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Our ref

Your ref

Date

14 March 2015

Dear Tessa

Notice Under Part B of CRC 4A (Governance of ED1 Price Control Financial Instruments) of the Electricity Distribution Licence to make modifications to the ED1 Financial Handbook

I am writing on behalf of Western Power Distribution (East Midlands) plc, Western Power Distribution (West Midlands) plc, Western Power Distribution (South Wales) plc and Western Power Distribution (South West) plc, in response to Ofgem's consultation on proposed modifications to the "WPD Financial Handbook".

We support the amended dates proposed in Part 3 relating to the DPCR5 Close-out methodologies and will continue to work with Ofgem to complete this work.

Please see the attached Appendix for additional typographical and other minor errors relating to the updated "WPD Financial Handbook" issued by Ofgem on 23 February 2016. In particular please note the addition needed to paragraph 4.23 and the values that need to be reinstated to tables 16.2 and 16.3. Also for clarity it would be helpful to add a note explaining that the CRC2A PU values were updated under CRC4C for WPD.

If you have any queries please contact Katherine Bartlam at kbartlam@westernpower.co.uk.

Yours sincerely



ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager

Cc: Grant McEachran; Louise Deighan; Clothilde Cantegreil

Further comments on typographical and other minor errors in the “WPD Financial Handbook”

Paragraphs 1.1, 3.1 and 4.1 - References to PU values under CRC2A

It would be helpful to explain that the PU values for WPD in CRC2A were updated in February 2015 under CRC4C. See additions in red.

Post Fast Track update and reprofiling:

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
WMID	385.8	398.1	409.2	413.3	417.4	421.6	425.8	430.1
EMID	386.0	398.9	410.9	415.0	419.2	423.3	427.6	431.9
SWALES	198.7	203.6	208.2	210.3	212.4	214.5	216.7	218.9
SWEST	286.9	291.9	296.5	299.5	302.5	305.5	308.6	311.7

1.1 CRC 2A (Restriction of Allowed Distribution Network Revenue) specifies the Opening Base Revenue Allowance for the licensee for each Regulatory Year of the Price Control Period, reflecting the Authority’s Final Determination for the RIIO-ED1 price control settlement. **Updated PU values were set for WPD in February 2015 under CRC4C.**

3.1 The Opening Base Revenue Allowances (‘PU’ values) for the licensee set down in the table at Appendix 1 to CRC 2A (Restriction of Allowed Distribution Network Revenue) include allowances for Pension Scheme Established Deficit (PSED) repair expenditure for each Regulatory Year of the Price Control Periods. **Updated PU values were set for WPD in February 2015 under CRC4C.**

4.1 The Opening Base Revenue Allowances (‘PU’ values) for the licensee set down in the table at Appendix 1 to CRC 2A (Restriction of Allowed Distribution Network Revenue) **and updated for WPD in February 2015 under CRC4C**, include tax liability allowances that are modelled at the outset of the Price Control Period to take account of:

The Handbook Glossary Definitions of Base Demand Revenue (BR_t) and Opening Base Revenue Allowance should also be updated to reflect the above.

Paragraph 4.23

This paragraph needs to be further amended to reflect the fact that the Statutory Accounts for the WPD DNOs (and potentially others) for the Regulatory Year 2015/16 will be prepared under FRS101. We therefore propose the change below (in red) to accommodate this:

“The accounting framework to be applied by the licensee for the purpose of computing tax liabilities is either:

- EU-IFRS, if adopted for use by the licensee¹⁶;
- **Financial Reporting Standard 101, EU adopted IFRS with reduced disclosures;**

or

- UK GAAP under Financial Reporting Standard 102.

¹⁶ Including the provisions of IFRS 1 (First-time Adoption of International Financial Reporting Standards) where applicable.”

Footnote 1 in section 3

This states that the RAV balance in the PCFM as at 1 April 2015 will have been determined at the time of Final determinations. However, WPD's 2013/14 RAV additions were also updated as part of the Fast Track update process in December 2014. For completeness please can a footnote be added "or subsequently updated under CRC4C for WPD".

Paragraphs 14.11, 14.17 and 14.23

The PCFM row references in paragraphs 14.11, 14.17 and 14.23 i) and ii) are not correct in relation to the Fast track financial model. If the harmonised model is adopted these will, however, become the correct references.

Paragraphs 15.91 and 15.217

The typo "31 September" needs to be amended to "30 September".

Tables 16.2 and 16.3

The values for WPD in these tables need to be reinstated. The values in Tables 16.2 and 16.3 which were incorrectly crossed out for WPD in the previous version have now been incorrectly removed rather than reinstated. This issue was highlighted to Ofgem as part of the consultation prior to the publication of the Legacy chapters of the Handbook in March 2015.

Paragraph 16.27

The paragraph reference is incorrect. It should read "in paragraphs 16.28 to 16.34". Similarly there is a typo in footnote 8 on page 73.

Part 3

There remain several paragraph references in Part 3 to parts 1 & 2 of the Handbook which have corrupted when part 3 has been extracted and are giving error messages. Section 3 should be joined to sections 1 and 2 of the Handbook and a full WPD document issued, with these error messages resolved.

Glossary:

We propose the following change to the definition of the Annual Iteration Process: The Annual Iteration Process is the process set out in CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model) that uses revised PCFM Variable Values in the ED1 Price Control Financial Model to recalculate base revenue figures for the licensee for the Price Control Period. The product of each Annual Iteration Process is the value for the term MOD_t which is a component term in the formula for the licensee's Base Demand Revenue, representing the incremental change to the licensee's Opening Base Revenue Allowance for the Regulatory Year t and the difference between the recalculated base revenue figures held in the PCFM for Regulatory Years $t-1$ and earlier. The Annual Iteration Process is completed by 30 November in each Regulatory Year $t-1$ during the Price Control Period.