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By email only to: [bethany.hanna@ofgem.gov.uk](mailto:bethany.hanna@ofgem.gov.uk)

19 September 2014

Dear Bethany

**Consultation on a proposal to increase significantly the notification period for changes to distribution use of system charges (DCP178)**

Thank you for the opportunity to respond to the above consultation. This letter should be treated 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. Our response is not confidential and can be published via the Ofgem website.

Our answers to the consultation questions are set out in the appendix to this letter and we hope that you will find our comments helpful. If any aspect of our response requires further explanation or clarification please do not hesitate to contact me.

Yours sincerely



Keith Hutton  
Head of Regulation  
UK Power Networks

Copy: Paul Measday, Regulatory Returns & Compliance Manager, UK Power Networks

## **Appendix**

### **Do you agree with the working group's view that DCP178 would result in these benefits and costs?**

We agree with the view of the DCP178 working group on the potential benefits and costs which could be possible as a result of this change proposal.

### **Are there any other benefits and costs that you think would result from DCP178?**

In our response to the DCUSA vote for DCP178, we raised a concern relating to the implementation date of this proposal, which followed Ofgem's decision document on DNOs' revenue for 2015/16 (dated 19 December 2013) which fixes only 2015/16 DUoS revenue, with 2016/17 subject to change at the RIIO-ED1 final determination stage.

We believe that the implementation of this change proposal should be linked to consistency of revenue finalisation for both 2015/16 and 2016/17. This could be achieved by a phased implementation whereby 2016/17 prices are set by 31 March 2015 (giving 12 months' notice) with the full 15 months' notice being implemented in December 2015 for 2017/18 pricing.

### **For suppliers and customers, can you provide supporting evidence for the benefits identified by respondents to the working group's consultations?**

Not applicable – we are responding as a DNO.

### **Do you think the proposed notice period would cause any issues with implementing any changes to charges which may be required due to developments in the operation of the network?**

We agree with the challenges laid out in the Ofgem consultation document in that further developments to the DUoS charging arrangements will be required to fully realise the benefits of the significant investment in smart metering and smart grids over the coming years.

It is important that this change, if approved, strikes an appropriate balance between the certainty it would bring to the charging arrangements and the impact this would have on the speed of implementation of future changes.

### **Do the benefits of certainty outweigh any costs or effects of delay?**

We believe it is for Suppliers to comment on the benefits which the certainty would bring, as we do not have visibility of the DUoS risk premium built into Suppliers' products, and how these benefits would be passed on to end Customers. This lack of visibility relating to the benefits also impacts upon the costs to the DNO, as it would need to be understood whether these benefits would outweigh the financing costs which would be faced by DNOs.

**Can you give examples over the next five years of likely changes to distribution charges that are critical to deriving benefits but which would be delayed unduly if DCP178 was approved?**

Changes to DUoS charging arrangements are likely to be required to align with the mass rollout of smart meters to domestic premises and the associated developments for smart grids, which could include the introduction of new tariffs. Further changes are also likely as a result of the EDCM review currently being undertaken through the DCMF MIG, as well as for European related developments such as Third Party Access arrangements.

Over recent years it has been seen that 12-15 DCUSA change proposals relating to charging matters are in progress at any one time; these could all be impacted by the increase in the notice period to 15 months as a result of this change proposal.