

To network companies,
generators, suppliers, consumers
and their representatives and
other interested parties.

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Date: 28 February 2014

Dear colleague,

Decision to fast-track Western Power Distribution

This letter sets out our decision that Western Power Distribution's (WPD's) price control for its four licensees will be finalised early (termed 'fast-tracking'). We think WPD's business plans are, overall, of sufficiently high standard that it is in the interest of consumers for us to accept them in full (subject to a cost of equity change, described below). We include WPD's final determinations (the terms of its price control settlement) as part of this letter.

We published our assessment of the distribution network operators' (DNOs') business plans,¹ and WPD's draft determinations,² on 22 November 2013. This letter summarises the consultation responses and how we arrived at our decision.

Our proposal to fast-track WPD was subject to the fast-track consultation and the outcome of a parallel consultation on how we estimate the cost of equity. We have decided to change the way we derive our cost of equity. This means that WPD's allowance for the cost of equity has reduced from 6.7 per cent to 6.4 per cent, which translates into a weighted average cost of capital (WACC) allowance of 3.9 per cent for 2015-16 (down from 4.2 per cent).³ WPD has accepted this decision, and we have re-calculated the figures in WPD's final determinations to reflect this.

We estimate that the distribution element of the electricity bill, which nationally accounts for 19 per cent of the average annual electricity bill, would be reduced in 2015-16 across WPD's customers by 13.9 per cent or around £13.50 (in 2012-13 prices).⁴

Background

RIIO-ED1 will set the outputs the DNOs need to deliver for their consumers and the associated revenues they are allowed to collect. It covers the eight years from 1 April 2015 to 31 March 2023. It is the first price control review in the electricity distribution sector to be conducted under our new RIIO model (Revenue = Incentives + Innovation + Outputs).⁵

¹ <https://www.ofgem.gov.uk/ofgem-publications/84600/assessmentofriio-ed1businessplansletter.pdf>

² <https://www.ofgem.gov.uk/ofgem-publications/84602/draftdeterminationsmaster.pdf>

³ The WACC is calculated from the cost of equity and the cost of debt. The cost of debt is indexed, and we have used a forecast value of 2.60 per cent (for the start of RIIO-ED1) for the WACC stated here. The WACC is vanilla, post-tax. The 4.2 per cent figure is our previously reported estimate, based on a cost of debt of 2.92 per cent.

⁴ Based on a household with annual electricity consumption of 3,300kWh.

⁵ More information on the RIIO model can be found at <https://www.ofgem.gov.uk/network-regulation-%E2%80%93-riio-model>

A core part of RIIO is the network companies' well-justified business plans. In July 2013 each DNO was required to submit a detailed plan.⁶ The plan had to demonstrate how the DNO would run its network to serve existing and future consumers and how it would address the challenges associated with the transition to a low-carbon energy sector. It also had to show how the DNO had considered the needs and views of its stakeholders.

The plans were based on the strategy decision⁷ we published in March 2013. This described the key elements of the regulatory framework for RIIO-ED1, including what the DNOs have to deliver, their incentives and their financial parameters. It also provided business plan guidance and described the tools we would use in our assessment.

Under RIIO the level of our regulatory scrutiny varies according to the quality of the companies' plans. This encourages companies to submit their best view upfront. Companies that submit high quality plans may be fast-tracked.

The potential to be fast-tracked inspired all DNOs to raise their game. Their plans contained expenditures more than £2bn lower than DNOs' previous forecasts. However we set a high hurdle for fast-tracking, which only WPD cleared. The other DNOs' plans showed areas of strength, but all had scope for improvement. In our November assessment we proposed to fast-track WPD (subject to the outcome of the consultation and our parallel cost of equity consultation) and decided that the remaining ten DNOs must resubmit their plans in March. We expect the revised plans to show improved value for consumers.

Consultation responses

We received 15 non-confidential responses to our consultation. We have published these on our website⁸ and summarised them in Appendix 1.

Six responses are from stakeholders who have worked with WPD. Most support fast-tracking WPD, saying WPD's business plans reflect stakeholder input. However, one stakeholder, Friends of the Peak District (FPD), does not agree. This is because WPD doesn't plan to spend all its allowance for moving cables underground in national parks and areas of outstanding natural beauty. We note that WPD consulted stakeholders on its planned expenditure. However, we set the upper limit on what DNOs can spend in this area in the strategy decision and have not changed these amounts for WPD. DNOs must work with their stakeholders each year to decide which cables should be moved underground.

Two suppliers responded, both with comments on RIIO-ED1 policy decisions. Both question why we are allowing companies to move gradually to our new policy of assuming longer asset lives. One also believes that WPD's cost of equity is too high, and that its reliability targets are not tight enough. We took account of the views on cost of equity in our parallel cost of equity consultation. We consulted on reliability and transition as part of our strategy development; these views do not change the conclusions in our strategy decision.

In their responses, slow-tracked DNOs expressed their disappointment at not being fast-tracked. Several highlight concerns over parts of our assessment. Most of the issues raised are disagreements over our cost assessment approach. We remain confident in the overall robustness of our results. We are working with the DNOs to help them understand our methods.

The consultation responses have not changed our view that WPD's plans deliver high quality outputs at good value for money for consumers. We recognised in our consultation that no plan will be perfect and that some stakeholders may identify specific elements they would like improved. While we have asked WPD to resubmit its losses and innovation

⁶ They were also required to publish their plans on their websites.

⁷ See Ofgem (4 March 2013, ref: 26/13) Strategy decision for the RIIO-ED1 electricity distribution price control <https://www.ofgem.gov.uk/ofgem-publications/47067/riioed1decoverview.pdf>

⁸ <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-draft-determinations-fast-tracked-distribution-network-operators-%E2%80%93-western-power-distribution>

strategies, in our strategy decision we said that these are live documents that all DNOs will need to improve and update during the process. In the strategy decision we described the five criteria we would use to assess the plans. WPD's plans were the only ones to score well against all criteria.

