

RIIO-ED1: Informal consultation on fast-track licence drafting – Charge Restriction Conditions (Part 1)

Consultation

Publication date: 10 January 2014

Response deadline: 7 February 2014

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Overview

We are consulting on our proposed changes to the Charge Restriction Conditions (CRCs) required to implement the RIIO-ED1 price control settlement for the four licensees of Western Power Distribution (WPD). These conditions will apply from 1 April 2015.

This consultation is in two parts. We will publish a second licence consultation 'RIIO-ED1: Informal consultation on fast-track licence drafting – Charge Restriction Conditions (Part 2)' on 31 January 2014. This will consult on draft CRCs not included in this consultation.

On 22 November 2013, we proposed to fast-track (settle the price control early) the four licensees of Western Power Distribution (WPD). This document consults on a subset of the licence changes that will enable us to implement WPD's settlement, should we decide to fast-track it.

Context

RIIO-ED1 is the first electricity distribution price control to reflect the new RIIO (Revenue = Incentives + Innovation + Outputs) model. In the RIIO-ED1 price control review we will set the outputs that the 14 electricity distribution network operators (DNOs) need to deliver for their consumers and the associated revenues they are allowed to collect. The RIIO-ED1 review covers the eight-year price control period which lasts from 1 April 2015 to 31 March 2023.

In March 2013 we published our Strategy decision on the key elements of the regulatory framework that the DNOs would need to understand to develop their business plans.

On 22 November we concluded our assessment of the DNOs' business plans. We published our assessment and proposed that Western Power Distribution's (WPD) plans for its four DNOs are of sufficiently high quality that its price control could be settled early. To finalise the settlement we need to change WPD's licence conditions. These changes come in two parts: the Standard Licence Conditions (SLCs), which apply to all DNOs, and Charge Restriction Conditions (CRCs), which are individually applicable to each DNO.

If we conclude that fast-tracking WPD is appropriate then we will aim to make the necessary modifications to WPD's CRCs. At the same time, where possible, we will look to make changes to the SLCs that can be modified early for all electricity distributors. We will seek to implement these licence changes by May, with most conditions becoming active on 1 April 2015.

Associated documents to this consultation

Documents published alongside this consultation

- Supplementary annex 1: Draft RIIO-ED1 fast-track CRC licence changes
- Supplementary annex 2: Response template
- Supplementary annex 3: Stakeholder engagement incentive guidance

Other relevant documents

- [Informal licence consultation for SLCs](#)
- [Assessment of RIIO-ED1 business plans and fast-tracking](#)
- [RIIO-ED1 Draft Determinations for Western Power Distribution Ltd](#)
- [Strategy decision for RIIO-ED1 – Overview](#)
- [RIIO ED1 Glossary](#)

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Executive summary

On 22 November 2013 we published our assessment of the business plans submitted by the DNOs.¹ We concluded that Western Power Distribution's (WPD) business plans, for its four licensees, are the only plans that are high quality across the board and offer value for money for consumers. We are therefore consulting on concluding WPD's price control settlement early ('fast-tracking'). At the same time we also published the Draft Determinations for WPD, setting out the details of its proposed settlement.² The consultations remain open for comment until 22 January 2014.

The price control settlement is implemented through the licence for the DNOs. The licence comprises of Standard Licence Conditions (SLCs), which are applicable to all DNOs, and Charge Restriction Conditions (CRCs) which are unique to each DNO.

This document consults on drafts of the proposed changes to the CRCs that are required to implement RIIO-ED1 for WPD. The licences for WPD will be settled earlier than the other DNOs (the slow-track companies).

We recognise that further work is required to finalise the conditions and ensure they reflect the Final Determinations for WPD which we expect to publish in February 2014. We intend to conduct the requisite 28 day statutory consultations on the changes to WPD's CRCs in March and publish the licence modification decisions in May. The majority of CRCs for WPD will become active on 1 April 2015.

We are also conducting a parallel consultation 'RIIO-ED1: Informal consultation on licence drafting–Standard Licence Conditions'. This sets out our current thinking on how the SLCs for all the DNOs should be amended to bring into force the RIIO-ED1 price control.³ Where possible, we intend to modify the SLCs, on the same timetable being used to implement the CRCs for WPD.

There will be an additional licence consultation 'RIIO-ED1: Informal consultation on fast-track licence drafting – Charge Restriction Conditions (Part 2)' on 31 January 2014. This will consult on drafts of a number of licence conditions not included in this consultation.

¹ RIIO-ED1 Business plan assessment and fast-tracked consultation - <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-business-plan-assessment-and-fast-tracked-consultation>

² RIIO-ED1 Draft Determinations for Western Power Distribution Ltd - <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-draft-determinations-fast-tracked-distribution-network-operators--western-power-distribution>

³ RIIO-ED1: Informal consultation on licence drafting–Standard Licence Conditions - <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-informal-consultation-fast-track-licence-drafting-%E2%80%93-standard-licence-conditions>

1. Introduction

Chapter Summary

A guide to the purpose and structure of the document. It also provides an overview of our approach to licence drafting and our next steps in the licence development process.

Purpose of this document

1.1. In this document we set out our current thinking on the proposed changes to the Charge Restriction Conditions (CRCs) for the four licensees owned by Western Power Distribution (WPD). We are currently consulting on our proposal to fast-track WPD.

1.2. Through this consultation we are seeking your views on whether our proposed licence drafting reflects the policy position detailed in the Strategy decision and within the Draft Determinations published for Western Power Distribution (WPD).⁴

1.3. We have also published 'RIIO-ED1: Informal consultation on licence drafting – Standard Licence Conditions' ('SLC Informal Consultation') which we are consulting on in parallel. It sets out our current thinking on how the Standard Licence Conditions (SLCs) of all the electricity distributors should be modified to bring into force the RIIO-ED1 price control.⁵

1.4. We will publish a second licence consultation 'RIIO-ED1: Informal consultation on fast-track licence drafting – Charge Restriction Conditions (Part 2)' ('CRC Informal consultation part 2') on 31 January 2014. This will consult on:

- drafts of a number of CRCs not included in this consultation
- the ED1 Price Control Financial Handbook
- electricity distribution price control 5 (DPCR5) policy changes that are required to close out DPCR5 schemes during RIIO-ED1.

⁴ Strategy decision for the RIIO-ED1 electricity distribution price control - <https://www.ofgem.gov.uk/publications-and-updates/strategy-decision-riio-ed1-overview> and the RIIO-ED1 Draft Determinations for fast-tracked Distribution Network Operators – Western Power Distribution available here - <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-draft-determinations-fast-tracked-distribution-network-operators---western-power-distribution>

⁵ RIIO-ED1: Informal consultation on licence drafting–Standard Licence Conditions - <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-informal-consultation-fast-track-licence-drafting-%E2%80%93-standard-licence-conditions>

1.5. Should we decide to fast-track WPD, we expect to publish its Final Determinations in February. In March we aim to publish the statutory consultations on:

- the final set of CRCs for WPD’s four licensees
- the SLCs, covering all DNOs and, in some cases, Electricity Distributors, that can be finalised early.

1.6. We intend to publish the licence modifications in May. This will bring the relevant licence conditions (both SLCs and CRCs) into force from 1 April 2015.⁶

1.7. The timetable for making the necessary RIIO-ED1 licence changes for both SLCs and CRCs is set out at the end of this chapter. This includes the approach we will follow to make changes for slow-track companies’ CRCs and for SLC that we are unable to finalise early.

Types of licence conditions

1.8. There are two types of licence condition in electricity distribution licences - SLCs and CRCs.

Standard Licence Conditions (SLCs)

1.9. SLCs set out the duties and obligations applicable to all holders of an electricity distribution licence. They are shared conditions. The SLCs are grouped into two sections. Section A applies to all electricity distributors, both DNOs and independent distribution network operators (IDNOs). Section B applies only to DNOs. SLCs do not feed into the determination of the DNOs’ allowed revenue – this is done through the CRCs.

Charge Restriction Conditions (CRCs)

1.10. CRCs apply specifically to each licensee (ie each DNO has its own set). However, certain conditions may be similar and, in some cases, identical across the DNOs. Broadly, CRCs place obligations on companies that have an impact on their allowed revenue.

Approach to licence drafting for RIIO

Licence Drafting Working Group

1.11. We have created a Licence Drafting Working Group (LDWG) consisting of members of the Ofgem team and DNO representatives. This group meets regularly to

⁶ Except CRC 4C (Price Control update provisions for Fast-Track licensees) which will come into force for WPD licensees in Summer 2014 and is in effect until 1 April 2015.

review and develop the licence conditions. The DNOs have been very committed to this process and have provided constructive feedback. We will continue to hold LDWG meetings over 2014, to finalise the fast-track licence and develop the CRCs and any remaining SLCs for the slow-track companies.

