

DPCR5 Close Out – Overview of WG Meeting, 5 February

| | | | |
|--|--------------------------|--|------------------|
| This meeting of the DPCR5 Close Out Working Group focused on efficiency and High Value Projects. | From | Grant McEachran | 08 February 2016 |
| | Date and time of Meeting | 05 February 2016 | |
| | Location | 9 Millbank, London Cornerstone, Glasgow | |

1. Present

| | |
|---|----------------------------|
| Grant McEachran, Chris Watts, Clothilde Cantegreil, Kiran Turner | 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

Efficiency

2.1. Ofgem presented revised drafting on efficiency. The key points from the discussion were as follows:

- **General** – Attendees agreed that Ofgem needs to consider how much drafting is on the face of the Financial Handbook versus what can be set out in a policy document. The general consensus was that the detail should be in a separate policy document and the Financial Handbook should be high level.

The policy also needs to reflect how 'in-flight' projects, i.e. those which overlap price controls, should be treated.

- **Principles** – Needs to recognise trade-offs in relation to protecting current and future customers. Also, reference to decision making should be 'reasonable' rather than 'prudent'.
- **LRE Reopener/ HVP sections** - References should not be to the 'efficiency of decision making' but rather to the appropriateness of decision making and the efficiency of the outcome.
- **Financial methodology (general)** – The focus should be on either the definition of 'efficiency' or of 'inefficiency' as just now it is trying to do both and this causes confusion. There were differences in view on whether the focus should be on 'efficiency' or 'inefficiency'. The drafting should include tests for turning the definition of efficiency into inefficiency criteria.
- **Step 1: Performance Assessment** – References to the submission should be tailored for the individual areas (i.e. HVP, LRE and TMA) and would vary between primary schemes (more specific) and secondary expenditure (more process focused). Also, attendees considered that the list of areas for inclusion should be drafted at a higher level with detailed guidance provided separately.

- **Step 3: Determine Efficient Reopener Expenditure** – Innovation list needs to be refined. DNOs also noted that a process would be needed to enable DNOs to identify other areas of efficiency if these are revealed to be innovation through other DNO submissions.
- **Step 4: Representations on proposed efficiency adjustments** – Timelines need to be added to this part of the process.
- **Step 6: Comparison of Efficient Qualifying Expenditure** – The drafting in relation to the conditions for triggering the reopener needs to be clearer.
- **Step 7: Calculation of Reopener Allowed Revenue Adjustment** – The view was provided that reference to the adjustment being set to zero would not work in the case of a DNO that had a provisional adjustment as part of final determinations.

High Value Projects (HVP)

2.2. Ofgem presented slides on a range of issues relevant to the policy for HVP. In addition, NPg presented a strawman for assessing HVP output delivery in relation to reinforcement and asset replacement.

- **Double counting** – Ofgem presented three different approaches to addressing double counting. The DNOs welcomed these but expressed some reservations with Option 2. UKPN also raised concerns with the 2.5% penalty rate and whether or not it should apply to HVPs as they are not outputs.
- **Defining outputs** – There was general agreement that outputs could be defined at a high-level to retain flexibility. NPg expressed some concern that, in some cases, it may not have been made clear which outputs it was committing to.
- **Performance Assessment Submissions** – There was general agreement that the focus of performance assessment submissions should be qualitative i.e. the story of the project. There was also agreement on the need to develop a standard reporting template but that this would need to be picked up again once efficiency drafting has been finalised
- **Assessment per project category/ driver** – There was a common view that:
 - (1) UKPN's proposed approach for BT 21st Century Networks (CN) was appropriate
 - (2) NPg's strawman approach for assessing output delivery in relation to reinforcement and asset replacement was a good starting point and that it was better to keep the approach high-level and therefore flexible rather than have an exhaustive list of questions. There was discussion of bringing stage 1 (initial review) and stage 2 (detailed review) into one overall assessment
 - (3) Valuing the outputs gap should be a bespoke process but that a series of principles could be defined including being in customers' interests, proportionality, recognising that uncertainty and risk are inherent to projects, avoiding arbitrary boundaries between price controls and avoiding constraining efficiency incentives/ encouraging efficient behaviour.
 - (4) As there was only one 'legal and safety' project – SSE's tree cutting – SSE should lead coming up with a proposal and that either % of solution delivered or the BT21st CN model could provide a starting point.

- 2.3. The group considered that it may not be necessary to bring HVP back to another policy working group (other than for a discussion on double counting). Ofgem agreed to further develop handbook drafting and, based on further comments, to take a decision on whether HVP policy issues could now be progressed outside of the group. If the decision was taken to not bring HVP back to the policy group then double counting would be discussed as part of further discussions on the load-related reopener.

3. Actions arising

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

| | |
|---|--------------------------------------|
| Efficiency | |
| <ul style="list-style-type: none"> Ofgem to share a further draft of the policy including reflecting comments and completing outstanding sections. To take decision on requirement for further policy discussion based on the magnitude of comments | Ofgem |
| <ul style="list-style-type: none"> Provide further comments on drafting | DNOs and BG |
| HVP – double counting | |
| <ul style="list-style-type: none"> Circulate worked examples of approaches to addressing double counting | Ofgem – circulate DNOs - feedback |
| <ul style="list-style-type: none"> To consider application of 2.5% penalty rate to HVPs | Ofgem |
| HVP – defining outputs | |
| <ul style="list-style-type: none"> To circulate scheme papers received at start of DPCR5 (detailing individual outputs) to each DNO | Ofgem |
| HVP – Performance Assessment Submissions | |
| <ul style="list-style-type: none"> To let DNOs know where we think information is missing from either RIGs commentary or CV9/ CV10 (for BT21CN) | Ofgem |
| <ul style="list-style-type: none"> To develop standard reporting template | SPEN lead |
| HVP - Assessment per project category/ driver | |
| <ul style="list-style-type: none"> To confirm whether general approach proposed by UKPN can be applied to their own BT21CN project | WPD |
| <ul style="list-style-type: none"> To develop a strawman for tree-cutting | SSE |
| HVP – General | |
| <ul style="list-style-type: none"> To further develop licence drafting and circulate to DNOs when ready | Ofgem |

4. Date of next meeting

4.1. The next meeting will be held on 12th February 2015 between 11am and 3pm.