Cost of equity

On 17 February 2014 we published our decision on how we calculate the assumed cost of equity.⁹ We concluded that we needed to change our method to place greater weight on contemporary market evidence. We are minded to reduce our estimate of the cost of equity for slow-track companies from the central reference point that we used to assess business plans in 2013 (6.3 per cent) to 6 per cent. This is the bottom of the range that we published in the strategy decision.

In the case of WPD, we decided that an equivalent reduction of 0.3 percentage points was needed from its business plan figure of 6.7 per cent. This reduces WPD's cost of equity allowance to 6.4 per cent, giving an expected WACC of about 3.9 per cent for 2015-16.

After we published our decision, WPD confirmed that it accepts the reduced cost of equity. This meant it could remain in the fast-track process.

Decision to fast-track WPD

As set out in the consultation response section above, we have taken note of the responses and conclude that it is still appropriate to fast-track WPD's four licensees.

WPD is currently, and has historically been, at the frontier of customer service and reliability. Since its take-over of the two network companies previously owned by E-On, it has demonstrated its ability to turn around the service of these companies while reducing costs. It has won funding for five major innovation projects through the Low Carbon Networks Fund.

WPD's stakeholder engagement has clearly informed its business plan. It plans to build on its strong past performance, especially in customer service and reliability. In terms of customer interruptions, it sets itself more challenging, and binding, targets than those we specified. It also has a comprehensive strategy for how it can help address the needs of vulnerable consumers. As we noted in our November assessment, we expect WPD to review and strengthen its losses and innovation strategies, at the earliest opportunity.

WPD's plans expect reasonable benefits from smart grid solutions, and it has the most efficient cost package of all the DNOs. It has a sound approach to uncertainty and risk.

We are therefore fast-tracking WPD's four licensees.

Final determinations for WPD's four licensees

We have summarised the key elements of the final determinations for WPD's four licensees in Appendix 2. This is based on the business plans WPD submitted in July 2013. Due to the change in the cost of equity, we have recalculated and reduced the base return on capital that WPD is entitled to and therefore the revenues it is allowed to collect. These figures are different to those stated in our draft determination. We expect WPD to update its published business plans to reflect the new figures.

⁹

https://www.ofgem.gov.uk/sites/default/files/docs/decisions/decision_on_equity_market_return_methodology.pdf

We will ensure that WPD delivers on all key elements of its plan using conditions in its licence. We consulted on draft versions of these in January. The conditions set out:

- the base revenue¹⁰ WPD's licensees may collect from their customers
- the outputs they must deliver, and the rewards/penalties for over/under delivery¹¹
- mechanisms for dealing with uncertainty.

We will monitor WPD's delivery performance during RIIO-ED1, and publish an annual summary alongside that for the other DNOs.

All the DNOs, including WPD, included extra commitments to stakeholders in their plans. Most of these were not specific, measurable, achievable, or timebound, so we are not including them in the licence. Instead, we will have a licence condition which requires the DNOs to publish an annual report on how they have performed against the commitments in their plans. We hope stakeholders will engage with the DNOs to help ensure delivery.

Charging volatility

On 19 December 2013 we decided to fix the base revenues for the first year of the RIIO-ED1 price control early.¹² This will let stakeholders, and especially suppliers, see the change in charges from the last year of the current price control, DPCR5, to the first year of RIIO-ED1 earlier. The decision does not affect the DNOs' RIIO-ED1 settlements; we will make sure that any subsequent changes to their allowed revenues are recovered or returned in future years. When we calculate any adjustments we will factor the delay in recovering or returning the revenues.

For WPD's four licensees, the fixed opening base revenue allowances for 2015-16 are:

	WMID	EMID	SWALES	SWEST
£ million, 2012-13 prices	385.8	386.0	198.7	286.9

Future changes to WPD's fast-track settlement

As signalled in our strategy decision and draft determinations for WPD, a number of elements in a fast-tracked DNO's settlement will be updated following the fast-track decision. We explain these elements below. Most will be updated via a special condition in WPD's licence which will governs which values will be updated, when and how.

Our charging volatility decision means that these updates will not change WPD's opening base revenue allowances for 2015-16.

Financial elements and DPCR5 close-out amounts

As stated in the strategy decision, some financial items are determined separately to the price control review process. These items will be finalised after the fast-track decision. They are:

- the allowed rate of return on debt, which is based on an index
- allocations to tax pools, which are set on a generic basis across all DNOs
- allowances for recovery of pension deficit, which we set following triennial pension reasonableness reviews
- legacy adjustments from DPCR5, which could affect both base revenue and the opening regulatory asset value (RAV) for RIIO-ED1.

¹⁰ Base revenue is the core amount of money that a network company can earn on its regulated business in order to recover the efficient costs of carrying out its activities. It does not include any incentive revenues. We note later in this chapter the elements of WPD's base revenue that may change subsequent to the fast-track decision.

¹¹ We consulted on the target setting methodology and set the targets for customer service and connections after the July business plan submission. Therefore these are not the values in WPD's original business plans.

¹² https://www.ofgem.gov.uk/sites/default/files/docs/decisions/ed1_revenuechange_decision.pdf

In addition, there are elements in DPCR5 that we do not propose to finalise until after it finishes. This is so we can use the reported data for the regulatory year from April 2014 to March 2015. For all DNOs, their allowed revenues in RIIO-ED1 will reflect these finalised close-out amounts.

We have updated the estimates for the above elements from those in WPD's July 2013 business plan. This is so we can use the most recent (and therefore most accurate) data possible in the numbers used to set the opening base revenue allowances for 2015-16. The updated figures are included in this final determination and the financial model we have published alongside it. We have also applied the profile that WPD included in its plan.

We will subsequently revise WPD's settlement to reflect actual finance and DPCR5 close-out amounts. This will not change WPD's opening base revenue allowances for 2015-16.

