



Regulation & Commercial

Thomas Mackenzie
Ofgem,
9 Millbank,
London,
SW1P 3GE

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Contact
Stephanie Rogan
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Dear Tom,

Consultation on the applications from Western Power Distribution, SP Energy Networks and UK Power Networks for relief from the penalty interest, as a consequence of under recovery relating to the close out of the DPCR4 losses incentive mechanism

This response is on behalf of SP Distribution plc (SPD) & SP Manweb plc (SPM) (Collectively SPEN).

Under special licence condition 'Distribution Charges: supplementary restrictions', if SPEN's actual revenue is less than 97 per cent of allowed revenue, the under recovery is uplifted by the Bank of England Base rate when brought forward, and the supplementary penalty interest rate adjustment is set to zero. Alternatively, if SPEN's actual revenue is greater than 103 per cent of allowed revenue, the penalty rate adjustment is set to 3 per cent. This represents a penalty for the DNO, because a smaller under or over recovery would attract a penalty rate adjustment value of 1.5 per cent. In the event of an under or over recovery as a result of closing out the DPCR4 losses incentive mechanism, it would not be fair to penalise DNO's for circumstances out with the DNO's control.

Consistent with Ofgem's recent licence modification decision to modify CRC 14 which allows Ofgem to direct a change to PRT values for SPD and SPM, we support Ofgem's minded to position to direct PRT values of 1.5 for SPD in 2011/12 and SPM in 2011/12 and 2012/13.

This ensures that our licensees are not unfairly penalised as a result of under recovery relating to the close out of the DPCR4 losses incentive mechanism.

Yours sincerely,

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