Licence structure

1.12. Where possible, we have looked to build on the CRCs in place for the current price control, DPCR5. However, implementing new policy for RIIO-ED1 has required major change to most of the CRCs.

1.13. We have proposed a completely new structure for the RIIO-ED1 CRCs which is explained in Chapter 2 of this consultation.

1.14. The draft licence conditions in this consultation apply to the fast-track licensees owned by WPD. We expect that the CRCs applicable to WPD will strongly influence how the CRCs are developed for the slow-track companies.

1.15. While CRCs apply to each licensee individually, we will seek to maintain the same content and numbering for each licensee. This is the same principle as adopted in the current (DPCR5) licences. Where company-specific elements are required, the licence will:

- include tables containing licensee-specific values (eg revenue allowances, costs or incentives rates)
- be clear where any obligations are licensee-specific (eg parts of a condition or a whole licence condition).

Timetable for RIIO-ED1 licence development

1.1. The timetable for making the necessary RIIO-ED1 CRC and SLC licence changes is set out in Table 1, including for the slow-track companies.

Table 1: Timetable for RIIO-ED1 licence development

Stage	Date
Charge Restriction Conditions	
<i>WPD</i>	
CRC Informal consultation part 2	31 January 2014
28 day statutory licence modification consultations and notices published	March 2014
Licence modification decisions and modifications published	May 2014
Licence changes come into force*	1 April 2015
<i>Slow-track companies</i>	
Informal licence drafting consultation	September 2014
28 day statutory licence modification consultations and notices published	December 2014/ January 2015
Licence modification decisions and modifications published	February 2015
Licence changes come into force	1 April 2015
Standard Licence Conditions	
<i>All Electricity Distributors: RIIO-ED1 SLC modifications that can be finalised early</i>	
28 day statutory licence modification consultation and notices published	March 2014
Licence modification decision and modifications published	May 2014
Licence changes come into force	1 April 2015
<i>All Electricity Distributors: RIIO-ED1 remaining SLC modifications</i>	
Informal licence drafting consultation	September 2014
28 day statutory licence modification consultation and notices published	December 2014/ January 2015
Licence modification decision and modifications published	February 2015
Licence changes come into force	1 April 2015
*Except for condition CRC 4C (Price Control update provisions for Fast-Track licensees), which will come into force for WPD licensees in Summer 2014 and is in effect until 1 April 2015.	

Responding to this consultation

1.2. We would like to hear your views on the proposed changes to WPD’s CRCs required to implement its fast-track settlement. The proposed CRCs are set out in Supplementary annex 1: Draft RIIO-ED1 Fast-track CRC licence changes. We welcome comments on the proposed drafting and the specific questions posed in within this consultation.

1.3. If you would like to submit your views, please use the Response Template (Supplementary annex 2) to provide any substantive feedback on each licence

condition and ensure that any points raised in the cover letter are also made in the Response Template. You can supply any minor points on the individual licence drafts (eg formatting and drafting improvements) in a tracked-change version of the relevant licence condition.

Structure of this document

1.4. The remainder of this document is structured as follows:

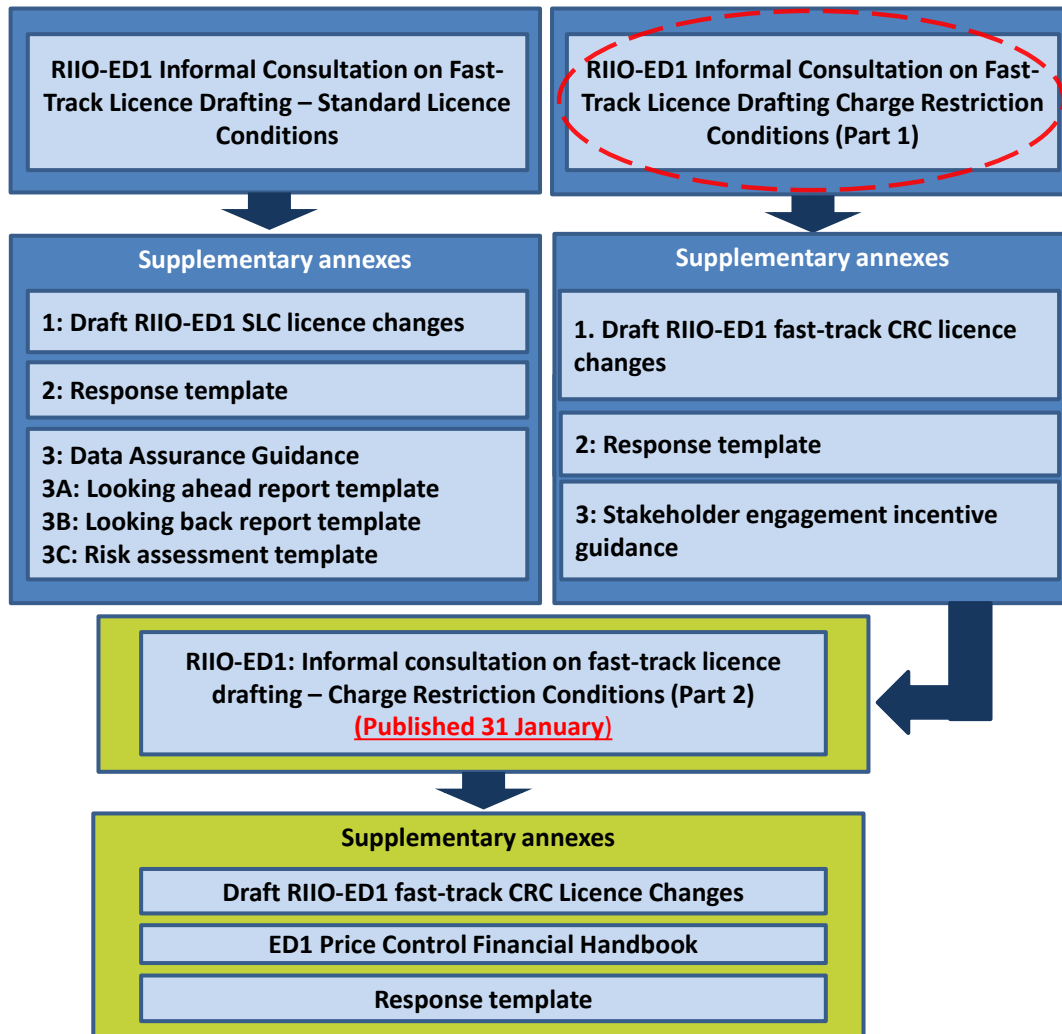
- Chapter 2 outlines the proposed new structure for the RIIO-ED1 CRCs
- Chapter 3 details the proposed change to each CRC, the reason behind the change and the intended effect each
- Chapter 4 outlines the associated documents that are being created for RIIO-ED1 through the changes to the licence.

1.5. Alongside this document we have also published the following Supplementary annexes:

- Supplementary annex 1: Draft RIIO-ED1 fast-track CRC licence changes
- Supplementary annex 2: Response template
- Supplementary annex 3: Stakeholder engagement incentive guidance

1.6. Figure 1.1 below maps out the documents being published today.

Figure 1.1: Map of the RIIO-ED1 Informal Consultation Documents



2. New structure of the CRCs

Chapter Summary

An overview of our proposed new structure for the RIIO-ED1 CRCs. We expect that this structure will apply to both WPD and slow-track companies.

2.1. Where possible, we have looked to incrementally adapt the CRCs currently in force for DPCR5 in a way that retains their look and style. However, implementing new policy for RIIO-ED1 means that we are proposing some significant changes to the content of the CRCs. These include:

- amendments to current conditions
- the removal of current conditions
- the introduction of completely new conditions.

2.2. Given the extensive number of proposed changes to the CRCs, we believe that retaining the current licence numbering has no benefit. We propose to change the numbers of all CRCs that are retained for RIIO-ED1. We also propose to group CRCs into chapters to ensure that similar types of conditions are together. For example, we have created a specific chapter to hold all the variables that may be adjusted through the annual iteration of the Price Control Financial Model.

2.3. The introduction of chapters will also help retain a coherent structure in the event that any CRCs are added or removed during the RIIO-ED1 price control period.

Proposed new structure

2.4. Our proposed new structure, including new numbering and condition names, is outlined in Appendix 2. The table shows:

- conditions that are new for RIIO-ED1
- current DPCR5 conditions that are being changed
- the number, if applicable, of the current DPCR5 condition
- which of the current DPCR5 conditions we propose to remove.

2.5. Appendix 2 also highlights if a licence condition governs an 'associated document'. Associated documents are more detailed guidance or instruction documents which are given legal authority via the licence.

2.6. Chapter 4 contains further information on the CRC associated documents for RIIO-ED1.

3. Proposed changes to the CRCs

Chapter Summary

Sets out our proposed changes to the CRCs for WPD and our reasons for these as well as their intended effect.