'No worse off' commitment

In our strategy decision we said we would ensure that a fast-tracked DNO is no worse off overall than if it had been slow-tracked and so been assessed using the information quality incentive (IQI) matrix.¹³ We will assess whether WPD is worse off after the draft determinations for the slow-tracked DNOs and will make any changes using a special condition in WPD's licence. If we decide any adjustments are required they will not affect the 2015-16 opening base revenue allowances, but will be applied from 2016-17 onwards. In our cost of equity decision we stated that we would also use the 'no worse off' commitment if we decide to increase our estimate of the cost of equity for DNOs.

Network Innovation Allowance

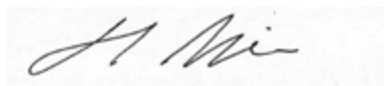
The amount each DNO receives as its Network Innovation Allowance (NIA) is assessed after the fast-track assessment. The NIA is an annual threshold for allowed expenditure on small-scale innovation, set at between 0.5 and 1 per cent of a DNO's base revenues. We set a DNO's NIA based on the quality of its innovation strategy. Since the slow-tracked DNOs will resubmit their innovation strategies as part of their plan resubmissions in March 2014, we stated that we would allow any fast-tracked DNO to submit a revised innovation strategy at the same time. We have published provisional NIAs for all DNOs.¹⁴ At this time, WPD's NIA is 0.5 per cent of base revenue. Final NIAs will be set as part of the final determinations for slow-tracked DNOs in November 2014, and we will update WPD's at the same time.

Next steps

We are working on amendments to WPD's licence to implement the final determinations. We have already consulted on draft modifications, and will issue a statutory consultation in March 2014. We expect to issue the revised licences for WPD in June.

The slow-track DNOs submit their revised business plans in March 2014. We expect the DNOs to improve their plans as part of the slow-track process, while keeping or improving the commitments in their original plans. We will publish draft determinations for these companies in July 2014, and final determinations in November 2014. We have included the RIIO-ED1 timetable in Appendix 3.

Yours faithfully



Hannah Nixon
Senior Partner, Smarter Grids and Governance: Distribution

¹³ The IQI is designed to encourage the companies to include accurate cost forecasts in their business plans, and we will create the IQI matrix during the slow-track assessment.

¹⁴ <https://www.ofgem.gov.uk/network-regulation-%E2%80%93-riio-model/riio-ed1-price-control>

Appendix 1. Summary of consultation responses

We received 15 non-confidential responses to our consultation. Of these, six (including Severn Trent Water, West Coast Energy, Coventry Citizen's Advice Bureau and the British Red Cross) said they had contributed to the development of the plans and could confirm that the plans fully reflect the views of Western Power Distribution's (WPD's) stakeholders.

Friends of the Peak District (FPD) do not support the proposal to fast-track WPD. It believes there has been too much focus on cost reduction and that we have not sufficiently challenged WPD's assertions about lack of stakeholder support for the full use of its undergrounding allowance. It does not believe that WPD stakeholders have such different views to those of other distribution network operators (DNOs) or nationally in our consultations. It also thinks we fail to explain why WPD can still be fast-tracked despite the lack of information and justification for its undergrounding proposals.

Note: WPD has been clear that those stakeholders it consulted did not agree with spending the full undergrounding allowance. We set the undergrounding allowance (which is a maximum level of spend) for each DNO in the strategy decision, and this same upper limit will still apply to WPD. The DNOs must consult with relevant stakeholders each year on how to focus undergrounding activities and allocate their fixed allowance. The extent to which stakeholder complaints have been considered will impact the Broad Measure of Customer Satisfaction.

Consumer Futures' response does not mention WPD. It comments on its engagement with DNOs in general on energy efficiency and low carbon, and expresses concern about how we will ensure this continues into RIIO-ED1. It wonders whether we will need to engage with certain stakeholders directly.

Suppliers

British Gas (BG) recognises that the fast-tracking decision has to view the plan as a total package, but thinks it is generous to WPD. It does not think that WPD's plans are good value for customers:

- the reliability targets are not challenging enough
- the cost of equity is too high
- it does not see why transition arrangements for the increase in asset life are required
- the real price effects (RPEs) in WPD's plan are too generous – setting a precedent for slow-track.

It agrees with our approach to rail electrification but is concerned making it ex ante for WPD will make it difficult to remove later.

Note: BG's comment on reliability relates to the policy in our strategy decision. We have met with them and explained why we disagree. Its issue with transition is another disagreement on policy. We consulted on both of these issues as part of our strategy development in RIIO-ED1, and gave reasons for our decisions in the strategy decision. This response has not changed our conclusions. For RPEs we acknowledged that WPD's figures are higher than some of the other DNOs. However we assess cost efficiency on total costs (totex); WPD was the most efficient and judged to be good value for money overall. We have made clear to the slow-tracked DNOs that elements of the WPD settlement do not set a precedent for slow-track, and we have described the methodology we think is appropriate for calculating RPEs.

In our consultation on the draft conditions for the fast-track licence, which we published at the end of January, we included a condition that ensures that if a party other than WPD contributes to the costs of diversions arising from the rail electrification schemes, these amounts will be deducted from WPD's allowed revenues.

EDF Energy focuses on price volatility. It recognises WPD's achievement of cost efficiencies following the acquisition of Central Networks, but thinks we should press for further efficiencies. It thinks rail electrification should be excluded from WPD's plan, since it has no confidence that it can be removed later (despite our proposed licence condition). It suggests that we should consider whether costs can be reduced further by extending the lives for new and existing assets.

Note: We have addressed most of EDF Energy's points in our notes to the previous response. With respect to extending the lives for all assets, there would be two ways to do this – either allow for depreciation on the un-depreciated portion of historic RAV additions or allow for depreciation on existing assets after reinstating depreciation to realign with the longer asset lives (and recognising a non-depreciable RAV discount to ensure RAV itself is not adjusted). The first option would create a significant differential between what current and future customers pay for these assets; the overall burden would not be reduced. The second would provide for a smoother path of charges, but would introduce a non-depreciable element in RAV. We believe the policy we have adopted is appropriate.

