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**Consultation on the timing of a decision on electricity distribution networks' revenue for 2015-16**

Dear Anna

Thank you for the opportunity to respond to the above consultation. This response should be regarded as a consolidated response on behalf of UK Power Networks' three distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc and South Eastern Power Networks plc. The comments we have provided are not confidential and can be published via the Ofgem website.

Following extensive engagement with the supply companies, as part of the preparation of the UK Power Networks RIIO-ED1 business plan, we support the publication of the base revenue allowance for 2015/16 ahead of the routine timetable.

We believe that advance notice of charges will lower the risk that suppliers face, especially at the start of a price control period. This increased notice should translate into lower charges to end customers as energy suppliers will have more certainty of the level of DUoS to apply to their tariffs and will not need to apply a risk premium for this aspect of their costs.

UK Power Networks' RIIO-ED1 business plan consultation process also identified that suppliers were concerned about the high level of annual variability of individual DUoS tariff rates. For most suppliers this appeared to be their main concern as the variability of the overall DUoS revenue was seen as smaller and more predictable. We note that Ofgem's proposal does not address the level of variability of individual DUoS rates and we would ask Ofgem to also consider imposing an annual cap on the variability of individual DUoS tariff rates.

Our answers to your questions are provided in the appendix to this letter. I hope that you will find our comments helpful, however if you have any questions, please contact me in the first instance.

Yours sincerely



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## Appendix

1. **Please provide any relevant information to improve our analysis of the benefit of each option including (if available):**
  - (i) **information on the risk premium included in contracts offered to consumers; and**
  - (ii) **the expected reduction in the risk premium an additional 4 months (option (b)) and an additional 11 months (option (c)) would provide.**

**Please specify if you wish any data provided to remain confidential.**

This is a question that only suppliers can directly answer.

2. **Do you have any views on the potential costs we have identified? Do you consider there to be other costs we have not identified?**

We agree that the relevant costs have been evaluated and have not identified any further costs to be considered.

3. **What is your preferred treatment of deferred revenue? Please explain your reasoning.**

We prefer option 3 (deferred revenue to be recovered in 2016/17 unless it breaches a specified threshold, in which case the remainder would be spread over future years) as it is the only option that offers the benefits of both early adjustment of any deferred revenue together with a safeguard mechanism in the form of the threshold to control the materiality of any adjustment in 2016/17.

4. **If you prefer option 3 for deferring revenue, what do you consider an appropriate threshold? Please explain your reasoning.**

We believe that thresholds should be set taking into account a DNO's over/under recovery position. Our preferred option would be to use the +/-6% bandwidth proposed for the interest rate correction factor under RIIO-ED1 as a cap and ceiling.

5. **Do you have any views on our initial assessment of each option?**

We agree with Ofgem's assessment for all three options.

6. **Which option do you consider will drive the greatest benefit to consumers? Please support this view with analysis of the costs and benefits.**

We believe that option (c) has overall the greatest benefit to consumers as it provides clarity on the base revenue allowance for the 2015/16 charging year earlier than would normally be expected. It is our view that the reduction in the net risk premium paid for by consumers is lowest under option (c).

7. **Do you have any views on the relative complexity of option (b) and (c)?**

We do not believe that either option is overly complex. Linking thresholds with over/under recovery bandwidths could be an effective way of minimising complexity.