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Dear Lesley

Proposed modifications to SoLR supply licence conditions

This letter is 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.

We note the above-mentioned consultation regarding SoLR supply licence conditions and although we are not commenting on the specifics of the consultation, there are associated issues concerning DNOs which we feel need to be addressed.

We are aware that other DNOs have been in contact with you in regards to these issues but feel that it is appropriate for us to articulate these to you too and also for us to offer potential solutions where we have been able to identify them. For ease of reference, we have listed the most prominent issues below:

- The current distribution licence condition does not fully work. The distribution licence should be modified such that DUoS price changes for SoLR can be made within the required 15-months' timescale under DCUSA. In recent times, the 15-month period has not worked as intended, and DNOs have had to apply for derogations in order to change DUoS charges at short notice in order to fund SoLR claims. This creates unnecessary administrative work for both network companies (i.e. IDNOs should be covered) and Ofgem at no benefit to customers;
- There remains an issue with the *second* Relevant Regulatory Year (the following year after the Relevant Regulatory Year) with calculating the correct DUoS prices because of decimal points. For example, a DNO recovers 99% of the SoLR claim in the first Regulatory year, and then the remaining 1% in the second Regulatory year by dividing that amount by the number of customers. Here, the calculation breaks down – dividing what is most likely to be a four or low five digit number by millions of customers, and the current two decimal point limit of industry processes – does not allow the precise amount of money to be recovered. Such a situation would require more subsequent DUoS price changes and derogations, outside of the 15-month period and could potentially end up in an ongoing recovery situation trying to hit the precise amount required;
- Therefore, the current situation is not an enduring solution, as proven by the issues identified in its first operation. It is imperative for the industry to solve this now before another LRSP claim materialises.

Our solution is documented in proposed modifications to DNO licence conditions, in a separate document alongside this letter. In summary these modifications split out the processes into existing and new claims:

- For existing claims it moves the second year recovery of SoLR claims to the existing over/under-recovery process; and
- For new claims it groups all those which take place in a regulatory year and requires DNOs to recover costs under a new term (SLR_t) in the pass through section of their charge restriction condition. It also instructs the Authority to disregard the SLR_t value in its assessment of over/under-recovery.

In drafting such changes two further points were identified which require further debate which we include here for completeness:

- Whether SoLR claims should be borne by all customers (including those on IDNO networks) or just those of DNOs; and
- The impact of claims under the proposal on a DNO's cash flow i.e. should a DNO be allowed to recover any material additional costs it incurs for increased interest charges due to management of the claim? This is particularly important for any large claim.

We would welcome discussions with Ofgem on how best to go forward on this topic. We look forward to hearing from you.

Yours sincerely



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