DNOs

The slow-track DNOs primarily focused on their disappointment in not being fast-tracked and the weaknesses they saw in our assessment of the business plans. Several of them made suggestions for the slow-track process.

Electricity North West notes that the cost assessment caused it not to be fast-tracked. It disagrees with aspects of our cost assessment and thinks that it could have been judged more efficient. It is keen to explore issues around the costs associated with being a single DNO rather than one of several owned by the same group.

Northern Powergrid agrees WPD should be fast-tracked – and thinks to do otherwise damages the RIIO model. It believes that WPD's cost of equity of 6.7 per cent is fully justified. It thinks we should not fast-track WPD on any basis that differs from its business plan – to do otherwise would be inconsistent with our policy on fast-tracking. It also questions whether WPD was allowed to amend its plan, specifically the reliability targets.

Note: All DNOs quantified their reliability targets in the tables submitted in their business plans. Where these targets varied from the ones we had calculated, we asked the DNOs whether their intent was to meet our targets or set more aggressive ones. WPD was the only group to confirm that it intended to set more aggressive targets.

SP Energy Networks says it was surprised by our lack of engagement (especially with engineering experts) during the business plan assessment. It thinks we applied new criteria and methods of assessment with no consultation. In particular, it questions why we gave credit for higher reliability targets, and not for other elements. It also says we have changed our approach to cost modelling. It feels that we did not give enough consideration to individual DNO circumstances.

It is surprised by our acceptance of WPD's proposed transition to longer asset lives; its high RPEs and poor innovation strategy. It says WPD has a low load trigger for major substations, and that this will increase customer bills compared to other DNOs for same level of risk. It feels WPD was permitted to modify an element of its plan (although it did not say what element) which went beyond simple error correction. It wants to understand the extent to which the WPD assessment sets a precedent for slow-track. It is keen to work with us before resubmission of its plans.

Notes:

- *We were clear that we would be assessing on the basis of the submitted plan, and that engagement would be limited to clarification.*
- *While some DNOs stated ambitions for performance under the Broad Measure of Customer Satisfaction, we were consulting (in parallel) on the target-setting approach for this output, and therefore did not consider DNO ambitions to be relevant or binding.*

However, for reliability the target-setting method was clear – and WPD chose to set out more aggressive targets. We factored the value of the target difference into the assessment of efficient costs because the enhanced target has a value to consumers and because it will cost WPD more to achieve these targets. In theory, if WPD had not included more aggressive targets its costs could have been even lower. When SP Energy Networks refers to “changes” in WPD’s plans we assume it is referring to the confirmation of reliability targets (as we explain in our notes to Northern Powergrid’s response).

- *We were clear in the strategy decision that the components of the toolbox used to assess efficient costs would not be finalised until we had received the business plans.*
- *In our strategy decision we stated that we would listen to arguments if DNOs wanted to justify a transition to longer asset lives.*
- *RPEs and innovation: as we stated in our assessment, we judged plans as a whole, and accepted that no plan would be perfect. We were clear at the time of the strategy decision that the innovation strategy would be judged in a parallel process, and that any fast-tracked company would be allowed to resubmit its strategy to give it the same opportunity to influence its innovation allowance as the slow-tracked companies.*

SSE Power Distribution welcomed our assessment that all DNOs have improved, and supported our holistic approach. It requested more detailed information and asked that in the future DNOs be more involved in the cost assessment. It also says it has found some fairly significant errors in our assessment. It would welcome more clarity on how we assessed WPD, particularly:

- passing all the assessment criteria despite us noting concerns over aspects of its plan
- our request for further justification in some areas rather than accepting the plan as submitted.

It believes not all of the four WPD licensees have costs that passed our threshold for cost efficiency. It thinks we need to explain why we decided to fast-track WPD rather than fast-track no one.

Note: our assessment was made as a whole, and recognised that no plan would be perfect. The only areas in which we are asking for further work are the areas that have always been identified as ongoing documents: the innovation and losses strategies, where we have been clear that all companies have the opportunity to update based on our feedback. All WPD licensees were clearly ahead of the others in terms of cost efficiency, and were at or below our threshold.

Appendix 2. Key elements of final determinations for WPD: West Midlands, East Midlands, South Wales, South West (WMID, EMID, SWALES, SWEST)

We have summarised the key elements of the final determinations for WPD’s four licensees in the tables in this chapter. Figures are (unless indicated otherwise) real in 2012-13 prices.

Figures have been updated from those in the draft determinations to reflect the change in WPD’s cost of equity. We have applied the revenue profiles that WPD submitted in its plans.

In the strategy decision we set upper and lower limits on the amounts DNOs could earn as rewards or pay as penalties for several incentives. These were given in basis points of Return on Regulatory Equity (RORE), but we said that these items would be fixed as financial values in the licence.

Table 1.1: WPD’s base revenue (“PU” term in the licence) and forecast impact on bills over RIIO-ED1¹⁵

		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
WMID									
Base revenue	£m	385.8	389.6	393.4	397.4	401.4	405.3	409.4	413.4
Bill impact	£	-7.92	0.75	0.77	0.79	0.79	0.79	0.80	0.81
EMID									
Base revenue	£m	386.0	389.8	393.6	397.6	401.5	405.5	409.6	413.7
Bill impact	£	-7.45	0.73	0.74	0.76	0.76	0.77	0.78	0.78
SWALES									
Base revenue	£m	198.7	200.6	202.5	204.6	206.7	208.7	210.8	212.9
Bill impact	£	-28.69	0.86	0.91	0.98	0.94	0.95	0.95	0.98
SWEST									
Base revenue	£m	286.9	289.6	292.4	295.4	298.4	301.3	304.3	307.3
Bill impact	£	-21.81	0.98	1.03	1.08	1.06	1.07	1.08	1.09

Table 1.2: Summary of WPD’s outputs

Outputs	
Safety	Compliance with the Health & Safety Executive
Customer satisfaction	<p>Target: WPD accepts our target setting methodology.¹⁶ This means that in order to perform well under this incentive WPD will need to deliver a level of service to all customers that is well above the current industry average and will compare favourably against other industries where similar metrics are used.</p> <p>Incentive: WPD’s performance will be assessed against a customer satisfaction survey, a complaints metric and an assessment on the quality of stakeholder engagement. Depending on how well they perform WPD could face the rewards or penalties in table 1.4.</p>
Connections	<p>Target: WPD accepts our target setting methodology for the Time to Connect incentive¹⁷</p>

¹⁵ The ‘Future changes’ section of the main letter explains why these amounts will change. However, the base revenue for 2015-16 has been fixed, as set out in the Charging volatility section.

