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Re: RIIO-ED1: Informal; consultation on fast-track licence drafting – Charge Restriction Conditions (Part 2)

Dear Hannah

Thank you for the opportunity to respond to the above consultation dated 31 January. 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. For convenience, the three licensees are collectively referred to as "UK Power Networks" in this response. Please note that our response is not confidential and can be published via the Ofgem website.

As with our response to Part 1 of your consultation, UK Power Networks has worked with the other DNOs to issue you a consolidated ENA response to the consultation. There are a number of points from that response that we would like to particularly draw out and these are outlined below:

- There are significant issues with the Financial Handbook as outlined in the ENA response point numbers four to nine. By way of example these include conflicts between the licence condition and the Financial Handbook and inappropriate governance arrangements. We welcome the extra time Ofgem have now allowed before the statutory consultation to start to address these; however we do not believe that there is sufficient time for Ofgem to carry out a thorough review before the statutory consultation is scheduled to comment on 28 March. With this in mind we urge Ofgem to consider delaying the statutory consultation on the Financial Handbook to allow appropriate time for its development and to arrange to meet with us to ensure we can work together to address these issues prior to statutory consultation.
- There are significant issues with the draft legacy condition as covered in more detail in the ENA response. These include the condition introducing terms related to RAV and revenue adjustments but then using them interchangeably with words describing allowed and actual costs.
- The decision to freeze 2015/16 DUoS prices is not covered in the Financial Handbook, nor is the rebate of DUoS charges conducted in conjunction with the Secretary of State. The interaction of both of these with CRC2A must be covered by the Financial Handbook to ensure all parties involved are clear on how these functions interact and should be handled in RIIO-ED1.

- We note that during the LDWG meetings Ofgem has expressed a desire to align ED licence and Financial Handbook drafting with that of GD/ET. Whilst this may appear to Ofgem to simplify the process and provide an element of consistency, we do not consider this is appropriate. The DNO group is separate with its own governance forum and processes and as such should be the driver for changes. We believe that, if there is a case for alignment, efforts should be made to move the GDN/ET licence conditions and Financial Handbook to match the ED ones rather than leave all sets of documents incorrect or suboptimal.
- In respect of CRC 3K (Rail electrification adjustments) for WPD's four licensees, we note that there is no mechanism to revise allowed levels of totex expenditure should the outturn levels of diversion work differ (both upwards or downwards) from those in WPD's business plan. If Ofgem chooses not to introduce any revision mechanism for the WPD licensees, we believe all other DNOs should have comparable treatment with WPD for equivalent adjustment schemes.

We will continue to work with you and your team to ensure a fit for purpose licence and Financial Handbook is available for all DNOs as this is in Ofgem's, stakeholders' and the DNOs' interests

I hope the above coupled with the ENA response and its associated appendices (that I can confirm we support) provide constructive feedback on the current state of the draft RIIO-ED1 licence conditions and we look forward to working with Ofgem to progress these.

Yours sincerely



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