



Making a positive difference
for energy consumers

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Dear interested parties,

Changes to the RIIO-ED1 Final Determinations suite of documents for slow-track DNOs.

We have published our consultation on the modification to the licences of the ten distribution network operators (DNOs) remaining in the RIIO-ED1 price control review. These modifications implement the final determinations which we published on 28 November 2014.¹

In the licence modifications we have corrected a number of manifest errors in some of the final determinations documents. Two were in the price control financial model which we used to calculate the DNOs' allowed revenues – where we did not correctly reflect our stated policy decisions. The remainder were in the presentation of numbers in the RIIO-ED1 final determinations detailed figures by company document.

We have published the ED1 Price Control Financial Model (PCFM) as part of the licence consultation. It contains the corrections outlined below. In total this results in an increase of £4m in RIIO-ED1 allowed revenues across the slow-track DNOs.

Disposals

In final determinations we explained our decision to treat the proceeds or fair value of asset disposals as deductions from totex for the calculation of the efficiency incentive. This gives DNOs incentives to optimise their expenditure programmes as a whole, taking additions and disposals together. However, we did not implement this correctly in the model – which resulted in a double-count of the forecast disposal proceeds. We have removed the double-count.

Directly remunerated services

A Directly Remunerated Service (DRS) is a service provided by a DNO as part of its normal activities but not funded through distribution charges. For example connecting customers pay for certain costs associated with their connection. As we explained in our strategy decision,² we allow DNOs to set charges for excluded services at a level that allows them to recover their reasonable costs in providing the service with a reasonable margin of profit. The reasonable costs are comprised of a share of the asset or operating cost funded by consumers through the distribution use of system charges (DUoS) and the incremental cost of providing the service. The cost funded by DUoS customers are then rebated via an adjustment to the DNO's totex.

DNOs forecasted the costs for, and revenues from, DRS separately. For one category (DRS9) we did not recognise this in the financial model. This meant that we deducted costs rather than net revenues. We have now corrected the model to deduct DRS9 net revenues (after excluding disposal proceeds that two DNOs had included in their DRS9 forecasts).

¹ <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-final-determinations-slow-track-electricity-distribution-companies>

² <https://www.ofgem.gov.uk/ofgem-publications/47071/riioed1decfinancialissues.pdf>

The combined impact of the disposals and DRS9 changes is:

DNO	Change to total RIIO-ED1 opening base revenues (£m, 2012-13 prices)
ENWL	-1.3
NPgN	0.4
NPgY	-0.7
LPN	0.3
SPN	0.1
EPN	0.9
SPD	7.2
SPWM	2.4
SSEH	-5.6
SSES	0.6
Total	4.3

Detailed figures by company

In the RIIO-ED1 final determinations detailed figures by company document we provided the tables of numbers that would be included in the licence. This was based on a summary sheet in the financial model that we published alongside final determinations.

We have made a number of changes to these tables. These changes do not affect the DNOs' opening base revenues for RIIO-ED1.

We have corrected the linking of the numbers for UKPN in the LFE and RBE tables for CRC 2B. Calculation of Allowed Pass-Through Items.

In the CRC 2D. Severe weather exceptionality threshold table numbers were wrongly linked between DNOs. These have been corrected.

In the CRC 3B. Totex Incentive Strength Rate and Totex Capitalisation Rate table we did not correctly link the capitalisation rates. This has been rectified.

We have added two new tables:

- in CRC 3F for UKPN to reflect the amount we included ex ante for the mitigation of link box risk. This table is titled Maximum negative adjustment.
- In CRC 5F for all DNOs to reflect the costs included in their ex ante allowances relating to theft recovery. This table is called Forecast amount relating to theft recovery.

Finally, for two elements of the Shetland decision for SSEH (as detailed in final determinations) we incorrectly reflected the decision in the detailed tables.

- In CRC 3B we did not reflect the change in SSEH's totex capitalisation rate during RIIO-ED1. We have corrected it to reflect the fact that 2015/16–2018/19 it is 62% and 2019/20–2022/23 it is 70%. The licence drafting has also been amended to reflect this difference.
- In CRC 3F the Shetland interim costs (SFE) materiality threshold and Shetland Competitive process costs (CPC) materiality thresholds were incorrectly calculated at the standard 1% totex threshold. In final determinations we confirmed the intended thresholds were 10% of the relevant ex-ante allowance. These have been corrected.

Yours sincerely,



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