

DPCR5 Close Out – Overview of WG Meeting, 28 January

This meeting of the DPCR5 Close Out Working Group focused on Load Related Expenditure.	From	Grant McEachran	28 January 2016
	Date and time of Meeting	28 January 2016	
	Location	9 Millbank, London Cornerstone, Glasgow	

1. Present

Grant McEachran, Chris Watts, Aris Kalogeropoulos	Ofgem
Sarah Walls, Jonathan Booth	Electricity North West
Keith Mawson (By phone), Keith Noble-Nesbitt, Iain Miller	Northern Power Grid
Ruth Crascall , Andrzej Michalowski	Western Power Distribution
Stephen Murray , Malcolm Bebbington, Mikel Urizarbarrena Cristobal	SPEN
Melanie Bryce, Gillian Hilton	SSE
Ross Thompson, Robert Friel	UKPN
Gregory Edwards	British Gas

2. Areas discussed

2.1. The meeting focused on Load Related Expenditure and in particular on the following areas:

- **High-level efficiency test** – The focus was the approach to identifying a definition and the assessment tools to be used by Ofgem. Efficiency will be discussed again at the next meeting of the group.
- **Unit costs** – Ofgem noted they were not considering unit cost efficiencies as part of the DPCR5 closeout for the load related and HVP reopeners as benchmarks set for unit costs at DPCR5 FP and the efficiency incentives already provide an appropriate treatment of this element of costs. However, Ofgem recognised that a unit cost is needed to price any volume inefficiencies that have been identified. The group discussed whether different approaches may be appropriate for this depending on the type of adjustment to be made. ENWL agreed to set out a proposal for the next meeting of the group.
- **Net to Gross** – Ofgem set out the view that an adjustment would not be needed to reflect a change in the proportion of gross connection costs that are recovered through connection charges relative to our DPCR5 FPs as such a change is already reflected in actual net expenditure within the load-related reopener mechanism.
- **Secondary reinforcement** – The DNOs are seeking further details on what information Ofgem is going to ask for in this area. Ofgem expects the DNOs to provide a narrative explaining the efficiency of costs in this area. It may be appropriate to ask for information on example schemes to understand the robustness of the process DNOs are adopting for these costs. Information from the DPCR5 restatement can be useful for the analysis.
- **Non-LIs** – The focus was the information the DNOs would be required to provide and the circumstances in which a detailed review process would be required.
- **Innovation** – Ofgem set out a definition which provides some examples of innovation but avoids being prescriptive to ensure that other genuine innovations can be recognised. This approach was generally supported with recognition that there was a need to look at what is set out in the RIGs.

- **Double counting** – Ofgem reinforced its endeavour that there should be no double-counting in adjustments due to the expenditure reopener and NOMs LI adjustments. The group discussed different high-level approaches.

3. Actions arising

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

High level definition of efficiency	
<ul style="list-style-type: none"> • Provide an overarching definition of efficiency • Provide examples of the assessment tools that will be used by Ofgem • Identify questions Ofgem will require (at a minimum) the DNOs to answer • Propose approach to quantifying each type of efficiency adjustment 	Ofgem (ENWL)
Non-LIs	
<ul style="list-style-type: none"> • Identify the circumstances in which the review process kicks in and circulate for review • To consider how to treat reinforcement associated with Distributed Generation • To consider project/scheme materiality threshold 	Ofgem
Net to Gross	
<ul style="list-style-type: none"> • To reflect conclusion that no adjustment will be needed for a change in the net to gross assumption from DPCR5 FP in Handbook drafting. There may still need to be an adjustment for under-recovery of connection charges 	Ofgem
Secondary Deliverables	
<ul style="list-style-type: none"> • Identify the areas Ofgem will look at on Secondary Deliverables 	Ofgem
<ul style="list-style-type: none"> • Questions to challenge LVHC connections and secondary reinforcement 	DNOs
Innovation	
<ul style="list-style-type: none"> • Complete a definition of Innovation – reflect on that used in RIGs • Identify circumstances in which innovation will not be recognised/ rewarded • Specify how an adjustment will be made for innovation 	Ofgem
Double counting	
<ul style="list-style-type: none"> • To produce a worked example of how double counting would be dealt with in practice 	Ofgem

4. Date of next meeting

4.1. The next meeting will be held on 5th February 2015 between 11am and 3pm.