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8th January 2015.

Chris Watts
RIIO Implementation Team
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Dear Chris,

DPCR5 Closeout Methodologies – letter on further changes since informal consultation

Thank you for the opportunity to respond to the above letter. This is a non-confidential response on behalf of the Centrica Group, excluding Centrica Storage.

Since the original consultation Ofgem have published the DPCR5 Electricity Distribution Company performance report which shows that average returns on equity for DPCR5 are now estimated to stand at around 12%, significantly higher than the 6.7% baseline, and higher than the previously held estimate of 11%. The DPCR5 performance report also confirms that the largest contributor to these returns is the significant levels of under-spending of allowances provided. Therefore it even more critical that DNOs are held *fully* accountable for delivery of the outputs agreed at the outset of the price control and, to the extent that outputs have not been delivered, funding allowances are returned to customers.

We therefore welcome and support the changes described in your letter with regards to fault rates and normalisation for material changes. These changes are required if the principles set out in your original consultation are to be achieved in practice.

We look forward to working with you to incorporate these changes into the DPCR5 close out methodology.

Please do not hesitate to contact me if you have any questions.

Yours sincerely,

Andy Manning
Head of Network Regulation, Forecasting and Settlements