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Our ref

Your ref

Date

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Dear Grant

Consultation on changes to WPD's licences for Rail Electrification Costs

We wish to make representations on the proposed licence modifications and amendments to the Financial Handbook.

It is our understanding that the changes to the licence and Financial handbook are needed firstly to enable the £77m voluntary reduction to allowances to be input into the RE line of the PCFM, and secondly create a new uncertainty mechanism to apply to WPD to allow recovery of any future rail electrification costs.

RE Value

In relation to putting through the £77m reduction to allowances, this adjustment will be made through the RE line of the PCFM, which is a blue box item, or 'PCFM variable value'. However, a small drafting change is needed to allow an updated RE value to be directed.

The RE value derives from licence condition CRC3K:

Part A: Determination of the adjustment for rail electrification

3K.3 The RE value for the licensee for a particular Regulatory Year represents the total reduction for that Regulatory Year in the licensee's allowed Totex expenditure (expressed in 2012/13 prices) with respect to *Recoverable Diversion Costs*.

This means costs associated with the diversion of electric lines or electrical plant to facilitate rail electrification projects that were included in the calculation of the licensee's Opening Base Revenue Allowances, but which have since become recoverable from a third party.

Furthermore, the Handbook states that:

"Section 2 – Determination, notification and direction of revised PCFM Variable Values for rail electrification (RE values)

Determination of revised RE values

12A.9 The Authority will take no action with respect to the revision of RE values unless it is notified that, or becomes aware that, some expected diversion costs will be met by additional contributions."

Proposed amendments

We propose a modification to both CRC3K and the Financial Handbook, to include the wording “*or adjustments which have been agreed with the licensee/as otherwise agreed with the licensee*” as set out below.

CRC3K - Amend the definition of “*Recoverable Diversion Costs*” to “costs associated with the diversion of electric lines or electrical plant to facilitate rail electrification projects that were included in the calculation of the licensee’s Opening Base Revenue Allowances, but which have since become recoverable from a third party ***or adjustments which have been agreed with the licensee***”.

Financial Handbook - Amend 12A.9 “The Authority will take no action with respect to the revision of RE values unless it is notified that, or becomes aware that, some expected diversion costs will be met by additional contributions ***or as otherwise agreed with the licensee***”

UCRE Value in CRC3F

UCRE is a new PCFM variable value for uncertain future additional costs for rail electrification. Any such values would be directed by Ofgem, as set out in the current Handbook consultation.

Proposed Amendment to the Financial Handbook

We propose the following change to the Handbook section:

7.1 At the outset of the Price Control Period for High Value Projects, Enhanced Physical Site Security Costs and Specified Street Works Costs, and allowances as at 1 April 2019 for Uncertain Rail Electrification Costs, levels of allowed expenditure for the following categories of uncertain costs were set on a provisional basis because of uncertainties about requirements:

Other minor drafting points

CRC3K

Footnote 4: we assume this will not appear as a footnote in the modified licence condition.

However we cannot see why we cannot enter any 18/19 actual costs in the 18/19 column. We are unsure if this means that this would be entered retrospectively in the 18/19 column as part of the November 2019 AIP, or that 18/19 costs are entered in the 19/20 column. We do not believe that this footnote is necessary.

Footnote 5 needs to be added at the end of 3F.18(c) rather than appearing as a footnote.

If you require any further information, please do not hesitate to contact me at on 0117 9332203 or at pbranston@westernpower.co.uk.

Yours sincerely



PAUL BRANSTON

Regulatory & Government Affairs Manager