

DPCR5 Close Out – Overview of Working Group Meeting

This meeting of the DPCR5 Close Out Working Group comprised two parts: (1) the Finance Working Group looked at double counting; and (2) the Licence Drafting Working Group looked at NOMs Licence Drafting.	From	Grant McEachran	15 March 2016
	Date and time of Meeting	11 March 2016	
	Location	9 Millbank, London Cornerstone, Glasgow	

1. Present

Grant McEachran, Chris Watts, Kelvin Hui, Matthew Brown and Clothilde Cantegreil (both Part 1 only) Aris Kalogeropoulos (Part 2 only)	Ofgem
Sarah Walls, Dave Ball Jonathan Booth (Part 2 only)	Electricity North West
Keith Noble-Nesbitt (by phone), Kathryn Atack (Part 1 only), John France and Mark Nicholson (both Part 2 only)	Northern Power Grid
Andrzej Michalowski, Katherine Bartlam	Western Power Distribution
Chris Elderfield, Stephen Murray	SPEN
Melanie Bryce, Gill Hilton (By Phone), Maz Alkirwi (by phone)	SSE
Ross Thompson and Colin Nicholl (both Part 1 only) Robert Friel and Paul Measday (both Part 2 only)	UKPN
Gregory Edwards	British Gas

2. Finance Working Group

2.1. The first part of the meeting focused on Ofgem’s proposed approach to double counting. Matthew Brown talked the group through a worked Excel example circulated by Ofgem in advance of the meeting.

2.2. The key points discussed were as follows:

- **Double counting methodology** – Ofgem took the group through the double counting methodology it had developed in an Excel workbook. There was broad agreement about the methodology, so drafting will now be started to convert the Excel workbook into handbook text.
- **Minor modelling points** – The following points were raised and accepted by Ofgem. They will be incorporated into the legacy workbook:
 - the double count adjustment only applies when the output gap is less than zero, rather than not equal to zero
 - the need to include an IFERROR wrap around calculations, to avoid DIV/0 errors when the total expenditure is zero; and
 - inputs for the output gap will be split into those subject to the penalty rates and those that aren’t and the calculation of the failure to deliver adjustment will be amended to incorporate this.
- **Apportioning the Output Gap and Double Count Adjustment to regulatory years** – Ofgem will decide how to apportion these adjustments, having taken into account all views raised at the working group and current handbook text. Ofgem will feed back to the group once a decision is reached.
- **AOB** – The definition of MOD in the handbook needs to be standardised between sections, to make sure it includes revisions in previous years as well as the current year’s changes.

3. Licence Drafting Working Group –

3.1. The group reviewed the licence drafting circulated by Ofgem in advance of the meeting. The key points discussed were as follows:

- **Overall structure** – It was suggested that Ofgem could make more the overall structure of the document clearer. One potential solution is to cover the purpose, the stages and timings of the analysis and the financial adjustments that feed into the overall legacy adjustments in the handbook. The details of Ofgem assessment and the content of the Performance Assessment Submission (PAS) could be set out in detailed methodology annex. Sections 2 and 3 could be consolidated into a shorter process section.
- **Terminology** – Ofgem to ensure terminology is consistent throughout the document and well-defined e.g. DPCR5 Final Proposals. Need to define, HI, LI and fault rates upfront.
- **Form of assessment** - Ofgem should carry out a single holistic assessment of whether companies have delivered their NOMs outputs taking into account its assessment of delivered performance for each of the elements – HIs, LIs and Faults. Ofgem considered that it would not require a mechanistic assessment of over and under-deliveries across areas but a qualitative view of whether the delivered output was appropriate. The wording in the current drafting needs to be strengthened to ensure that all three NOMs are ‘qualitatively’ assessed in the round as part of a single assessment. This can take into account trade-offs across categories. Ofgem noted that it would also expect to draw on other evidence such as the decisions reflecting poor stewardship of assets.
- **Quantitative and qualitative assessment** – Ofgem should be clear on the ‘principles’ it will adopt in undertaking its assessment.
- **Fault rates** – Ofgem to ensure that the handbook drafting in respect of fault rates NOMs is drafted to only include those assets not already covered within HIs. Further, unlike HIs it is important to be clear that this is not risk points methodology; rather it is an approach to weighting fault rates across assets into a single measure.
- **LIs** – Ofgem to make clear that LI NOMs are an absolute target, unlike HIs which are a delta.

4. Actions arising

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

Finance Working Group - Double Counting	
• To make minor changes to terminology to reflect discussions in the meeting.	Ofgem
• To draft text for inclusion in the handbook to reflect the approach to addressing double counting in the workbook.	Ofgem
Licence Drafting Working Group - NOMs	
• To provide comments on the areas of the drafting not discussed in the meeting.	All
• To separate out the PAS sections into a new detailed methodology annex.	Ofgem
• To arrange another meeting to discuss NOMs licence drafting.	Ofgem

5. Date of next meeting

5.1. The next meeting will be held in London and Glasgow, on 18th March 2016 between 10:30 – 16:30.