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Our ref

Your ref

Date

-

7 February 2014

Dear Tom

RIIO-ED1: Informal consultations on licence drafting – Standard Licence Conditions and Charge Restriction Conditions (Part 1)

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc in response to the above consultations published on 10th January 2014.

Question 1: Do you have any views on the proposed changes to the SLCs?

Question 2: Do you have any views on the proposed changes to the CRCs?

Question 3: Do you have any views on the reasons and effects for the licence changes?

WPD has worked closely with Ofgem to develop these licence modifications as part of the ENA Licence Drafting Working Group (LDWG).

The ENA LDWG has submitted detailed drafting comments, including minor formula errors, together with an updated issues log. The ENA response also highlights a number of outstanding concerns. In particular WPD agrees that further drafting of SLC49 (Losses Obligation), CRC 3G&5G (Load Related Expenditure) and SLC51 & CRC 5D (Network Asset Indices) is needed to ensure that Ofgem's policy intent is clear. SLC13C policy is also still under development and needs to be finalised prior to Statutory Consultation.

Appendix 1 - WPD values in CRC Appendices

We have identified a number of errors in deriving the WPD values contained within the various appendices. A log of these errors is attached at Appendix 1. We will need to agree final values for WPD with Ofgem prior to Statutory Consultation, and for Ofgem to share the underlying calculations with LDWG members. For the avoidance of doubt the ENA LDWG response does not address the WPD values in the Appendices.

Appendix 2 - Issues Log

A log of issues from WPD is attached at Appendix 2 where these would impact WPD if it is fast-tracked. Please could Ofgem respond on these issues.

Pensions Deficit Adjustment

In our response to Ofgem's Fast-track determination dated 22 January 2014, we highlighted that "The [PU] value for 2015/16 (in 2012/13 prices) will be fixed, but values for the following years will be subject to change as explained in the Draft Determination sections 1.20 to 1.23. This includes any changes arising from the 2013 pension valuation and the 2014 Pensions Reasonableness Review."

Our understanding is that, if we are fast tracked, our ED1 Opening Base Revenues will be set in the Fast Track Final Determinations, due out later this month. According to the conclusions of Ofgem's Timing of Revenues Consultation in December 2013, for Fast Tracked companies, the 2015/16 values in February's Fast Track Final Determinations will become the PU value for suppliers and any true-up adjustments will be recovered over the remaining years of ED1, meaning that a direction will be required in November 2015.

This is consistent with table 1.1 in the Handbook, which states that the first Annual Iteration Process will be take place in November 2015, to apply to 2016/17. Also footnote 9 in chapter 1 of the draft Financial Handbook states that The first such direction will be given by 30 November 2015 in relation to directing the value of MOD (i.e. for t = 2016/17). As the outcome of the 2013 pensions valuation will be known by mid-2014, and the outcome of the pensions reasonableness review known by late 2014, and it is these which dictate the pensions deficit repair allowances, there is no need to wait until 2016/17.

However, table 3.1 in chapter 3 of the Handbook, which sets out the process for revising the established pension deficit repair allowances, shows 2015/16 established pension deficit repair allowances ("EDE values") being updated for the 2013 valuation through an annual iteration process which takes place in November 2014.

In the light of the above we propose the following:

(a) In CRC 3C.6, the timing of the determination of the first EDE adjustment should be "November 2015" (to be reflected in MOD in 2016/17) rather than "2016/17" as currently drafted.

(b) For the Financial Handbook to include an additional process for updating EDE cvalues for fast-track licensees following the 2013 Valuation and the 2014 reasonableness review (due to complete at the end of October 2014) taking place after the fast-track track determination but prior to the slow-track determination (November 2014). This should set out the process for determining updated EDE values by November 2015 to be included in the Annual Iteration Process which will determine the MOD value for 2016/17.

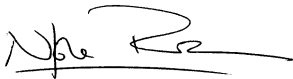
(c) Table 3.1 in the Handbook is amended to correctly reflect the position for any Fast Tracked companies.

Question 4: Do you have any comments on the Associated Documents that we propose to create and their content?

We note that work on various Guidance Documents including the consolidated RIGs (and associated reporting templates and workbooks), DAG, ICE and Environmental Guidance is currently underway, and WPD is contributing to this process. We expect documents to be issued by the end of 2014 in good time for April 2015. We support the ENA LDWG position that changes to Associated Document such as RIGs, DAG or ICE guidance should not take effect part way through a regulatory year, and should be made at least 3 months prior to the start of a regulatory year to provide time to implement those changes. This is especially the case for ICE and DAG where Looking Forward and Looking Back reports will be required at the beginning and end of the year. These need to follow the same version of the relevant guidance.

We look forward to further discussions with Ofgem to address the issues that we have identified in readiness for the fast-track standard condition and CRC statutory consultation in March.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Natasha Richardson', with a horizontal line underneath.

NATASHA RICHARDSON
Regulatory Compliance Manager