see re-opener mechanisms for these costs under RII0-ED1. There is now sufficient information available to DNOs to allow them to include these as part of their business plans prior to submission.

Yours sincerely

Sent via email

Antony Badger

Head of Supplier Management

Email antony.badger@havenpower.com

Direct Dial 01473 707182