

DPCR5 Close Out – Overview of WG Meeting, 22 January

This meeting of the DPCR5 Close Out Working Group covered efficiency and TMA.	From	Grant McEachran	28 January 2016
	Date and time of Meeting	22 January 2016	
	Location	9 Millbank, London Cornerstone, Glasgow	

1. Present

Grant McEachran, Chris Watts, Tess Quinton	Ofgem
Sarah Walls, Dave Ball, Jonathan Booth (By phone)	ENWL
Keith Mawson (By phone), Keith Noble-Nesbitt, Mark Nicholson	NPg
Ruth Crascall, Andrzej Michalowski (By phone)	WPD
Stephen Murray, Malcolm Bebbington, Mikel Urizarbarrena Cristobal	SPEN
Melanie Bryce, Gillian Hilton	SSE
Ross Thompson, Robert Friel, Paul Measday	UKPN
Gregory Edwards	British Gas

2. Areas discussed

Timetable

- 2.1. Ofgem announced that they would be publishing a letter announcing the intention to consult on delaying the introduction of the changes to the Handbook until 31 July 2016. They confirmed that this would be progressed via a Notice under Part B of Charge Restriction Condition (CRC) 4A. Ofgem confirmed that this was a back-stop date and the intention was to work towards a Stat Con in early-May, reflecting earlier discussions with the group.
- 2.2. Ofgem also sought views on consequential impacts of this change. It was noted that it would impact the performance assessment submission and that this should be put back to September/October 2016. Attendees noted a number of other possible interactions including those with the Common Methodology and the reporting of secondary deliverables.

Efficiency

- 2.3. Ofgem presented proposed revised drafting on efficiency which:
 - simplified efficiency definition;
 - on Real Price Effects (RPEs) noted that, in order for DNOs to receive a sharing factor on any outperformance of RPE allowances, an adjustment for RPEs may be required. This was supported by analysis by NPg which showed that an approach that made no adjustment could prove material for some licensees;
 - confirmed benchmarks set at DPCR5 FP;
 - outlined objectives for the efficiency analysis; and
 - added new pots for expenditure analysis.
- 2.4. ENWL presented some slides setting out their view on efficiency. These set out the view that there were a large number of permutations for consideration in efficiency analysis and sought to set out principles to reduce the number. The result was a number of boxes which sought to map outcomes against whether investment needed or did not need doing based on information existing at the time and, reflecting this, the subsequent need for adjustments based on whether those decisions were deemed 'efficient'.

- 2.5. In relation to ENWL's proposed approach, all parties recognised that this was a helpful model but applied more to HVP and LRE than other categories. Ofgem noted that it did not necessarily agree with all boxes but that this was a good approach and wanted to consider how this could be reflected in licence drafting.

Traffic Management Act (TMA)

- 2.6. Ofgem presented revised licence drafting reflecting previous comments from the group. This recognised that:

- a different definition may be needed for efficiency for TMA
- there is potential to divorce the deadline for submitting a Reopener Notice from the deadline for the performance submission
- benchmarking DNO costs against those from GDNs aligns with 2.10 of FP Financial Methodologies. Since the LPN 2012 reopener, there has been an evolution in thought based on GDN assessments and ED final proposals
- innovation can have a lag time
- the model should distinguish between legitimate and actual zeros ie Ofgem must ensure that analysis is not distorted by data from licensees with no live permit schemes
- the connections apportionment to ensure only connections within the price control are included is now accurate and aligns with the 2012 methodology
- there is a question remaining on whether/how set up costs should be benchmarked between licensees with different scales of permitting schemes.

- 2.7. A key aspect of the discussion was on proportionality, including with respect to the information required from DNOs triggering the reopener and from other DNOs not submitting a reopener notice. Ofgem agreed that the licence condition could be drafted to provide Ofgem the discretion to request information but not making it a requirement in all cases.

3. Actions arising

- 3.1. The following table summarises the actions arising from the meeting.

Timetable	
• To publish letter setting out proposed change to timetable for finalising methodologies	Ofgem
• To provide views on consequential impacts of changes to the DPCR5 methodologies timescales by 27 January	All attendees
Efficiency	
• To engage with Ofgem in considering how to reflect thinking in the existing licence drafting	ENWL
• Comments welcomed on Ofgem drafting and ENWL slides	All attendees
TMA	
• To revise TMA licence drafting reflecting comments and recirculate a version to the group	Ofgem
• To consider whether a further policy meeting was needed on TMA or whether this could be addressed offline	Ofgem

4. Date of next meeting

- 4.1. The next meeting will be held on 28th January 2015 between 11am and 3pm and will focus on Load Related Expenditure.