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Our ref

Your ref

Date

11 December 2018

Dear Grant

Informal consultation on modification to the Electricity Distribution Licence to recover the costs associated with appointing a Supplier of Last Resort

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc in response to Ofgem's informal consultation on the recovery of the costs associated with appointing a Supplier of Last Resort (SOLR).

WPD supports the proposed approach outlined in the consultation. We have previously highlighted the problems associated with Licence Condition 38, the drafting of which was not updated to align with the 15 month notice period for DUOS price changes. Until recently the provisions of SLC38 had not been invoked. However with the appointment of Co-op Energy as SOLR for GB Energy and other more recent failures, we agree that the SOLR and associated debt recovery arrangements need urgent modification.

Overall we support the proposals aimed at avoiding the need to increase DUOS prices at less than 15 months' notice to suppliers. We agree that the licence drafting needs to align the timing of SOLR claims and payments with the timing of price change notifications. This balances the needs of the SOLR supplier, with the other suppliers who are required to pass the SOLR costs to their customers. We also support the need for a threshold to protect DNO exposure to funding future SOLR claims.

We agree that subject to a threshold, SOLR claims should be treated as a pass through cost, together with supplier bad debts. We also agree that the approach to dealing with the impact on IDNOs is administratively sensible.

We recognise that the proposed drafting is detailed and complex as it needs to provide clear processes for ongoing SLOR claims, a pending SOLR claim that is due to take effect, and the latest supplier failures which we expect to result in SOLR claims during 2019/20. We find the drafting of SLC38 and SLC38A rather difficult to follow. However as these Conditions will only have effect for a short period of time, we expect Ofgem to honour the spirit of the drafting in managing the current SOLR claims effectively.

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We are responding separately to Ofgem's consultation on Supplier Licensing, as this addresses the root causes of supplier default.

Subject to any further minor points of detail which we may wish to raise at a later stage, we have the following comments on the draft licence modifications.

Timing of Payments to Suppliers

Under SLC38B.3, DNOs need to be able to delay SOLR Claim Payments by up to 3 months. This is to allow for Claims made between 1 January and 31 March i.e after DUOS prices have been set on 31 December, to be paid in the following regulatory year to align with the 2 year lag period for recovery allowed for under CRC2B. 60 days is not sufficient to bridge this gap.

In addition the words "in accordance with a schedule defined by the Authority" would add an additional process to the SOLR process. Given that instalments must be paid monthly, it is not clear why this is needed. In the case of Co-op Energy the payment schedule was agreed between ourselves and Co-op Energy.

Definition of Relevant Regulatory Year

Similarly the definition of Relevant Regulatory Year in SLC38B in the context of a breach of the materiality threshold needs to set a timescale of 3 months rather than 60 days. With a minimum of 40 days' notice to change DUOS prices, DNOs need time to determine if a Claim breaches the threshold and to then complete the appropriate procedures, including requesting and receiving a derogation from Ofgem (although a DCUSA changes may remove the need for Ofgem derogations) and internal assurance and approval.

Bad Debt

Appendix 7 of CRC 2B. Calculation of Allowed Pass-Through Items and Appendix 1 of Condition BA5. Valid Bad Debt Claims do not reflect the reality of supplier default in the light of recent experience. During the time where a supplier fails and goes into administration and Ofgem seeks and appoints an SOLR and revokes the defaulting supplier's licence, a DNO may incur unbilled debt aged less than zero days. This needs to be reflected as debt "not yet due".

No. of business days past due	Percentage of face value recoverable
<i>Not yet due</i>	100
0 - 30	100
31 - 35	90
36 - 40	80
41 - 45	70
46 - 50	60
51 - 55	50
56 - 60	35
61 - 65	20
>65	5

I hope these comments are helpful. To discuss this response further please contact
Natasha Richardson at nrichardson@westernpower.co.uk

Yours sincerely

A handwritten signature in black ink, appearing to read "PB" above "Branston".

PAUL BRANSTON
Regulatory & Government Affairs Manager