Question 1: Do you have any views on the proposed changes to the CRCs? The draft licence conditions are found in Supplementary annex 1.

Question 2: Do you have any views on the reasons and effects for the licence changes?

Types of CRC change

3.1. The proposed licence adjustments fall into three broad categories:

- amendment to a current CRC
- removal of a CRC that was required for DPCR5, but not for RIIO-ED1
- new CRC for RIIO-ED1.

3.2. Where we refer to the 'current' condition, or what a condition 'currently' refers to, we are referring to the condition in the current (DPCR5) licence.

Amendment to current CRCs

3.3. We have proposed amendments to some of the current CRCs to reflect the new RIIO-ED1 policy and ensure that they can operate under the RIIO regulatory framework.

3.4. Some amendments to particular CRCs are relatively minor, while others are numerous and substantive. For minor ones, we have shown the amendments in tracked changes made to the current DPCR5 condition. We have not done so for the major changes to current CRCs.

Removal of CRCs from licence

3.5. We propose that some DPCR5 CRCs should no longer exist for RIIO-ED1. This is typically because a change in policy means that the incentive is no longer applicable.

New CRCs for RIIO-ED1

3.6. We have proposed some new CRCs. This is to reflect new policy being introduced for RIIO-ED1.

Draft RIIO-ED1 licence conditions

3.7. Our proposed CRC licence changes are in Supplementary annex 1: Draft RIIO-ED1 Fast-track CRC licence changes. This does not include all the proposed CRCs since some are still being developed. These conditions will be included in CRC Informal consultation part 2, which will be published on 31 January 2014. This means that stakeholders will have had an opportunity to comment on all the CRCs before the fast-track licence statutory consultation in March 2014.

Reasons and effects for proposed CRC changes

3.8. The reasons and effects for the proposed CRCs in the order they appear in our proposed new structure of the licence for RIIO-ED1 (see Appendix 2).

Chapter 1

CRC 1A. Overview of Part 4

Type of change: Amendment to current CRC

Current number: CRC 1

Current name: Overview of Part 4

3.9. This condition modifies CRC 1 of the current licence, which provides an overview of the CRCs Part 4 of the licence. The reasons for the proposed changes are:

- to ensure that CRC 1A accurately describes the revised scope and structure of Part 4 of the RIIO-ED1 licence
- to remove from CRC 1A, provisions which would duplicate other provisions contained in Part 4, so as to avoid the possibility of inconsistencies and confusion.

3.10. The effects of the modifications are to:

- renumber the condition as CRC 1A
- set out the scope of Part 4
- add a new part to the condition which describes the structure of Part 4
- add a new part to the condition to set out the acronyms used throughout the CRCs to refer to the licensed Electricity Distributors
- no longer include the definition of CRC, which is instead proposed to be set out in standard condition 1, of the RIO-ED1 licence
- no longer to include a description of how the CRCs may be modified.

CRC 1B. Interpretation of Part 4

Type of change: Amendment to exiting CRC

Current number: CRC 2

Current name: Definitions for the Charge Restriction Conditions

3.11. This condition modifies CRC 2 of the current licence, which sets out defined terms and their definitions for the Charge Restriction Conditions. The reasons for the proposed new condition, including differences with the current condition, are:

- to incorporate all overarching provisions relating to the interpretation of Part 4 within one condition
- to update the defined terms and their definitions proposed to apply to revised Part 4.

3.12. The effects of the modifications are:

- to renumber the condition to CRC 1B and to amend its title
- to update the defined terms and their definitions.

Chapter 2

CRC 2A. Restriction of allowed distribution network revenue

Type of change: New condition which replaces three current conditions

Current conditions: CRC 3, 5 and 14

Current names: Restriction of Distribution Charges: Use of System Charges, Restriction of Distribution Charges: non-generation incentive revenue adjustment, and Distribution Charges: supplementary restrictions

3.13. The reason for this proposed condition is to ensure that the licensee's charges are consistent with its allowed expenditure.

3.14. The effect of this condition is to allow distribution network revenue the licensee can recover from customers, in each year of the price control period. This condition totals variables populated by other CRCs. It also sets out the calculation of the price index adjustment factor used throughout the licence and the correction factor (K) for the treatment of over/under recovered revenue.

3.15. This condition replaces the current conditions CRC 3, CRC5 and CRC 14. CRC 3 set out the restriction of distribution charges: use of system charges; CRC 5 set out the restriction of distribution charges: non-generation incentive revenue adjustment and CRC 14 set out the calculation of the correction factor (K). For RIIO-ED1 we consider that it is efficient to combine these conditions into a single condition, and that we can do this without making significant changes to the intent of the current conditions.

3.16. This condition also gives effect to the new annual iteration process of the price control financial model. This process creates a term known as MODt which is included in the calculation of allowed distribution network revenue.

3.17. This condition gives effect to aspects of our October 2012 decision to mitigate network charging volatility, and its effects, by modifying the way the correction factor (K) operates.⁷ It will now operate with a two year lag and the band in which no penalty applies has been doubled (to take account of the fact that changes to charges are no longer applicable on dates other than 1 April). The condition also allows for a further penalty to be applied for persistent over/under recovery.

3.18. This condition also gives effect to our decision to change the way the price indexation adjustment factor is calculated.⁸ The effect of applying this decision is the creation of a new price indexation adjustment factor called RPIft and a true up to account for the difference between forecast and actual inflation, known as TRUt.

CRC 2B. Calculation of allowed pass-through items

Type of change: Amendment

Current number: CRC 4

Current name: Restriction of Distribution Charges: calculation of the Allowed Pass-Through Items

3.19. The reason for this proposed condition is to continue to allow licensees to pass-through a defined list of costs to customers and reduce charging volatility by introducing a two-year lag.

3.20. The effect of this condition is to calculate the pass-through costs that the licensee is allowed to recover from customers.

3.21. There are no significant changes to the broad intent of the current condition. We have made changes in the following areas:

- several pass-through terms have been added and removed from the Principal Formula set out in our Strategy decision, of the current condition to reflect the policy set out in our Strategy decision for the RIIO-ED1 electricity distribution price control (Strategy decision)
- changes have been made to reflect the Authority's decision on measures to mitigate charging volatility, by introducing a two year lag to the adjustments.⁹

⁷ Decision in relation to measures to mitigate network charging volatility arising from the price control settlement (Oct 2012): <https://www.ofgem.gov.uk/ofgem-publications/50572/cvdecision.pdf>

⁸ Decision on the RPI indexation method to apply to allowed revenues in the forthcoming RIIO price controls (T1 and GD1) and the TPCR4 rollover (July 2011): <https://www.ofgem.gov.uk/ofgem-publications/53813/rpi-issue-decision-letter.pdf>

⁹ Decision in relation to measures to mitigate network charging volatility arising from the price control settlement (Oct 2012): <https://www.ofgem.gov.uk/ofgem-publications/50572/cvdecision.pdf>

CRC 2C. Broad measure of customer service

Type of change: Amendment

Current number: CRC 8

Current name: Adjustment of licensee’s revenues to reflect quality of service performance

3.22. This condition calculates the revenue-adjusting term that reflects the licensee's performance against the Broad Measure of Customer Service, which was set out as part of the Strategy decision.

3.23. This condition amends Part D of CRC8 (Adjustment of licensee revenues to reflect quality of service). The condition:

- amends the structure
- removes the overall component of the Customer Satisfaction Survey
- updates the target/maximum reward/maximum penalty for the Customer Satisfaction Survey
- introduces the proportion of unsuccessful calls into the DNO’s performance under the interruptions element of the Customer Satisfaction Survey
- updates the weightings of the complaints metric
- updates the target/maximum penalty score for the complaints metric.

3.24. This condition also establishes the Stakeholder Engagement Incentive Guidance which provides information on the governance arrangements of the Stakeholder Engagement incentive. This is an associated document to the licence. Further information on this can be found in Chapter 4 of this consultation.

3.25. The effect of this new condition is to enable the licensee to recover revenue streams that are consistent with our Strategy decision.

CRC 2D. Adjustment of licensee’s revenues to reflect interruptions related quality of service performance

Type of change: Amendment

Current number: CRC 8 (excluding Part D)

Current name: Adjustment of licensee’s revenues to reflect quality of service performance

3.26. We propose to amend the current condition to reflect the separation of the planned and unplanned elements of the targets for the number of Customer interruptions and the duration of Customer interruptions, the updated targets for the number of Customer interruptions, and the duration of Customer interruptions. The threshold values for both types of exceptional events have been amended, along with the revenue exposure terms and the incentive rates.

