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Our ref

Your ref

Date

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16 February 2015

Dear Jane

**NOTICE UNDER PART C AND PART D OF SPECIAL CONDITION 4A PRICE CONTROL
UPDATE PROVISIONS FOR WPD – FINANCIAL HANDBOOK COMMON CONTENT**

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc in response to the above notice published on 3 February in relation to its Fast Track Licences.

We were expecting the Updating Process to create a single aligned version of the Financial Handbook, with strike-through to show common content. The WPD and ENA responses to the Statutory Consultation both requested that Ofgem create a single merged Financial Handbook, with DNO specific sections where necessary.

We note that the updated version of Part 1 of the Financial Handbook does not contain the sections which apply only to one of more of the Slow Track DNOs, which means that there are two versions of the Financial Handbook. It is also shown as Version 1.0 dated 21 May 2014, when this is not the case. We have previously expressed concerns about version control. We find it very difficult to keep track of the various different versions of the Financial Handbook for this reason.

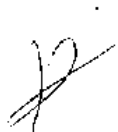
We are disappointed to see that WPD's version of the Financial Handbook contains material errors that need to be corrected. See Appendix 1.

It is also not clear what is happening regarding the Glossary. We assume that it is the intention that the Glossary at the end of the Handbook (excluding Legacy chapters) will be for both the ED1 chapters of the Handbook and the Legacy section (Part3) which Ofgem has issued as a separate document? There is no Glossary in the separate part 3 document.

We also note that a "WPD Part 3 Legacy Financial Handbook has been issued for WPD on 3 February which is different from the document issued at Statutory Consultation, and different from the document issued for the other DNOs. In some instances this document contains material errors, in particular in tables 16.2 and 16.3. These are also listed at Appendix 1. These issues need to be resolved as part of the Updating Process.

I would be grateful if you could confirm that the errors in Appendix 1 will be corrected prior to issuing the final version of WPD's Financial Handbook.

Yours sincerely

A handwritten signature in black ink, appearing to be 'AS' or 'ALS' with a stylized flourish.

ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager

Appendix 1 – Detailed Comments

Financial Handbook Main section:

P.20 – the table includes a reference to UCRE without stating that this does not apply to WPD. The calculation of UCRE is not included in chapter 7.

Correction required: Remove the reference to UCRE from the table.

Para 2.8 refers to chapter 12B which doesn't exist in WPD's version of the Handbook.

Correction required: Remove the reference to Chapter 12B.

Para 3.9, 3.12, 3.16, 3.23, 3.41 – paragraph references are incorrect.

Correction required: Correct the paragraph references.

Para 3.16 – should refer to the *Pension Adjustment set out in chapter 15 section 2(i)*, not the *Pension Legacy Adjustment set out in Part 3*.

Correction required: Replace the “Pension Legacy Adjustment set out in Part 3” with “Pension Adjustment set out in chapter 15 section 2(i)”.

Para 4.58 – the penultimate sentence refers to TGIE being in 12/13 prices. TGIE is always nominal.

Correction required: Replace “TGIE in 12/13 prices” with “TGIE in nominal prices”.

Para 6.18 –states that:

6.1 In summary Totex consists of all expenditure by the licensee with the exception of:

...[7th bullet]

- *finest and penalties incurred by the licensee (including all tax penalties, fines and interest) ~~except if Traffic Management Act penalty costs can be shown to be efficient;~~*

Why has this been deleted for WPD when other changes such as the use of “equivalent TMA” in para 7.37 have not been applied to WPD?

Correction required: Reinstate deletion of efficient TMA penalty costs.

7.45 – there are some rogue headings after this paragraph.

Correction required: remove superfluous headings.

Table 8.1, Table 8.2 and para 8.14 –

Table 8.1

It seems illogical to have 2021/22 SMAE values determined in Nov 2021 and feed them into MOD in 2022/23. For this to work there would have to be an estimate made before Nov 2021 for the volumes that will be encountered in 2021/22.

Table 8.2 and para 8.14

This suggests that the calculation for the tapering factor will also be calculated in Nov 2021. Again this would require estimated volumes for 2021/22 as the preceding paragraphs now state that the volumes in 2021/22 will be included in the tapering factor calculation.

Correction Required: Clarify that an estimate of 2021/22 volumes will be made before November 2021.

Glossary:

Adjusted RLM incentive rate - this is not relevant to WPD and should be removed.

Rogue wording above *DPCR5 Financial Issues Data Tables*

DPCR5 High Value Projects Re-opener Closeout Detailed Methodology - paragraph reference is missing. Also it should be *DPCR5 High Value Projects Re-opener Legacy Assessment Methodology*.

DPCR5 Load Related Re-opener Closeout Detailed Methodology - paragraph reference is missing. Also it should be *Load Related Re-opener Legacy Assessment Methodology*.

DPCR5 Traffic Management Permit Costs Closeout Detailed Methodology - paragraph reference is missing. Also it should be *TMA Legacy Assessment Methodology* and included under "T".

DPCR5 Revenue Allowance – should refer to *Charge Restriction Condition CRC3*, not *Special Condition*. There should be a section for H, with *High Value Projects Re-opener Closeout Detailed Methodology*, or the reference in the document should be changed so the terminology is aligned.

Link box – term can be removed as not relevant for WPD.

NINES – can this term and the section in part 3 be removed as not relevant to WPD?

Regulatory Instructions and Guidance (RIGS) – need to state that these are issued under SLC45.

Legacy section:

Footnote 1 in the Legacy chapters states that “*The RAV balance in the PCFM as at 1 April 2015 will have been determined at the time of final determinations for the RIIO-ED1 price control.*” This is not strictly true as it will have been updated to reflect 13/14 actual RAV additions per the Fast Track update letter.

The row reference in paragraph 14.11 is incorrect; this may be correct for the Slow Track PCFM but the paragraph should reference WPD’s current licence model, i.e. that issued on 21 May 2014.

Correction Required: Rather than referencing row 386 it should reference row 352.

14.12 and many others have linked paragraph references which do not work.

Correction required: correct linked paragraph references.

The row reference in paragraph 14.17 is incorrect; again the paragraph should reference WPD’s current licence model.

Correction required: Rather than referencing row 390 it should reference row 356.

The row references in paragraph 14.23 i) and ii) are incorrect; again the paragraph should reference WPD’s current licence model.

Correction required: Rather than referencing row 394 it should reference row 360 and rather than referencing row 398 it should reference row 364.

Table 16.2 only shows the slow-track DNOs’ information.

Correction required: This needs to be changed so it only presents WPD information.

There is also an error in the footnote on the same page.

Table 16.3 only shows the slow-track DNOs’ information.

Correction required: This needs to be changed so it only presents WPD information.

Paragraph 16.26, Actual RAV additions values should be aligned with the RAV additions in the PCFM. RAV additions for the first three years of DPCR5 have been taken from the top of C4 in the BPDT tables (adjusted for any known variances). As there is no mechanism in the PCFM to adjust RAV values for the first three years of DPCR5 any changes made as part of RRI calculation could result in internally inconsistent adjustments.