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19 January 2015

Dear Maxine

RIIO-ED1: statutory consultations for RIIO-ED1 – Charge Restriction Conditions, Standard Licence Conditions, Network Assets Workbook, PCFM and Price Control Financial Handbook

Thank you for the opportunity to respond to the above consultation, dated 17 December 2014. 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.

On 24 December 2014 Basil Scarsella wrote to David Gray to unconditionally accept the RIIO-ED1 price control. In that letter we identified areas where we believed there was further work to be completed with the Ofgem RIIO-ED1 team. One of these areas was the finalisation of the conditions in the 17 December 2014 statutory consultation.

UK Power Networks has been working with your licence drafting team since the Licence Drafting Working Group was formed in mid-2013 and considerable work has been done to get the conditions and Handbook into a position ready for statutory consultation. There remain a small number of issues highlighted below that need to be resolved before the final licence modifications are enacted.

It is appropriate at this juncture to take this opportunity to confirm that we fully support the response sent by the ENA (including the detailed corrections to the licence drafting), and within that response we specifically strongly support the following points:

1. We believe that there should be **clarity on the treatment of HVP reopeners** where the licence as drafted has a potential conflict between CRC5D and CRC3F (as described in the methodology in paragraph 7.25 of the Handbook). We require Ofgem to treat HVPs under a single licence condition, to avoid the potential for "double jeopardy". Furthermore, Ofgem must address the issue that HVP outputs in NAW7 contain asset replacement, refurbishment and reinforcement achievement and as such the achievement associated with asset replacement and refurbishment is not explicitly set out.

2. **Significant volume of changes to be made** – in respect of all documents, but specifically in respect of the Handbook (excluding the volume of changes that will result from the merging of the two versions of the Handbook), there are a considerable number of changes which need to be considered and implemented. Mindful of this, we request an appropriate length of time to review the documents before the modifications are formally made.
3. **Incorrect values for time to connect targets** – the proposed appendices to CRC2F incorrectly include zeros for the values of Time to Connect targets for the later years of the price control period. These cells should be left blank until the mid-period process outlined in CRC3F has opined on the values to use.
4. **RIGs changes and potential Common Network Asset Indices Methodology impacts** – the ongoing work on the development of the RIIO-ED1 RIGs has recommended a number of changes to the categorisation of costs. In a few instances, these recommended changes would involve activities being moved into or out of the activities that are compared against Network Asset Secondary Deliverables (NASDs). For example, it has been suggested that tower painting should move from being categorised as refurbishment (which is within scope of NASD) to being categorised as maintenance (which is not within scope). If such changes are enacted as part of a change in the RIGs, they could result in an inconsistency between the basis on which NASD targets were set and the basis of reporting against them. Such an inconsistency could result in distortions to the assessment of under- or over-delivery of NASDs at the end of RIIO-ED1 and not meet the ‘equally challenging’ criteria in CRC5D. These distortions could result in either gains or losses for DNOs, depending on the direction of the change.
5. **SLC 50 Business Plan Commitment Reporting omitted from consultation** – we note that SLC 50 was not amended as a result of our comments in the previous licence consultation and we are still required to report against March 2014 plans. We do not believe that Ofgem intended for us to report against commitments made in superseded business plans.
6. **Structure of Chapter 7 does not correctly reflect licensee specific arrangements** – the structure of Chapter 7 of the Handbook makes it impossible to determine which sections apply to which DNOs, given the cross-referencing in a single chapter to multiple versions of CRC3F. For example, the chapter references particular tests in specific paragraphs of the licence which are numbered differently in different versions of CRC3F, resulting in illogical references for some DNOs. There is a risk that this issue will be further exacerbated once WPD’s different mechanisms are incorporated into a consolidated handbook. Furthermore, the Handbook is silent on how the within period Authority triggered reopeners for link boxes should be calculated.

In addition to the ENA response, we would like to draw your attention to the following issues which affect UK Power Networks and require resolution before these documents are finalised and the formal modifications are made:

7. In CRC3E Appendix 1, the smart meter intervention costs for our three DNOs are incorrect. We believe that they should be:
 - a. LPN £498
 - b. SPN £332
 - c. EPN £325

The values currently in the licence reflect Ofgem’s efficient unit costs pre-interpolation but should reflect the final allowances post-interpolation which are those listed above.

8. In CRC3F and paragraph 7.13 of the Handbook, the dates for the Authority to trigger the reopener for link box costs are inconsistent. Furthermore, we believe that the dates in both

documents are incorrect and should be 31 May 2018, to allow the Authority to have visibility of a full two years of expenditure prior to commencement of any reopener.

9. As indicated in our email to Chris Watts, dated 22 December 2014, we believe that there is an error in the regional cost calculations in the benchmarking model which affects our DNOs to the level of approximately £12m over the price control period.
10. CRC3G (revising the allowed level of LRE) – we are still unclear why Ofgem are not granting a DNO (as well as themselves) a reopener in 2023.

We look forward to hearing from you on these and the points raised in the ENA's letter. If you have any queries, please do not hesitate to contact Paul Measday or myself.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K Hutton', with a stylized flourish at the end.

Keith Hutton
Head of Regulation
UK Power Networks

Copy: Paul Measday, Regulatory Returns & Compliance Manager, UK Power Networks
Anna Rossington, Head of RIIO-ED1, Ofgem