¹⁶ We had not finalised the targets when the DNOs submitted their plans in July 2013. We issued our decision on the targets in December 2013: https://www.ofgem.gov.uk/sites/default/files/docs/decisions/decision_on_riio-ed1_customer_service_and_connection_incentives.pdf

¹⁷ We issued our decision on the targets for the Time to Connect in December 2013.

	<p>(for smaller connection customers) and our approach to assessing their responsiveness to larger connections customers through the Incentive on Connections Engagement. This means that in order to perform well under these incentives WPD will need to improve connection times for smaller customers and engage with larger customers to ensure it is meeting their needs.</p> <p><u>Incentive:</u> WPD’s performance will be assessed against the time it takes to issue quotes/make new connections and an assessment on the quality of its engagement with connection customers. Depending on how well they perform WPD could face the rewards or penalties in table 1.7.</p>
Environment	<p>WPD forecasts that it will spend £7.7m to underground 55km of lines in designated areas. It will reduce its business carbon footprint by 5 per cent and SF6 leakage by 17 per cent. It will take a holistic approach to network investment to reduce losses and will continue its current revenue protection services, and address electricity theft in conveyance and unmetered supplies in line with any licence obligations. We expect WPD to review and strengthen its losses reduction strategy, based on robust cost benefit analysis, at an early opportunity.</p>
Reliability	<p><u>Target:</u> WPD has set tougher targets for three of its DNOs than those calculated through our methodology. We set out WPD’s reliability targets in table 1.9.</p> <p><u>Incentive:</u> WPD accepts the incentive rate setting methodology we set out in the strategy decision. Depending on how they perform against the targets, WPD could face rewards or penalties in table 1.10.</p> <p>WPD has agreed with our proposed amendments to the guaranteed standards and relevant annual revenue exposure caps. Table 1.10 shows these values.</p> <p>Overall exposure across both IIS performance and the relevant guaranteed standards will be capped annually at the level in table 1.10.</p>
Social	<p>WPD has a comprehensive strategy which sets out its intention to adopt the British Standard of Inclusive Provision and implement a strategy to improve its understanding of consumer vulnerability. WPD will also improve the service provided for vulnerable customers and help to address fuel poverty through partnerships with regional agencies</p>

Expenditure				
	WMID	EMID	SWALES	SWEST
Total expenditure (base totex) ¹⁸	£2,106m	£2,111m	£1,123m	£1,715m

¹⁸ These are the figures used in our cost assessment. They may not match figures in WPD’s business plans, since WPD has used different categorisations of costs in some of its narrative.

Financial parameters	
Allowed return on equity (real post-tax)	6.4%
Allowed return on debt (real pre-tax)	Indexed using RIIO 10-year simple trailing average ¹⁹
Notional gearing	65%
Depreciation	Straight line: 20 years on existing assets; eight year transition to 45 years for new assets.
Totex capitalisation rate	80%
Efficiency incentive rate ²⁰	70%
Additional revenues in lieu of the IQI settlement ²¹ as percentage of total expenditure	2.5%
Uncertainty mechanisms	
WPD proposes the mechanisms set out in our strategy decision, as listed here	
indexation	RPI indexation of allowed revenues Cost of debt
pass-through	Business rates Ofgem licence fees DCC fixed costs
volume-driver	Smart meter roll-out costs
re-openers	Street works Enhanced physical site security High-value projects Load related expenditure Innovation roll-out mechanism Pension deficit repair mechanism
trigger	tax

Broad Measure of Customer Satisfaction

Table 1.4 contains the upper and lower limits on the revenues WPD's licensees can be exposed to (as rewards or penalties) under the different elements of the Broad Measure of Customer Satisfaction (BMCS).

In the strategy decision we said that the overall exposure to BMCS is +/- 86 basis points (bps) of RORE for all DNOs. We also gave the limits for the component parts of the BMCS – in percentage of base revenue, which we said we would convert to basis points of RORE before fixing in the licence.

Table 1.3 below shows how we got from the strategy decision values to basis points. Table 1.4 shows these converted into pounds, for every year of RIIO-ED1. These are the values which will be in WPD's licences.

¹⁹ We forecast for the first year of RIIO-ED1 that this will be 2.60%, giving a forecast vanilla, post-tax WACC of 3.9%.

²⁰ This is the share of any efficient under or overspend retained or borne by the DNO.

²¹ The IQI is designed to encourage DNOs to provide the best available information, and is calculated at slow-track.

Table 1.3: Maximum BMCS rewards and penalties in the strategy decision

		Maximum exposure		
		Percentage of annual base revenue (as per strategy decision)	Upper limit (bps RORE)	Lower limit (bps RORE)
Customer satisfaction survey	Connections	0.5/-0.5	28.7	-28.7
	Interruptions	0.3/-0.3	17.2	-17.2
	General enquiries	0.2/-0.2	11.5	-11.5
Complaints metric		0/-0.5		-28.7
Stakeholder engagement incentive		0.5/0	28.7	
Overall BMCS exposure		1.5/-1.5	86	86

Table 1.4: Maximum BMCS rewards and penalties (£m, 2012/13 prices)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Maximum upside supply interruptions								
WMID	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
EMID	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
SWALES	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
SWEST	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Maximum downside supply interruptions								
WMID	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
EMID	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
SWALES	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
SWEST	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
Maximum upside connections								
WMID	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
EMID	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
SWALES	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
SWEST	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Maximum downside connections								
WMID	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
EMID	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
SWALES	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
SWEST	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Maximum upside general enquiries								
WMID	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
EMID	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
SWALES	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
SWEST	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Maximum downside general enquiries								
WMID	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
EMID	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
SWALES	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
SWEST	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Maximum downside complaints metric								
WMID	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
EMID	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
SWALES	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
SWEST	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4	-1.4
Maximum upside stakeholder engagement incentive								
WMID	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
EMID	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
SWALES	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
SWEST	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4

Table 1.5 shows the incentive rates for the different elements of the BMCS for WPD's licensees.