3.26. The effect of the separation of the planned and unplanned targets is to provide clarity to stakeholders with regards to the interruptions performance arising from

planned and unplanned interruptions versus the targets that have been set. The effect of updating the targets, the exceptionality thresholds and the exposure terms is a standard aspect of the price control settlement.

CRC 2E. Incentive on connections engagement

Type of change: New condition

3.27. The reason for introducing this new condition is to calculate the revenue-adjusting term that reflects the licensee's performance as part of the Incentive on Connections Engagement, which was set out as part of the Strategy decision.

3.28. The effect of this new condition is to enable the licensee to incur penalties where it fails to meet the criteria in relation to its connections activities set out in the Incentive on Connection Engagement Guidance. The Incentive on Connection Engagement Guidance is an associated document to the licence. Further information on this associated document can be found in Chapter 4 of this consultation.

CRC 2F. Time to connect incentive

Type of change: New condition

3.29. The reason for introducing this new condition is to calculate the revenue-adjusting term that reflects the licensee's performance against our new Time to Connect Incentive, which was set out as part of the Strategy decision.

3.30. The effect of this new condition is to enable the licensee to recover revenue streams for the RIIO-ED1 Time to Connect Incentive.

CRC 2G. The losses discretionary reward

Type of change: New condition

3.31. The reason for introducing this new condition is to provide the revenue-adjusting term that reflects any additional revenue the Authority may at its discretion, award the licensee under the Losses Discretionary Reward, which was set out as part of the Strategy decision.

3.32. The effect of this new condition is to enable the licensee to collect revenue rewards awarded under the Losses Discretionary Reward. The condition also introduces the Losses Discretionary Reward Guidance Document which will set out the criteria that needs to be met by the licence to be eligible for any reward. Further information on this associated document can be found in Chapter 4 of this consultation.

CRC 2H. The Network Innovation Allowance

Type of change: New condition

3.33. In the Strategy decision we outlined the proposed introduction of an innovation stimulus. One component of the innovation stimulus is a Network Innovation Allowance (NIA). The NIA is a set allowance of funding for the licensees to spend on smaller scale innovative projects with potential financial benefits to consumers. The purpose of this condition is to establish the NIA arrangements.

3.34. The effect of this condition is to establish arrangements, known as the Network Innovation Allowance. The condition sets out:

- that the detailed regulation, governance and administration of the NIA will be set out in the NIA Governance Document and that this document should be complied with as if it formed part of the licensee's licence (the NIA Governance Document is an associated document to the licence and further information on it can be found in Chapter 4 of this consultation)
- the percentage of each licensee's base revenue it can spend on innovative projects that conform to the NIA Governance Document, this being provided on a use it or lose it basis
- the scope of the NIA Governance Document
- the change control processes for the NIA Governance Document, and
- finally, that only NIA expenditure that conforms to the requirements of the NIA Governance Document will be considered eligible.

CRC 2I. Not used

Type of change: New condition

3.35. The reason for introducing this condition is to provide the licensee with clarity that that this condition is not used in its pack of CRCs.

3.36. The introduction of this condition has no effect on any party.

CRC 2J. Low Carbon Networks Fund

Type of change: Amendment

Current number: CRC 13

Current name: Low Carbon Networks Fund

3.37. In the Strategy decision we outlined the introduction of an innovation stimulus and the proposed removal of the Low Carbon Networks (LCN) Fund.

3.38. The LCN Fund consists of a First Tier and a Second Tier. As outlined in the Strategy decision, the First Tier of the LCN Fund will be replaced by the NIA. The Second Tier will be replaced by the electricity Network Innovation Competition (NIC).

The final Second Tier competition in the LCN Fund will take place in 2014 with funding being transferred to successful licensees in 2015.

3.39. In addition, a number of Second Tier projects awarded funding during DPCR5 will continue into RIIO-ED1. We may also award some Discretionary Reward funding beyond April 2015 for exceptional Projects – which were awarded funding during DPCR5. There will be no First Tier projects continuing into RIIO-ED1, as these will need to be registered under the NIA.

3.40. We have modified the current condition to enable us to continue monitoring ongoing Second Tier projects, retain the ability to halt projects and disallow expenditure, and disallow any expenditure under the First Tier which may have been misspent during DPCR5.

3.41. The effect of the modified condition is to continue the arrangements for the Second Tier of the LCN Fund and maintain the eligibility requirements for the First Tier of the LCN Fund (while there will be no First Tier Projects this will continue to allow us to claw back funding if we discover it has been ineligible). This includes:

- the First Tier funding mechanism which outlines the requirements for First Tier Projects
- the Second Tier and Discretionary Funding Mechanism which outlines the circumstances under which the licensee will receive funding and the circumstances under which the licensee must return money
- maintaining that the regulation, governance and administration of the LCN Fund will be detailed in the LCN Fund Governance Document
- maintaining that the licensee must comply with the LCN Fund Governance Document as if it forms part of the licence
- maintaining the procedures for issuing and revising the LCN Fund Governance Document.

3.42. The LCN Fund Governance Document is an associated document to the licence. Further information on this document can be found in Chapter 4 of this consultation.

CRC 2K. Margins on licensee's connection activities

Type of change: Amendment

Current number: CRC 12

Current name: Licensee's Connection Activities: Margins and the development of competition

3.43. The reason for modifying the current condition is to update the licence condition following the outcome of the DPCR5 Competition Test process.

3.44. In the modified condition we have:

- removed the mechanism for licensees to apply for margin regulation to be lifted in Relevant Market Segments that pass a Legal Requirements Test and Competition Test
- removed Appendix 2 of the licence condition that requires for licensees to provide an independent audit report verifying that systems and processes are in place to comply with Connections Regulations and Distributed Generation Connection Standards.

3.45. The revised condition also adds a mechanism for the Authority to direct the level of margin that a licensee may charge for connection activities in market segments where the Authority has not determined that effective competition has been established.

3.46. The title has been updated as a consequence of the proposed changes.

3.47. The effect of this condition is to enable the licensee to recover an unregulated margin on contestable connection activities in Relevant Market Segments that have passed the Legal Requirements and Competition Tests by 31 December 2013. The amendment enables the Authority to determine the level of margin that the licensee may recover on contestable connection activities in Relevant Market Segments that have not passed the Legal Requirements and Competition Tests by 31 December 2013.

CRC 2L. Revenue adjustments in respect of performance failures

Type of change: Amendment

Current number: CRC 12 - Appendix 3.

Current Name: Licensee's Connection Activities: Margins and the development of competition. Appendix 3 - Revenue adjustments in respect of performance failures.

3.48. The reason for modifying the current condition is to introduce a separate licence condition for revenue adjustments in respect of connection performance failures. Our proposed changes also simplify the current licence condition structure.

3.49. In the modified condition we have:

- updated the licence condition and the revenue exposure, to reflect that RIIO-ED1 is an eight year long price control
- simplified the formula.

3.50. The effect of this condition is to continue current arrangements that place an overall cap on licensees' liabilities under the connection Guaranteed Standards of Performance scheme, with payments beyond this level being funded through distribution use of system charges.

CRC 2M. Adjustment of licensee’s revenues for the residual distribution losses incentive (PPL)

Type of change: Amendment

Current number: CRC 7

Current name: Adjustment of licensee’s revenues to reflect distribution losses performance

3.51. The residual losses incentive from the DPCR4 price control period (the PPL term) was originally due to be recovered during DPCR5 through licence condition CRC 7. Owing to volatility of data used to measure losses in 2009-10, we are still in the process of closing out the losses mechanism for DPCR4 and have yet to direct the PPL term. On 25 April 2013, we issued a letter stating that the earliest year for which we will be directing recovery of the PPL term is likely to be 2015-16, the first year of RIIO-ED1. That letter also made clear that we will direct the period for recovery taking account of the date on which the direction is made.¹⁰

3.52. Therefore we propose to include a licence condition in the RIIO-ED1 licence to update the current CRC 7 condition. This will allow recovery of the PPL term during RIIO-ED1, giving effect to the policy intent that we have already communicated on this issue.

3.53. The draft of this licence condition will be included in the CRC Informal consultation part 2, published on 31 January 2014.

Chapter 3

CRC 3A. Legacy price control adjustments

Type of change: New condition

3.54. The reason and effect of introducing this condition is to provide for price control financial adjustments that will arise with respect to:

- activities carried out by the licensee
- expenditure incurred by the licensee, and/or
- allowed expenditure levels for the licensee.

The condition relates to Regulatory Years prior to 2015/2016 (the “legacy period”), in respect of which it was not possible to finalise values used in the calculation of the licensee’s Opening Base Revenue Allowances, either because complete data was not available in time, or because reviews, proposals or determinations were outstanding.

