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Dear Hannah

**Informal consultation on fast-track licence drafting: Charge Restriction Conditions (part 2) and Financial Handbook**

Thank you for the opportunity to comment on your proposed fast track licence conditions and Financial Handbook for Western Power Distribution.

Electricity North West has undertaken a detailed review of the draft conditions and Financial Handbook that were published on 31 January and has contributed fully to the Energy Networks Association's (ENA's) response to the consultation.

The ENA's response is comprehensive and includes the majority of the issues that we wish to raise. Please consider that the ENA's response also represents Electricity North West's response to your consultation.

In addition to the points raised in the ENA's response, we wish to register our concerns regarding the financial handbook chapter for WPD's rail electrification adjustment. The draft handbook states (in 12A.8) that *'It should be noted that there is no provision to revise allowed levels of Totex expenditure for the licensee (upwards or downwards) in respect of outturn levels of diversion work activity – only in respect of the level of additional contributions'*. Our understanding of this statement is that there are a number of credible situations where WPD can keep this allowance and it is therefore funded (subject to efficiency sharing factor) by WPD's customers. Examples of such potential situations are if

- (a) some or all of the funded projects are cancelled
- (b) some or all of the funded projects do not start
- (c) the outturn costs are lower than forecast
- (d) project phasing delays some costs into ED2
- (e) WPD delays billing for contributions into ED2

We therefore do not believe that this arrangement is in the interests of WPD's customers. We also do not consider that this mechanism is consistent with our interpretation of Ofgem's statement in its fast tracking decision that *"We consider that, from a public policy perspective, these costs should not be borne by energy consumers, but should be recovered from rail customers"* and *"We will ensure that WPD's licence enables us to remove them from the settlement should it be decided that another party will fund them"*. We urge Ofgem to review this drafting to ensure that WPD's customers are appropriately protected.

Notwithstanding our view that the most correct approach is to amend the drafting, if Ofgem opts to retain the current drafting for rail electrification adjustments it is essential that Ofgem

adopts a cost assessment approach that is consistent with its decision and takes account of these costs. It is essential that rail electrification costs are included in WPD's cost base for slow track cost assessment for both bottom up and totex analysis. In the case of bottom up analysis this should be assessed as being 'unnecessary' volume of work and disallowed so that it is not treated as a cost to be funded by customers.

To do otherwise results in two risks. Firstly this results in inappropriately tough benchmarks for slow track companies as a result of this inconsistent treatment. Secondly this would create an inappropriate 'no worse' off adjustment for WPD for which they already have an outperformance opportunity built into their allowances.

If you have any questions about our response please do not hesitate to contact me.

Yours sincerely

A handwritten signature in dark ink that reads "Sarah Walls". The signature is written in a cursive, flowing style.

**Sarah Walls**  
**Head of Economic Regulation**

cc Anna Rossington  
Jane Jellis  
Tom Mackenzie