On 2 December 2013 we published our decision on RIIO-ED1 customer service and connections incentives.²² In it we said that we would calculate the incentive rate by dividing the annual revenue exposure for each element by the difference between the maximum reward or penalty score and the target score (included in the decision).

Table 1.5: BMCS incentive rates (£m per scoring unit, 2012/13 prices)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Supply Interruptions Reward Incentive Rate								
WMID	1.74	1.74	1.74	1.74	1.74	1.74	1.74	1.74
EMID	1.68	1.68	1.68	1.68	1.68	1.68	1.68	1.68
SWALES	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80
SWEST	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
Connections Reward Incentive Rate								
WMID	2.90	2.90	2.90	2.90	2.90	2.90	2.90	2.90
EMID	2.81	2.81	2.81	2.81	2.81	2.81	2.81	2.81
SWALES	1.34	1.34	1.34	1.34	1.34	1.34	1.34	1.34
SWEST	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
General Enquiries Reward Incentive Rate								
WMID	1.16	1.16	1.16	1.16	1.16	1.16	1.16	1.16
EMID	1.12	1.12	1.12	1.12	1.12	1.12	1.12	1.12
SWALES	0.54	0.54	0.54	0.54	0.54	0.54	0.54	0.54
SWEST	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80
Supply Interruptions Penalty Incentive Rate								
WMID	-0.87	-0.87	-0.87	-0.87	-0.87	-0.87	-0.87	-0.87
EMID	-0.84	-0.84	-0.84	-0.84	-0.84	-0.84	-0.84	-0.84
SWALES	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
SWEST	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60
Connections Penalty Incentive Rate								
WMID	-1.45	-1.45	-1.45	-1.45	-1.45	-1.45	-1.45	-1.45
EMID	-1.40	-1.40	-1.40	-1.40	-1.40	-1.40	-1.40	-1.40
SWALES	-0.67	-0.67	-0.67	-0.67	-0.67	-0.67	-0.67	-0.67
SWEST	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
General Enquiries Penalty Incentive Rate								
WMID	-0.58	-0.58	-0.58	-0.58	-0.58	-0.58	-0.58	-0.58
EMID	-0.56	-0.56	-0.56	-0.56	-0.56	-0.56	-0.56	-0.56
SWALES	-0.27	-0.27	-0.27	-0.27	-0.27	-0.27	-0.27	-0.27
SWEST	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
Complaints Metric Incentive Rate								
WMID	-0.31	-0.31	-0.31	-0.31	-0.31	-0.31	-0.31	-0.31
EMID	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30
SWALES	-0.14	-0.14	-0.14	-0.14	-0.14	-0.14	-0.14	-0.14
SWEST	-0.21	-0.21	-0.21	-0.21	-0.21	-0.21	-0.21	-0.21

In the strategy decision we said that DNOs would face a penalty of 0.02 per cent of annual base revenue for each one per cent of calls to the DNO that are unsuccessful. Using the same conversions as above, this equates to 1.15 basis points of RORE which we have converted into pounds in table 1.6.

²² https://www.ofgem.gov.uk/sites/default/files/docs/decisions/decision_on_riio-ed1_customer_service_and_connection_incentives.pdf

Table 1.6: Unsuccessful call penalty incentive rate (£m per 1% of calls to the DNO that are unsuccessful, 2012/13 prices)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
WMID	-0.08	-0.08	-0.08	-0.08	-0.08	-0.08	-0.08	-0.08
EMID	-0.08	-0.08	-0.08	-0.08	-0.08	-0.08	-0.08	-0.08
SWALES	-0.04	-0.04	-0.04	-0.04	-0.04	-0.04	-0.04	-0.04
SWEST	-0.06	-0.06	-0.06	-0.06	-0.06	-0.06	-0.06	-0.06

Connections

Table 1.7 contains the upper and lower limits on the revenues WPD’s licensees can be exposed to (as rewards or penalties) under the Incentive on Connections Engagement (ICE) and the different elements of the Time to Connect incentive.

In the strategy decision we said that the overall exposure to connections incentives would be +23 and -52 basis points of RORE for all DNOs. In our decision on RIIO-ED1 customer service and connections incentives we said that we would place equal weighting on all four elements of the time to connect incentive – meaning that each has the same maximum upside calculated as a quarter of the overall maximum exposure.

Table 1.7: Maximum rewards and penalties for the ICE and each element of the Time to Connect incentive (£m, 2012/13 prices)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Maximum downside Incentive on Connections Engagement								
WMID	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7
EMID	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6
SWALES	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7	-1.7
SWEST	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5	-2.5
Maximum upside LVSSA Time to Quote								
WMID	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
EMID	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
SWALES	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
SWEST	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Maximum upside LVSSB Time to Quote								
WMID	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
EMID	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
SWALES	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
SWEST	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Maximum upside LVSSA Time to Connect								
WMID	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
EMID	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
SWALES	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
SWEST	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Maximum upside LVSSB Time to Connect								
WMID	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
EMID	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
SWALES	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
SWEST	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3

In our decision on RIIO-ED1 customer service and connections incentives we said that we would calculate the incentive rate by dividing the annual revenue exposure for each element by the difference between the maximum reward or penalty score and the target score (included in the decision). We also said that we will revise the target and maximum reward score after four years of RIIO-ED1. Therefore the incentive rates in table 1.8 below are for the first four years of RIIO-ED1 only.

