

Dora Guzeleva
Head of Networks Policy
Local Grids
Ofgem
9 Millbank
London
SW1P 3GE

14 December 2012

Dear Dora

Document B: Consultation on the Methodology for Closing out the DPCR4 Losses Incentive Mechanism

Document G: Consultation on the Restatement of 2009/10 Data and Closing out the DPCR4 Losses Incentive Mechanism (question 8 only)

Thank you for the opportunity to respond to the above consultations. This response should be regarded as a consolidated response on behalf of UK Power Networks' four distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc, South Eastern Power Networks plc, and UK Power Networks (IDNO) Ltd. For convenience, the four licensees are collectively referred to as "UK Power Networks" throughout. Please note that our response is not confidential and can be published via the Ofgem website.

The appendix to this letter sets out our response to all of the questions in document B and to question 8 in document G. We will provide answers to the remaining questions in document G by the second deadline (14 January).

If you have any questions regarding this response, please contact me in the first instance.

Yours sincerely



Keith Hutton
Head of Regulation
UK Power Networks

Copy: Paul Measday, Regulatory Returns & Compliance Manager, UK Power Networks
Jonathan Purdy, Income Incentives Manager, UK Power Networks

Appendix: UK Power Networks' response to the questions set out in the consultations

Document B: Consultation on the Methodology for Closing out the DPCR4 Losses Incentive Mechanism

Chapter One

Question 1: *Do you agree that our draft retained text, including the indicated removal of text, results in a methodology which correctly implements our decision not to activate the DPCR5 losses incentive mechanism and which correctly calculates the PPL term?*

We have a small number of minor observations on the drafting.

- Electricity Distribution Price Control Review Final Proposals – Incentives and Obligations – 145/09
 - We agree with Ofgem that the text in paragraphs 7.3 to 7.9 needs to stay, despite the references to a “DPCR5 target”, because this section discusses the development of the LRRM and in particular, refers back to the intentions of the DPCR4 Final Proposals. However, this text could mislead the reader into thinking that there was a similar DPCR5 losses incentive, with targets in place. A suitably worded clarifying statement would address this issue.
 - For clarity, we would suggest that the first seven words of paragraph 7.19 (“As with the calculation of DPCR5 targets”) are removed, as this reference to a DPCR5 target is erroneous.
- Electricity Distribution Price Control Review Final Proposals – 144/09
 - Ofgem proposes to delete paragraph 2.15 in its entirety, but it is our view that the second and third sentences should be retained, i.e.:

“We would like DNOs to take seriously the role they can play in improving industry data, including that used for settlement. We would like to see them work with suppliers and other parties to achieve improved industry data and to develop better arrangements to help detect and reduce levels of theft.”

We believe that this statement is still relevant and is particularly pertinent in light of Ofgem’s strategy on theft outlined in their RIIO-ED1 strategy consultation.

Question 2: *Do you have views on whether any effects, other than the intended correction for the discontinued losses incentive mechanism in the PPL term, would result from the indicated removal of text and the draft retained text?*

Subject to the observations above, we do not believe that there are any other effects.

Document G: Consultation on Restatement of 2009/10 Data and Closing out the DPCR4 Losses Incentive Mechanism

Question 8: *Do you agree that, in light of the timing of this consultation, the PPL term can be recovered over 2014/15 and 2015/16?*

Yes. UK Power Networks agrees that this consultation provides sufficient notice of the expected values of the PPL term in advance of setting forecasts for 2014/15 such that it can be recovered by 2015/16. The final values included within the licence will need to cover off the 'estimated values' included by DNOs in their 2012/13 and 2013/14 pricing assumptions and should be set as individual profiles by DNO to minimise any unnecessary volatility for customers. Because of this PPL is effectively recovered over up to four years albeit on an uneven basis.

Additionally, when we looked at the latest DCUSA "DNO Cost Information" we also noted that none of the proposed PPL values for the DNOs will exceed 4% of allowed DUoS revenue over those two years, meaning that recovery within the window will not create significant price disturbance for customers (less than 1% of an average domestic customer's bill).