¹⁰ <https://www.ofgem.gov.uk/publications-and-updates/timing-recovery-close-out-values-losses-incentive-mechanism-fourth-distribution-price-control-review-dpcr4>

3.55. Legacy price control adjustments are divided into the following three categories, listed below:

- adjustments to opening tax pool balances – LTPG, LTPS, LTPD and LTPC values
- adjustments subject to the DPCR5 RAV Rolling Incentive mechanism - RIRAV and RIREV values
- other legacy price control adjustments – OLRAV and OLREV values.

3.56. Revisions to the PCFM Variable Values set out above affect the calculation of the value for MODt for the licensee under the Annual Iteration Process.

3.57. The methodologies for determining revisions to the PCFM Variable Values for legacy price control adjustments are diverse in detail, but have the following in common:

- they refer to and are consistent with any extant price control decision by the Authority relating to the adjustment values in question
- they refer to and are consistent with any relevant content in the ED1Final Determination for the licensee
- they provide for recalculations under the Annual Iteration process to emulate the modelling approach used to calculate Opening Base Revenue Allowances for the licensee
- they provide for RIRAV, RIREV, OLRAV and OLREV values to be revised on more than one occasion if that is necessary
- wherever appropriate they provide for the use of a Legacy Workbook as a tool to calculate revised RIRAV, RIREV, OLRAV and OLREV values.

3.58. The draft of this licence condition and any associated chapters in the ED1 Price Control Financial Handbook will be included in the CRC Informal consultation part 2, published on 31 January 2014.¹¹

CRC 3B. Determination of PCFM Variable Values relating to actual Totex expenditure for Totex Incentive Mechanism Adjustments

Type of change: New condition

3.59. The reason for introducing this new condition is to provide for the determination and direction of revised PCFM Variable Values relating to the licensee's actual levels of Totex expenditure. Under the Annual Iteration Process for the Price Control Financial Model (PCFM), the licensee's actual level of Totex expenditure is compared to its allowed Totex expenditure levels. Through application of the Totex Incentive Strength rate for the licensee and the Totex Capitalisation Rate, an appropriate adjustment to allowed revenue is calculated to reflect any over spend or under spend under the sharing factor mechanism.

¹¹ See reason and effect for CRC 4A (Governance of ED1 Price Control Financial Instruments) for more information on the ED1 Price Control Financial Handbook.

3.60. The effect of introducing this condition is to enable an adjustment to be made to the licensee’s allowed revenue to reflect any over or under spend when compared to corresponding allowed Totex expenditure levels.

CRC 3C. Specified financial adjustments

Type of change: New condition

3.61. The purpose of this new condition is to provide for the determination and direction of revised PCFM Variables Values that will be used in the Annual Iteration Process for the ED1 Price Control Financial Model to make appropriate adjustments to:

- revenue allowances relating to Pension Scheme Established Deficit costs
- revenue allowances in respect of tax trigger events
- revenue allowances relating to the licensees’ gearing levels and corporate debt interest costs
- the licensees’ allowed percentage cost of corporate debt.

The effect of this condition is to provide for adjustments to be made to licensee’s allowed revenue in respect of these factors.

CRC 3D. The Innovation Roll-out Mechanism

Type of change: New condition

3.62. The purpose of this condition is to establish the Innovation Roll-out Mechanism. This implements our proposal set out in the Strategy decision that licensees would be able to apply for funding for the rollout of proven innovative solutions with low carbon and/or environmental customer benefits where the licensee cannot fund the roll out under the current price control settlement.

3.63. The effect of this condition is to allow licensees to give Notice to the Authority to seek an adjustment to their allowed revenue to fund the costs of rolling out a proven innovation. This condition explains:

- the criteria licensees must address when giving Notice to the Authority under this condition
- the minimum value for which the licensee is permitted to make a Notice for a Relevant Adjustment (an adjustment to licensee’s allowed revenue which allows it to roll out an innovation)
- when the licensee may give Notice
- the process the Authority must follow when reaching its decision regarding a Notice
- how any Relevant Adjustments are incorporated into the licensees’ allowed revenue.

CRC 3E. Smart meter roll out costs

Type of change: New condition.

3.64. The reason for introducing this condition is to provide for a mechanism for recovering the efficient costs of smart meter roll-out costs.

3.65. The effect of the condition is to establish a volume driver mechanism which:

- Sets the opening values of the licensee’s allowed expenditure
- Establishes the basis upon which that base level of smart meter roll-out costs can be varied to take account of the actual volume of smart meter installations when the licensees have been required to intervene
- Provides a mechanism for feeding this adjustment into the price control financial model; and
- Sets out the reporting requirements for this mechanism

3.66. So that only the efficient costs of smart meter roll-out are able to be recovered.

CRC 3F. Arrangements for the recovery of uncertain costs

Type of change: Amendment

Current number: CRC 18 (excluding Part E)

Current name: Arrangements for the recovery of uncertain costs

3.67. The reason and effect of this condition is to allow for the recovery, of certain additional costs that are considered uncertain at the time of setting the price control.

3.68. We have updated the areas of cost covered by this mechanism from those in the current condition. The details of the cost areas that are included are in the Strategy decision. We have also updated how adjustments to revenues as a result of the application of this condition will impact allowed revenues. Adjustments now impact revenue through a change in MOD which is the output of the annual iteration of the Price Control Financial Model (PCFM).

CRC 3G. Revising the allowed level of Load Related Expenditure

Type of change: Amendment

Current number: CRC 18 (Part E)

Current name: Arrangements for the recovery of uncertain costs

3.69. The reason for introducing this new condition is to enable the licensee to recover the following categories of load-related costs, during the price control period, insofar as they are efficiently incurred:

- general reinforcement
- connections
- fault level reinforcement
- Transmission connection points.

3.70. This condition modifies Part E of CRC 18 to:

- broaden the scope of cost areas that are eligible for the reopener, and
- clarify the applicable application windows.

3.71. This condition enables the licensee to recover uncertain load related costs that are reasonably incurred and that that are materially above the threshold set out in the Strategy decision.

CRC 3H. Allowed expenditure on improving services to Worst Served Customers

Type of change: New condition

3.72. The reason for this condition is to facilitate improvements in services to more frequently interrupted customers.

3.73. The effect of the condition is to allocate capped funding to each licensee for the RIIO-ED1 period, through a formula which provides a value for the price control financial model, improve services to such customers on its network. The condition also requires the licensee to ensure that the amount of expenditure on improving services to any one Worst Served Customer does not in total exceed a cap per customer.

CRC 3I. Not used

Type of change: New condition

3.74. The reason for introducing this condition is to provide the licensee with clarity that this condition is not used in its pack of CRC's.

3.75. The introduction of this condition has no effect on any party.

CRC 3J. Allowed expenditure on visual amenity projects

Type of change: New condition

3.76. This new condition outlines the formula for accounting for expenditure related to undergrounding in designated areas through the undergrounding scheme. The funding allocation assigns a fixed amount to each licensed region for the full price control period based on the amount of lines to be undergrounded and a willingness to pay index.

3.77. The effect of this condition is to ensure that ongoing, year on year expenditure during the RIIO-ED1 period can be accounted for through the annual iteration model, such that DNOs can ensure they are only spending the part of the allowance they have left, year on year.

CRC 3K. Rail electrification adjustments

Type of change: New condition – WPD licensees only

3.78. The reason for introducing this new condition is to allow the Authority, by way of direction, to amend WPD's settlement in the situation where a third party is funding the costs associated with rail electrification that WPD has been funded for. We stated in WPD's Draft Determination that we would introduce this condition in order to remove ex ante funding provided to WPD for diversions associated with Network Rail's electrification programme, should these costs be funded by another party.

3.79. The effect of introducing this condition is to enable ex ante funding to be removed under certain circumstances, if required.

3.80. The draft of this condition will be included in the 'CRC Informal consultation part 2', published on 31 January 2014.

Chapter 4

CRC 4A. Governance of ED1 Price Control Financial Instruments

Type of change: New condition

3.81. The reason for introducing this new condition is to incorporate the ED1 Price Control Financial Handbook and the ED1 Price Control Financial Model (PCFM) into the licence and establish the change control framework for both of them. Both the ED1 Price Control Financial Model and the ED1 Price Control Financial Handbook form part of CRC 4A and may only be modified by the Authority in accordance with the provisions set out in this condition.

3.82. Given both the ED1 Price Control Financial Model and the ED1 Price Control Financial Handbook are part of the licence and are specific to each licensee, WPD have them both implemented with the RIIO-ED1 licence as part of the fast-track licence statutory consultation and modification notice. For slow-track companies, they will be implemented as part of the slow-track licence statutory consultation and modification notice.

3.83. The effect of introducing this condition is to establish, and provide governance for the ED1 Price Control Financial Handbook and the ED1 Price Control Financial Model, both essential for the Annual Iteration Process that will update the licensee's base revenues during the Price Control Period.