Table 1.8: Time to Connect incentive rates (£m/scoring unit, 2012/13 prices)

	2015/16	2016/17	2017/18	2018/19
Incentive rate for the LVSSA Time to Quote				
WMID	0.22	0.22	0.22	0.22
EMID	0.22	0.22	0.22	0.22
SWALES	0.10	0.10	0.10	0.10
SWEST	0.15	0.15	0.15	0.15
Incentive rate for the LVSSB Time to Quote				
WMID	0.25	0.25	0.25	0.25
EMID	0.24	0.24	0.24	0.24
SWALES	0.12	0.12	0.12	0.12
SWEST	0.17	0.17	0.17	0.17
Incentive rate for the LVSSA Time to Connect				
WMID	0.04	0.04	0.04	0.04
EMID	0.04	0.04	0.04	0.04
SWALES	0.02	0.02	0.02	0.02
SWEST	0.03	0.03	0.03	0.03
Incentive rate for the LVSSB Time to Connect				
WMID	0.03	0.03	0.03	0.03
EMID	0.03	0.03	0.03	0.03
SWALES	0.01	0.01	0.01	0.01
SWEST	0.02	0.02	0.02	0.02

Reliability

Table 1.9 contains targets for customer interruptions (CIs) and customer minutes lost (CMLs) due to unplanned interruptions. For three of its DNOs, WPD has set CML targets that are tougher than the indicative targets calculated using the methodology we set out in the strategy decision. For one of its DNOs, WPD has set CI targets that are tougher than our methodology in several years. For this DNO, we have used whichever is the lowest between the WPD targets and our targets.

We have calculated the remaining targets using our methodology. We have included reliability data for 2012-13 which has been finalised with WPD. This means that some targets have changed since the draft determinations, since we did not have the finalised data at that point.

Table 1.9: Targets for the number and duration of unplanned interruptions

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Number of unplanned customer interruptions targets (CIs)								
WMID	86.7	85.0	83.3	81.7	80.0	78.3	76.7	75.1
EMID	51.9	51.1	50.4	50.1	49.9	49.6	49.4	49.1
SWALES	50.1	49.9	49.6	49.4	49.1	48.9	48.6	48.4
SWEST	55.7	55.4	55.1	54.8	54.6	54.3	54.0	53.7
Duration of unplanned customer interruptions targets (CMLs)								
WMID	51.1	50.3	49.5	48.7	47.9	47.1	46.4	45.6
EMID	37.8	37.6	37.3	36.5	35.7	34.9	34.2	33.5
SWALES	27.5	27.5	27.4	27.4	27.3	27.3	27.2	27.1
SWEST	35.8	35.6	35.4	35.2	35.0	34.8	34.6	34.4

We set the upper and lower limits on the revenues WPD's licensees can be exposed to (as rewards or penalties) under the interruptions incentive scheme (IIS) in the strategy

decision. These were in RORE basis points, which we said we would convert to financial values in the DNO licences. Table 1.10 shows these values.

We also provided the lower limit on revenue exposure for normal and severe weather guaranteed standard payments in the strategy decision, as well as the subsequent overall exposure to the IIS and related guaranteed standards payments. Again these were in basis points of RORE, which we have converted to pounds in table 1.10.

Table 1.10: Maximum rewards and penalties for each element of the IIS and guaranteed standards of reliability performance (£m, 2012/13 prices)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Maximum reward for customer interruptions and minutes lost								
WMID	17.7	17.7	17.7	17.7	17.7	17.7	17.7	17.7
EMID	17.1	17.1	17.1	17.1	17.1	17.1	17.1	17.1
SWALES	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2
SWEST	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2
Maximum penalty for customer interruptions and minutes lost								
WMID	-17.7	-17.7	-17.7	-17.7	-17.7	-17.7	-17.7	-17.7
EMID	-17.1	-17.1	-17.1	-17.1	-17.1	-17.1	-17.1	-17.1
SWALES	-8.2	-8.2	-8.2	-8.2	-8.2	-8.2	-8.2	-8.2
SWEST	-12.2	-12.2	-12.2	-12.2	-12.2	-12.2	-12.2	-12.2
Maximum penalty for severe weather events under the guaranteed standards of performance								
WMID	-14.6	-14.6	-14.6	-14.6	-14.6	-14.6	-14.6	-14.6
EMID	-14.2	-14.2	-14.2	-14.2	-14.2	-14.2	-14.2	-14.2
SWALES	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8	-6.8
SWEST	-10.1	-10.1	-10.1	-10.1	-10.1	-10.1	-10.1	-10.1
Maximum penalty for normal weather events under the guaranteed standards of performance								
WMID	-11.0	-11.0	-11.0	-11.0	-11.0	-11.0	-11.0	-11.0
EMID	-10.6	-10.6	-10.6	-10.6	-10.6	-10.6	-10.6	-10.6
SWALES	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1	-5.1
SWEST	-7.6	-7.6	-7.6	-7.6	-7.6	-7.6	-7.6	-7.6
Maximum penalty IIS and severe weather guaranteed standards								
WMID	-29.2	-29.2	-29.2	-29.2	-29.2	-29.2	-29.2	-29.2
EMID	-28.3	-28.3	-28.3	-28.3	-28.3	-28.3	-28.3	-28.3
SWALES	-13.5	-13.5	-13.5	-13.5	-13.5	-13.5	-13.5	-13.5
SWEST	-20.1	-20.1	-20.1	-20.1	-20.1	-20.1	-20.1	-20.1

We also included an indication of the strength of the financial incentives for CIs and CMLs in the strategy decision. We have updated these in table 1.11.

