



Making a positive difference
for energy consumers

Charl Oosthuizen
Finance Director
Avonbank
Feeder Road
Bristol
BS2 0TB

Direct Dial: 020 7901 7350
Email: tim.aldridge@ofgem.gov.uk

cc: Ian Williams, Resources and External
Affairs Director (by email)

Date: 2 March 2017

Dear Charl,

Follow-up to derogations issued to Western Power Distribution (WPD) in relation to an error affecting electricity network charges for 2017/18

On 17 February, we issued derogations to your standard licence conditions and the Distribution Connections and Use of Systems Agreement owing to an error you had made in the application of charging methodologies for two of your licence areas.

We would like to reiterate our disappointment that the additional uncertainty caused by this error which has undermined the intent of the 15-month notice period for network charges, in the first year to which it applied. All charges for the two licence areas have been affected by this error and, for some customers, the notice period has been reduced from 15 months to 40 days.

Your error and your iterative approach to reaching a satisfactory outcome caused unwelcome additional resource pressures on Ofgem over an extended period and at an extremely busy time.

While we welcome that you did alert us to the error and a possible way to address it as soon as you noticed it, we are concerned that the error went unnoticed for 11 months, until November 2016. We are also disappointed that it took a number of proposals from you before we were satisfied that you had found a means of correcting the error in a way that sought a fair outcome and to minimise customer detriment. In particular, your initial proposal to correct charges for all customers for 2017/18 displayed disregard for the impact on your customers, one of whom would have received just a few months' notice for increases of over 150% in its distribution tariffs.

You have committed to work with your internal auditors to put in place additional controls and assurance for charging data. You will correct the error for most customers through charges for 2019/20. At the point you make these corrections, we would like reassurance from the director responsible that you are satisfied that the correct changes have been made to charges.

We stated that we consider your goodwill payment of £300,000 to charities assisting fuel poor consumers in the affected areas is an appropriate gesture in light of the scale of the error. Since we issued the letter, you have provided some more information on the schemes that the payments will fund, through the Centre for Sustainable Energy and the Energy Savings Trust. You are in the process of identifying new projects, including

The Office of Gas and Electricity Markets

9 Millbank London SW1P 3GE Tel 020 7901 7000 Fax 020 7901 7066 www.ofgem.gov.uk The Office of Gas and Electricity
Markets

Tel 029 2044 4042 www.ofgem.gov.uk

OFFICIAL

innovative approaches, to help domestic vulnerable and/or fuel poor customers. You plan to run the projects during 2017/18 and will inform us of the projects once they have been agreed.

The charities administering the projects will provide monitoring data on the actions and outcomes, as appropriate. You will, in turn, provide us with six-monthly monitoring reports on the progress of the projects and what they have achieved. You have committed to not use the projects funded by this goodwill payment for positive publicity. The projects funded by the goodwill payment should make no public reference to WPD as the source of the funding.

Since identifying the error, we note you have: self-reported it to us; put in place measures to prevent it happening again; sought to address any customer detriment; and are making a goodwill payment to charities in the areas affected. Given these steps we have decided not to pursue enforcement action in this case. However, in accordance with our Enforcement Guidelines¹, we will take your error into account when considering if enforcement action is warranted in future should other non-compliance issues come to light.

We would like other distribution network operators to take note of the seriousness with which we take errors that affect charges for distribution customers, and the consequential customer detriment that may result. We would like to reiterate the importance of a robust assurance process when calculating network charges. This is particularly important when there are changes to the underlying codes and equations that form the methodology. Should any such error occur in future, we would expect network companies to fully consider the impact on customers, including pricing volatility impacts, when proposing any corrections.

If you have any questions concerning this letter please contact my colleague Tim Aldridge (tim.aldridge@ofgem.gov.uk / 020 7901 7350).

Yours sincerely,

Andrew Wright
Senior Partner, Energy Systems

¹ <https://www.ofgem.gov.uk/publications-and-updates/enforcement-guidelines>