3.84. The latest version of WPD's PCFM has been published as part of its Draft Determinations.¹²

3.85. A draft of the ED1 Price Control Financial Handbook will be included as part of the 'CRC Informal consultation part 2', published on 31 January 2014.

CRC 4B. Annual iteration process for the ED1 Price Control Financial Model

Type of change: New condition

3.86. The purpose and effect of this new condition is to:

- set out the steps to be taken for the annual iteration process of the ED1 Price Control Financial Model
- set out the procedure for directing the value of the terms MODt to the licensee.

CRC 4C. Price control update provisions for fast-track licensees

Type of change: New condition – WPD licensees only

3.87. The reason for introducing this new condition is to allow the Authority, by way of direction, to:

- bring Stipulated Values, as set out in the ED1 Fast-Track Final Determination, up to date
- make such adjustments, if any, to components of the licensee's ED1 Fast-Track Final Determination as it considers appropriate so as to ensure that, in its opinion and taken in the round, the licensee does not suffer material financial detriment from having that determination set at Fast-Track rather than Slow-Track

¹² RIIO-ED1 Draft Determinations for Western Power Distribution Ltd - <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-draft-determinations-fast-tracked-distribution-network-operators---western-power-distribution>

- reprofile, where appropriate the Opening Base Revenue Allowances for the licensee in light of the updates and adjustments referred to in paragraphs 4C.2(a) and 4C.2(b) above
- make such modifications to Part 4 of the licence and the ED1 Price Control Financial Instruments as are necessary to implement the updates and adjustments
- make the Common Content of the ED1 Price Control Financial Instruments exactly the same as that for every other Electricity Distributor.

3.88. The effect of introducing this condition is to provide for appropriate updates and adjustments to be made to aspects of the price control arrangements for the licensee so that the policies and commitments set out in the Authority’s Strategy decision for the RIIO-ED1 price control in respect of fast-track licensees can be implemented.

3.89. This condition will come into effect for WPD licensees in Summer 2014 and is in effect until 1 April 2015.

Chapter 5

CRC 5A. The Network Innovation Competition

Type of change: New condition

3.90. The reason for introducing this condition is to reflect the Network Innovation Competition (NIC) policy proposal outlined in the Strategy decision. Under the NIC the licensee can bid for funding through a competitive process for innovative projects which have low carbon and/or environmental benefits.

3.91. The effect of the proposed condition is to enable the licensee to fund eligible NIC projects. This includes:

- establishing the NIC Funding and the Funding Return Mechanism which outline the circumstances under which the licensee will receive funding and the circumstance under which the licensee must return money
- establishing that the regulation, governance and administration of the NIC will be detailed in the NIC Governance Document (further information on this document associated to the licence can be found in Chapter 4 of this consultation)
- establishing that the licensee must comply with the NIC Governance Document as if it forms part of the licence
- establishing the procedures for issuing and revising the NIC Governance Document.

CRC 5B. Restriction of charges for the provision of Legacy Metering Equipment

Type of change: Amendment

Current number: CRC 6

Current name: Restriction of charges for the provision of Legacy Metering Equipment

3.92. The purpose of this condition is to establish the restrictions on charges for the provision of Legacy Metering Equipment and so set out the obligations on the licensee.

3.93. The reasons for changing this condition are:

- to modify the definition of inflation (RPIit) so that it is included within this condition, rather than in another licence condition that will employ a different definition of inflation
- to change the condition number and referencing within this condition, to ensure that it remains operational over the RIIO-ED1 price control period.

3.94. The effect of these changes are to retain the current policy in place for DPCR5, including how RPIit is calculated.

CRC 5C. Directly remunerated services

Type of change: Amendment

Current number: CRC 15

Current name: Services treated as Excluded Services

3.95. The purpose of this condition is to set out the services provided by the licensee that are to be treated as Directly Remunerated Services. It also specifies the basis on which charges can be levied for Directly Remunerated Services. The proposed changes are:

- to change the name of the condition from Services treated as Excluded Services, which reflected the fact that revenue do not count towards Allowed Distribution Network Revenue, to Directly Remunerated Services. This is a better descriptive name because it refers to the main characteristic of the service - ie that it is paid for by the party commissioning the service rather than by use of system charge payers
- to make clear in Part A that any returned royalty income through the Network Innovation Competition is not revenue from a directly remunerated service
- to add two new Directly Remunerated Service categories:
 - DRS 7. Smart Meter Roll-out rechargeable services that are provided under the provisions of the Service Level Agreement that is appended to the DCUSA and fall outside the definition of Smart Meter Roll-out Costs
 - DRS8. Value Added Services: to incentivise DNOs to allow Relevant Assets to be used for data and communications infrastructure and for other commercial

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opportunities and to provide for interaction with the Totex Incentive Mechanism, so that net gains from providing such services are shared with electricity consumers.

- to renumber the Miscellaneous category as DRS9.

3.96. The effects of the changes are:

- to ensure that the condition remains applicable for the RIIO-ED1 price control period and to improve its clarity
- in particular:
 - to provide for Smart Meter Roll-out rechargeable services to be provided on a cost-recovery basis
 - to introduce a mechanism by which the licensee and electricity consumers can share gains from the appropriate exploitation of network assets, for example under commercial arrangements for the installation of third party data or communications equipment.

CRC 5D. Assessment of network asset secondary deliverables

Type of change: New condition.

3.97. This proposed condition establishes the licensee’s Network Asset Secondary Deliverables for the Price Control Period as set out in the Network Assets Workbook. The Network Assets Workbook forms part of the licence and will only be subject to change through a licence modification.

3.98. The condition also:

- sets out the basis on which the Authority intends to make its assessment of the licensee’s delivery of the Network Asset Secondary Deliverables
- specifies the incentive that will be provided in respect of over-delivery, and penalty for under-delivery, of the Network Asset Secondary Deliverables.

3.99. The effect of this condition is to require the licensee to capture network asset risk improvement which will allow the Authority to assess the licensee’s performance in delivering the Network Asset Secondary Deliverables and apply the appropriate reward or penalty.

CRC 5E. Charging outside the Distribution Services Area

Type of change: Amendment

Current number: CRC 16

Current name: Charging outside the Distribution Services Area

3.100. We also propose to amend the wording in Part A of the condition to avoid any possible ambiguity in the current licence condition around how the licensee must set Out of Area Charges. The proposed amendments make clear that the licensee must

set Out of Area Charges such that the standing charge, unit rate, and any other component of the charge taken together do not exceed the Use of System Charges to equivalent Domestic Customers. The effect of this change is to clarify current policy.

3.101. We propose to remove and update the provisions in parts B and C of this condition relating to the disapplication of out of area charges. The provisions are being moved to CRC 5K (Disapplication). The reason and effect of these changes are set out under CRC 5K below.

CRC 5F. Services for managing Theft of Electricity from the Distribution System

Type of change: New condition

3.102. The reason for this condition is to provide a mechanism to report on income recovered from actions taken in respect of Theft of Electricity from the Distribution System, undertaken in compliance with the obligation under the proposed new condition SLC 49 (Electricity Distribution Losses Management Obligation and Distribution Losses Strategy).¹³

3.103. The effect of this condition is to encourage licensees to undertake practicable and efficient levels of action due to the basis on which income arising from actions taken by licensees in respect of Relevant Theft of Electricity from the Distribution System is included in the allowed revenue.

3.104. The draft of this licence condition will be included in the CRC Informal consultation part 2, published on 31 January 2014.¹⁴

CRC 5G. Net: Gross connections

Type of change: New condition.

3.105. The reason for this condition is to provide a means for ensuring that the licensee is not able to recover twice for the provision of connections and reinforcement services to its network, through both DUoS and through Connection Charges.

3.106. The effect of this condition is to set out the Baseline Volumes of Connections and Baseline Percentage of Gross Load Related Expenditure the licensee is expected to deliver during the Price Control Period. It establishes a framework under which the Authority may make adjustments to the licensee's base revenue in the Next Price

¹³ RIIO-ED1: Informal consultation on licence drafting–Standard Licence Conditions - <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-informal-consultation-fast-track-licence-drafting-%E2%80%93-standard-licence-conditions>

¹⁴ See reason and effect for CRC 4A (Governance of ED1 Price Control Financial Instruments) for more information on the ED1 Price Control Financial Handbook.

Control Period (RIIO-ED2) where any of the Actual Percentage of Gross Load Related Expenditure funded through Specific Customer Funded Reinforcement during the Price Control Period exceeds the relevant Net to Gross Threshold.

CRC 5H: Not used

Type of change: New condition

3.107. The reason for introducing this condition is to provide the licensee with clarity that this condition is not used in its pack of CRC's. This condition may be used by the slow-track companies.

3.108. The introduction of this condition has no effect on any party.

CRC 5I: Not used

Type of change: New condition

3.109. The reason for introducing this condition is to provide the licensee with clarity that this condition is not used in its pack of CRCs.