Table 1.11: CI and CML incentive rates (£m per CI or CML, 2012/13 prices)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
CI incentive rate								
WMID	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38
EMID	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
SWALES	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17
SWEST	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
CML incentive rate								
WMID	0.93	0.93	0.93	0.93	0.93	0.93	0.93	0.93
EMID	0.99	0.99	0.99	0.99	0.99	0.99	0.99	0.99
SWALES	0.42	0.42	0.42	0.42	0.42	0.42	0.42	0.42
SWEST	0.59	0.59	0.59	0.59	0.59	0.59	0.59	0.59

Table 1.12 contains the exceptionality thresholds for severe weather events and one-off exceptional events which licensees can use to claim exemption from their annual performance under the IIS.

Table 1.12: Thresholds for severe weather events and one-off exceptional events

	Severe weather event exceptionality threshold (number of weather related high voltage faults in a 24 hour period)	One-off exceptionality CIs threshold amount (in CIs)	One-off exceptionality CMLs threshold amount (in CMLs)
WMID	63	1.0	0.8
EMID	64	1.0	0.8
SWALES	41	2.3	1.8
SWEST	60	1.6	1.3

Uncertain costs

In the strategy decision we said that in order to trigger a re-opener, the DNO's qualifying expenditure needed to exceed a materiality threshold. This was set at one per cent of average annual base revenue over RIIO-ED1. Since expenditures are subject to the efficiency incentive, the threshold is increased by the efficiency incentive amount. We have calculated the threshold for WPD's licensees in table 1.13. This threshold also applies to the Innovation Roll-out Mechanism.

Table 1.13: Materiality threshold amount (£m, 2012/13 prices)

WMID	5.7
EMID	5.7
SWALES	2.9
SWEST	4.2

In the strategy decision we said that we would provide both an up-front allowance and additional funding via a volume driver mechanism for costs associated with the installation of smart meters. The values in table 1.14 are calculated from the data submitted by WPD's licensees and include the impact of price changes across the period.

Table 1.14: Allowed unit cost of smart meter interventions (£ per site, 2012/13 prices)

WMID	228
EMID	229
SWALES	243
SWEST	239

Load-related re-opener

In the strategy decision we described a specific re-opener to manage the uncertainty associated with load related expenditure. As well as the materiality threshold in table 1.12, this mechanism has an additional materiality threshold of 20 per cent of the combined ex-ante allowance for specified items for each DNO. This material amount and associated thresholds, as calculated for WPD's final determinations, are in table 1.15.

Table 1.15: Material amount and thresholds for load related expenditure (£m, 2012/13 prices)

	Material amount (20 per cent of load related expenditure)	Lower threshold for application and notification windows	Upper threshold for application and notification windows
WMID	44.6	178.6	267.9
EMID	59.4	237.7	356.6
SWALES	11.0	43.9	65.9
SWEST	19.2	76.7	115.0

As part of the net to gross licence condition we have taken WPD's forecasts of connection volumes and the amount of reinforcement expenditure that will be recovered from customers into account. Tables 1.16 to 1.19 show the percentage of reinforcement expenditure forecast to be recovered from customers, the five per cent tolerance band around these values, the associated number of connections and the £m value of the customer funding.

Table 1.16: Baseline percentage of Load Related Expenditure expected to be funded through specific customer-funded reinforcement (% of gross expenditure)

WMID	5%
EMID	4%
SWALES	13%
SWEST	8%

Table 1.17: Specific customer-funded reinforcement percentage band

	Upper threshold	Lower threshold
WMID	10.00	0.00
EMID	9.00	0.00
SWALES	18.00	8.00
SWEST	13.00	3.00

Table 1.18: Baseline volumes of connection projects by voltage

	LV	HV	EHV	132kV
WMID	409	831	13	0
EMID	460	785	15	0
SWALES	120	958	15	1
SWEST	233	1050	19	1

Table 1.19: Baseline specific customer-funded reinforcement (£m, 2012/13 prices)

WMID	11.5
EMID	13.3
SWALES	8.0
SWEST	8.7

Allowances for undergrounding and worst-served customers

In the strategy decision we set the upper thresholds for expenditures DNOs would be able spend on projects to underground cables in national parks and areas of outstanding natural beauty, and to improve the reliability of the supply to worst served customers.

While WPD indicated in its plans how much it expected to spend within these allowances, the upper threshold remains as set in the strategy decision. Table 1.20 shows WPD's worst served allowance, while table 1.23 shows WPD's undergrounding allowance. In the strategy decision we said that licensees could propose their own cap per worst served customer and required performance improvement levels based on stakeholder support and evidence. Tables 1.21 and 1.22 reflect the values contained in WPD's business plan.

Table 1.20: Annual allowance for worst served customers (£m, 2012/13 prices)

WMID	14.7
EMID	6.9
SWALES	2.6
SWEST	3.1

Table 1.21: Worst served cap per customer (£, 2012/13 prices)

WMID	800.0
EMID	800.0
SWALES	800.0
SWEST	800.0

Table 1.22: Worst served customer required performance improvement (per cent)

WMID	20.00
EMID	20.00
SWALES	20.00
SWEST	20.00

Table 1.23: Annual allowance for undergrounding in national parks and areas of outstanding natural beauty (£m, 2012/13 prices)

WMID	10.2
EMID	6.3
SWALES	5.3
SWEST	11.4

Appendix 3. RIIO-ED1 timetable

Phase	Year	Month	Milestone
Business Plan Assessment and Fast-Track Decision	2013	November	22nd – published business plan assessment and fast-track draft determinations (eight weeks)
	2014	January	22nd – consultation closed
		February	28th – publish fast-track decision and final determinations
March		17th – slow-track business plan resubmissions 28th – statutory consultation on fast-track licence modifications 31st – last date for DNOs to publish updated business plans on their websites 31st – publish invitation to comment (six week consultation)	
May		issue fast-track licence	
July		publish slow-track draft determination (eight week consultation)	
September		consultation closes	
November		publish slow-track final determinations	
Draft and Final Determination and Launch	2014	December	statutory consultation on slow-track licence modifications
	2015	April	1st – new price control commences