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By email to: paul.heseltine@ofgem.gov.uk

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Dear Paul

Open letter on proposed changes to the Ofgem licence fee principles document

Thank you for the opportunity to review the proposed changes to the licence fee principles document (LFPD). 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. It is not confidential and can be published on the Ofgem website.

We agree that the review of the LFPD is timely and are pleased to provide our observations below.

1. Contents of the LFPD

- We note from paragraph 2.5 (page 9) that in any year where the Authority needs to recover exceptional costs, the method for recovering those costs will be disclosed in either the corporate plan for that year or, where that is not possible, in a separate statement. We would welcome the opportunity to comment on the Authority's plans for recovery of exceptional costs before they are finalised.
- We note from paragraph 2.13 (page 10) that the amount of the costs payable by each electricity distribution licence holder will be determined by the proportion of the 'number of electricity customers that are directly connected to any licensed electricity distribution network of that electricity distribution licence holder to the total number of electricity customers'. It is not clear if this principle applies to Independent Distribution Network Operators – we believe it should.
- In relation to paragraph 2.17 (page 11), we would welcome the opportunity to review drafts of any reconciliations of adjustments before they are formally issued.

- The definition of an electricity customer that is provided in Appendix 2 (page 19) has been developed from a document which is no longer in use ('Electricity Distribution Price Control Network Asset Data and Performance Reporting RIGs: Version 3'). Appendix 2 should include a link to the definition of an electricity customer that is provided in 'Annex A – Glossary' of the Regulatory Instructions and Guidance (see the first paragraph under the definition of the term 'customer'). This would ensure consistency and would also avoid the need for future updates of the LFPD in the event that the definition changes.

2. General observations

- We agree that it would be reasonable for Ofgem to have a control period that builds up to the next RIIO price controls. A five year period seems sensible.
- We would appreciate clarity on whether a proportion of any overspends (excluding unanticipated high cost projects) would be borne by Ofgem out of future budgets to incentivise delivery and minimise the regulatory burden on gas and electricity customers.

I hope that you will find our comments helpful. If you have any questions, please do not hesitate to contact me.

Yours sincerely



James Hope
Head of Regulation and Regulatory Finance
UK Power Networks

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