3.110. The introduction of this condition has no effect on any party.

CRC 5J: Not used

Type of change: New condition

3.111. The reason for introducing this condition is to provide the licensee with clarity that this condition is not used in its pack of CRCs. This condition may be used by the slow-track companies.

3.112. The introduction of this condition has no effect on any party.

CRC 5K. Disapplication

Type of change: Amendment

Current number: CRC 19

Current name: Duration of the Charge Restriction Conditions

3.113. The reason for the modification is to align the disapplication condition with the licence modification appeals process set out in the Act, which has replaced the former licence modification reference process.

3.114. The effect of our proposed amendments is to ensure that the condition remains up-to-date with the appeals process set out in the Act and also to improve the clarity of how the disapplication provisions are set out in the licence by bringing the provisions previously set out CRC16 and CRC19 into a single licence condition.

Complete removal of existing CRCS

3.115. We propose that the following current CRCs are completely removed from the licence.

CRC 9. Adjustment of licensee's revenues to reflect performance in relation to Transmission Connection Point Charges

Type of change: Complete removal from licence

3.116. The purpose of this current condition is to provide an incentive on certain elements of Transmission Connection Point Charges that the DNOs could influence through talking to the Transmission Operator.

3.117. The reason for change is that under the RIIO-ED1 price control settlement, these charges are included as part of the companies' opening base revenue allowance, and incentivised through the Totex Incentive Mechanism. Therefore a separate incentive condition is no longer required for these costs.

3.118. The effect of this deletion is to remove a provision that is covered elsewhere in RIIO-ED1 price control settlement.

CRC 10. Adjustment of licensee's revenues to reflect innovation funding performance

Type of change: Complete removal from licence

3.119. We proposed in the Strategy decision that we would be establishing a Network Innovation Allowance (NIA) and that the innovation funding incentive would be incorporated into the NIA. The NIA is reflected in the proposed new condition CRC 2H (Network Innovation Allowance).

3.120. The effect of this proposal is to remove CRC 10 from the licence.

CRC 11. Adjustment of licensee's revenues to reflect performance in relation to Distributed Generation

Type of change: Complete removal from licence

3.121. We propose to remove this licence condition to reflect the decision to discontinue the Distributed Generation (DG) Incentive scheme. The justification for the decision to discontinue the DG Incentive is set out in the Strategy decision for

the RIIO-ED1 electricity distribution price control: outputs, incentives and innovation Supplementary annex, chapter three.¹⁵

3.122. The effect of this proposal is to remove an out of date licence condition.

CRC 17. Assistance for high-cost distribution areas

Type of change: Complete removal from licence

3.123. We propose to remove this condition as it is not applicable to WPD.

3.124. The effect of this change is to remove a redundant condition from WPD's licence.

¹⁵ https://www.ofgem.gov.uk/sites/default/files/docs/2013/02/riioed1decoutputsincentives_0.pdf

4. Associated documents to the CRCs

Chapter Summary

An outline of the purpose and content of the associated documents that are governed by the CRCs.

Question 1: Do you have any comments on the associated documents that we propose to create and their content?

What is an associated document?

4.1. Associated documents are ancillary documents to the licence. They provide guidance or instructions to the DNOs on specific policy area. They vary in content but all give the licensee more information on specific schemes in the licence, including:

- the process that will be followed to derive an adjustment in allowed revenue
- governance arrangements or guidance for participating in a scheme
- details on what, and how, particular forms of information should be reported by the licensee.

4.2. The process for issuing and modifying associated documents is set out in the licence condition that covers the related scheme. We have proposed the same process for issuing and modifying all associated documents.

4.3. For both issuing and modifying associated documents the Authority issues a direction. Before issuing the direction there will be a 28 day consultation by notice, setting out the reasons and effects of proposed changes. The Authority will then consider responses and give reasons for the final decision as part of the direction.

4.4. Associated documents may contain both non-binding guidance and instructions which the licensee must comply with as if they were part of the licence. Where possible, these elements will be differentiated within the documents.

4.5. This chapter provides further information on the associated documents that will be in place for RIIO-ED1.

Information on RIIO-ED1 associated documents

Stakeholder Engagement Incentive Guidance

4.6. The draft licence condition CRC 2C (Broad Measure of Customer Service) establishes the Stakeholder Engagement Incentive Guidance, its scope and governance arrangements. The purpose of this guidance document is to provide detailed information on the manner and process by which the stakeholder

engagement submissions will be assessed and by which the Authority will allocate the stakeholder engagement reward.

4.7. As part of this informal consultation we have provided a draft of the Stakeholder Engagement Incentive Guidance. See Supplementary annex 3: Stakeholder Engagement Incentive Guidance document.

4.8. We developed the Stakeholder Engagement Incentive Guidance for the DPCR5 Stakeholder Engagement Incentive. In advance of RIIO-ED1, we intend to revise the Stakeholder Engagement Incentive Guidance to explicitly include our assessment of social objectives.

4.9. The document will be shared by all DNOs.

4.10. We intend to consult shortly on providing more guidance about how the panel assessment score converts into a financial reward. Alongside this consultation, we intend to consult on making some minor changes to the Stakeholder Engagement Incentive Guidance (to limit the amount of supplementary information, add a mechanism to ask supplementary questions as part of our assessment of minimum requirements and clarify that our interpretation of minimum requirements will be informed by previous years and our understanding of relevant issues).

4.11. At the last RIIO-ED1 Customer and Social Issues Working Group (CSIWG), we outlined our proposed approach to incorporate social objectives into the Stakeholder Engagement Incentive. DNOs will provide their feedback at the next CSIWG.

4.12. We intend to trial a common submission template in Summer 2014, alongside the current Stakeholder Engagement Incentive assessment process. The outcome of our trial will inform the development of the Stakeholder Engagement Incentive Guidance.

Incentive on Connections Engagement Guidance

4.13. The draft licence condition CRC 2E (Incentive on Connections Engagement) establishes the Incentive on Connection Engagement Guidance, its scope and governance arrangements. The purpose of this document is to outline the criteria and state the manner and process by which the Incentive on Connections Engagement submissions will be assessed and how the Authority will determine the applicable penalty.

4.14. The document will:

- reiterate the objectives of the ICE
- outline the scope of the scheme
- confirm the submission process for licensees (eg the submission format and the submission dates)
- state the assessment process (eg the objective criteria, how we will assess submission and how we will determine whether to apply a penalty).

4.15. The document will be shared by all DNOs.

4.16. At the RIIO-ED1 Connections Working Group (ConWG), we outlined our proposed objective criteria and our proposed approach to assess DNO performance. At the next RIIO-ED1 ConWG the DNOs will provide their feedback on our proposals.

4.17. We intend to publish a draft Incentive of the Connections Engagement Guidance in Spring 2014 and trial the arrangements in Summer 2014 (based on one or two market segments). The outcome of this trial will inform the development of the Incentive on Connections Engagement Guidance.

Losses Discretionary Reward Guidance Document

4.18. The draft licence condition CRC 2G (the Losses Discretionary Reward) establishes the Losses Discretionary Reward Guidance Document (LDRGD), its scope and governance arrangements. The Losses Discretionary Reward (LDR) provides a reward to the licensee to the extent it meets the criteria in relation to its activities associated with managing electricity Distribution Losses, which will be set out in the LDRGD.

4.19. The rules and criteria of the LDR are still to be developed. In our Strategy decision we set out that it will be awarded in three tranches (one tranche of up to £8m in 2016; a second tranche of up to £10m in 2016; and a third tranche of up to £14m in 2020).¹⁶

¹⁶ Strategy Decision - Outputs Incentives and Innovation, 5.11 – 5.14 pages 43, 44
https://www.ofgem.gov.uk/sites/default/files/docs/2013/02/riioed1decoutputsincentives_0.pdf

4.20. We will work with stakeholders to develop the criteria against which DNOs' performance will be measured. This could include categories such as:

- DNOs' understanding of their losses performance and preparation for a measureable losses incentive in RIIO-ED2
- effectiveness of actions taken to reduce losses
- engagement with customers on managing losses
- innovative approaches to losses reduction
- performance against the Distribution Losses Strategy
- sharing of best practices with other companies.

4.21. Participating DNOs will be required to submit evidence against the criteria.

4.22. The LDRGD will also set out the processes for submissions assessment for each of the tranches and the format and/or templates for submissions. It will provide details on the deadlines for submission and of the milestones leading to the final decision on each tranche. This document will be applicable to all participating DNOs.

4.23. The LDRGD will be developed over the first half of 2014, to be finalised in the Summer. This will be done through a process of stakeholder engagement, including losses stakeholder workshops and consultation.

Network Innovation Allowance (NIA) Governance Document

4.24. The draft licence condition CRC 2H (The Network Innovation Allowance) establishes the NIA Governance Document, its scope and governance arrangements. The purpose of the NIA Governance Document is the regulation, governance and administration of the Electricity NIA which is available to all licensees as part of the price control allowance.

4.25. The document is currently in force for electricity transmission licensees and contains:¹⁷

- the NIA eligibility requirements
- the project registration process
- the NIA knowledge dissemination requirements.

4.26. We propose to amend the electricity transmission NIA Governance Document to refer to electricity distribution where it currently only refers to electricity transmission. We plan to also undertake a review of the governance arrangements once they have been in place for electricity transmission licensees for two years. Any changes following this review would also affect electricity distributors who will share the same NIA Governance Document.

¹⁷ <https://www.ofgem.gov.uk/publications-and-updates/electricity-network-innovation-allowance-governance-document>

4.27. Any changes will be consulted on before being implemented.

4.28. The document is currently in force for electricity transmission licensees. We will consult on a new version of the document that incorporates DNOs and IDNOs later in 2014.

Low Carbon Networks (LCN) Fund Governance Document

4.29. The draft licence condition CRC 2J (Low Carbon Networks Fund) establishes the LCN Fund Governance Document, its scope and governance arrangements. The purpose of the LCN Fund Governance Document is to set out the regulation, governance and administration of the LCN Fund which is available to all licensees.

4.30. The document is currently in force for DNOs.¹⁸ The current document will need to be amended. We intend to remove those parts of the document pertaining to the First Tier funding and the operation of the Second Tier competition process. Those requirements associated with the Funding Directions, will be retained to allow funds for the final competition to be transferred as required; as well as allow royalties and ineligible expenditure to be returned to customers in the event this is needed. All requirements to successfully implement ongoing Second Tier Projects will be retained. Any changes will be consulted on before being implemented.

4.31. In summary we expect the updated document to include:

- detail of the Discretionary Reward Scheme
- the Second Tier Funding Mechanism
- the requirements that ongoing Second Tier projects must comply with
- default arrangements for intellectual property rights.

4.32. We expect to issue a new version of this document following the final competition next year and expect the document to be in place for the start of RIIO-ED1.

Network Innovation Competition (NIC) Governance Document

4.33. The draft licence condition CRC 5A (The Network Innovation Competition) establishes the electricity NIC Governance Document, its scope and governance arrangements. The purpose of the NIC Governance Document is to set out the regulation, governance and administration of the Electricity NIC - an annual competition designed to help network companies operate more innovatively.

¹⁸ <https://www.ofgem.gov.uk/ofgem-publications/45703/low-carbon-networks-fund-governance-document-version-6.pdf>

4.34. The document is currently in force for electricity transmission licensees and contains:¹⁹

- the NIC eligibility requirements
- the NIC evaluation requirements
- the NIC process
- the requirements that licensees implementing projects must comply with
- the NIC knowledge dissemination requirements.

4.35. The document will need to be amended so that it also refers to electricity distribution. We also plan to undertake a review of the governance arrangements once they have been in place for electricity transmission licensees for two years. Any changes following this review would also affect electricity distributors who will share the same NIC Governance Document.

4.36. We expect to issue a new version of this document following the 2014 NIC and expect the document to be in place for the start of RIIO-ED1.

¹⁹ <https://www.ofgem.gov.uk/publications-and-updates/electricity-network-innovation-Competition-governance-document>

Appendices

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3	Feedback questionnaire	45

Appendix 1 - Consultation response and questions

1.1. We would like to hear your on any of the issues set out in this document.

1.2. We especially welcome responses to the specific questions at the beginning of each chapter. These are replicated below.

Responses should be received by 7 February 2014 and should be sent to Thomas.Mackenzie@ofgem.gov.uk.

1.3. Unless marked confidential, all responses will be published in our library and on our website www.ofgem.gov.uk. You may request that their response is kept confidential. We shall respect this request, unless the law requires us to disclose anything, for example - under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.4. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. Respondents are asked to put any confidential material in the appendices to their response.

1.5. We intend to publish our decision on the draft SLCs in May, after considering the responses to this consultation. Any questions should, initially be directed to:

- Thomas Mackenzie
- 0207 901 7406
- Thomas.Mackenzie@ofgem.gov.uk

Chapter: Three

- **Question 1:** Do you have any views on the proposed changes to the CRCs? The draft licence conditions are found in Supplementary annex 1.
- **Question 2:** Do you have any views on the reasons and effects for the licence changes?

Chapter: Four

- **Question 1:** Do you have any comments on the associated documents that we propose to create and their content?

Appendix 2 - Outline of the CRCs structure for RIIO-ED1 Licence

RIIO-ED1 Condition number and name		Current DPCR5 licence condition	Associated document?	Draft Condition in Supplementary Annex 1?
Chapter 1: Interpretation of Part 4				
1A	Overview of Part 4	CRC 1	No	Yes
1B	Interpretation of Part 4	CRC 2	No	Yes
Chapter 2: Electricity Distribution Revenue Restriction				
2A	Restrictions of Allowed Distribution Network Revenue	CRC 3, 5 and 14	No	Yes
2B	Calculation of Allowed Pass-through Items	CRC 4	No	Yes
2C	Broad measure of customer service	CRC 8	Yes	Yes
2D	Adjustment of licensee’s revenues to reflect interruptions related quality of service performance	CRC 8	No	Yes
2E	Incentive on Connections Engagement	New	Yes	Yes
2F	Time to Connect Incentive	New	No	Yes
2G	The Losses Discretionary Reward	New	Yes	Yes
2H	The Network Innovation Allowance	New	Yes	Yes
2I	Not Used	New	No	Yes
2J	Low Carbon Networks Fund	CRC 13	Yes	Yes
2K	Margins on Licensee’s Connection Activities	CRC 12	No	Yes
2L	Revenue adjustments in respect of performance failures	CRC 12	No	Yes
2M	Adjustment of licensee’s revenues for the residual distribution losses incentive	CRC 7	No	No
Chapter 3: Annual Iteration Process - Adjustments to the Revenue Restriction				
3A	Legacy price control adjustments	New	No	No
3B	Determination of PCFM Variable Values relating to actual Totex expenditure for Totex Incentive Mechanism Adjustments	New	No	Yes
3C	Specified financial adjustments	New	No	Yes
3D	The Innovation Roll-out Mechanism	New	No	Yes
3E	Smart Meter Roll-out Costs	New	No	Yes

RIIO-ED1: Informal consultation on fast-track licence drafting – Charge Restriction Conditions (Part 1)

RIIO-ED1 Condition number and name		Current DPCR5 licence condition	Associated document?	Draft Condition in Supplementary Annex 1?
3F	Arrangements for the recovery of uncertain costs	CRC 18	No	Yes
3G	Revising the allowed level of Load Related Expenditure	CRC 18	No	Yes
3H	Allowed expenditure on improving services to Worst Served Customers	New	No	Yes
3I	Not Used	New	No	Yes
3J	Allowed Expenditure on Visual Amenity Projects	New	No	Yes
3K	Rail electrification adjustments	New (WPD only)	No	No
Chapter 4: Price Control Financial Instruments				
4A	Governance of ED1 Price Control Financial Instruments	New	No	Yes
4B	Annual Iteration Process for the ED1 Price Control Financial Model	New	No	Yes
4C	Price Control update provisions for Fast-Track licensees	New (WPD only)	No	Yes
Chapter 5: Other Revenue Restriction Related Conditions				
5A	The Networks Innovation Competition	New	Yes	Yes
5B	Restriction of charges for the provision of Legacy Metering Equipment	CRC 6	No	Yes
5C	Directly Remunerated Services	CRC 15	No	Yes
5D	Assessment of Network Asset Secondary Deliverables	New	No	Yes
5E	Charging outside the Distribution Services Area	CRC 16	No	Yes
5F	Services for managing Theft of Electricity from the Distribution System	New	No	No
5G	Net to gross adjustment for load related expenditure	New	No	Yes
5H	Not used	New	No	Yes
5I	Not used	New	No	Yes
5J	No used	New	No	Yes
5K	Disapplication	CRC 19	No	Yes
Proposed Removal from Current Licence				
9	Adjustment of licensee's revenues to reflect performance in relation to Transmission Connection Point Charges	Removal	No	NA
10	Adjustment of licensee's revenues to reflect innovation funding performance	Removal	No	NA
11	Adjustment of licensee's revenues to reflect performance in relation to Distribution Generation	Removal	No	NA
17	Assistance for high-cost distribution areas	Removal	No	NA

Appendix 3 – feedback questionnaire

1.1. Consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. We would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

Andrew MacFaul
Consultation Co-ordinator
Ofgem
9 Millbank
London
SW1P 3GE
andrew.macfaul@ofgem.gov.uk