

*Avonbank
Feeder Road
Bristol
BS2 0TB*

*Telephone 0117 9332175
Email asleightholm@westernpower.co.uk*

Tom MacKenzie
Distribution Policy
Ofgem
9 Millbank
LONDON SW1P 3GE

Our ref

Your ref

Date

14 August 2014

Dear Tom

Statutory Consultation on modifications to CRC14 of Western Power Distribution (East Midlands) plc Application for relief from the consequences of under-recovery because of the removal of the Fifth Distribution Price Control Review (DPCR5) losses incentive mechanism

I refer to the Statutory Consultation published on 24 July. We wish to make a representation on the proposed drafting.

Background

Following to Ofgem's Direction of PPLt issued 21 March 2014, on 23 April 2014 WPD applied for relief from the impact of CRC14.2 for the 2013-14 and 2014/15 regulatory years on behalf of Western Power Distribution (East Midlands) plc.

WPD had made Ofgem aware of this issue during the ED1 licence drafting discussions and requested that Ofgem set the PPLt term net of the amounts already returned to customers.

Ofgem's decision to require DNOs to "recover" PPL amounts from April 2015 onwards, meant that WPD East Midlands SLC47 Revenue Return would now show a significant under-recovery position. Therefore in accordance with Ofgem's decision document, WPD requested a modification to CRC14 set the interest rate at 1.5% for 2013/14 and 2014/15, instead of zero.

However without the impact of the PPLt term, WPD East Midlands would have been in an over recovery position at greater than 103% due to the cold winter of 13/14, although the extent of the under recovery is larger than the over recovery. We have been advised that the current drafting only allows Ofgem to direct an interest rate of 0%, 1.5% or 3% based on the final under or over recovery position.

Representation

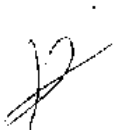
In order to reflect the policy intent of providing relief from the effects of the losses incentive mechanism, the value of PRT needs to be directed to provide relief from the additional interest arising from the additional under/over recovery. This will give an interest rate of between 0% and 1.5%. We have calculated that the impact of the PPLt term results in additional penalty interest of £188k. We calculate that a PRT value of 0.66 is required to provide the necessary relief.

Therefore we propose amending the wording of the licence modification to:

14.3.1 In any Regulatory Year, if circumstances related to the decision not to activate the Distribution Losses Incentive Mechanism (ref 149/12) and the Decision on restatement of 2009-10 data and closing out the DPCR4 losses incentive mechanism (published 21 March 2014) are deemed by the Authority to have impacted on Regulated Combined Distribution Network Revenue causing either 14.2(a) or (b) to come into effect, and the Authority considers that these circumstances require the PRt to be set to a different value, then PRt will be set in a direction given by the Authority for the Regulatory Year concerned providing that the value directed is between zero and 3 ~~shall either be zero, 1.5 or 3.~~

If you have any queries regarding this request, please contact Natasha Richardson, Regulatory Compliance 0117 9332382 or Dave Wornell, Income and Connections on 0117 9332032.

Yours sincerely



ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager