

DPCR5 Close out: Informal consultation on changes to the RIIO-ED1 Financial Handbook

Consultation

Publication date: 18 May 2016

Response deadline: 2 June 2016

Contact: Grant McEachran

Team: RIIO, Electricity Distribution

Tel: 0141 331 6034

Email: grant.mceachran@ofgem.gov.uk

Overview

The fifth electricity distribution price control (DPCR5) ended on 31 March 2015. It had several elements which could not be settled until the price control had ended. We have committed to creating methodologies for assessing a number of these areas.

We are consulting on our proposed changes to RIIO ED1 Price Control Financial Handbook to incorporate these methodologies. The methodologies apply to all electricity distribution network operators (DNOs).

Context

In February 2015, we modified the Distribution Network Operator (DNO) licence to incorporate arrangements for closing out the fifth electricity distribution price control (DPCR5). These arrangements are governed by special licence condition CRC3A Legacy price control adjustments of the electricity distribution licence and Part 3 of the RIIO-ED1 Price Control Financial Handbook (“the Handbook”) Legacy price control adjustment methodologies.

We already have methodologies in place for closing out most of the remaining DPCR5 mechanisms. However, for several more complex areas, we committed to develop additional detailed methodologies and formally incorporate them into the Handbook. We intend to publish our decision on the modifications by 31 July 2016.

The methodologies reflect what was set out in our DPCR5 Final Proposals and the Network Outputs Data and Performance Reporting (NADPR) Regulatory Instructions and Guidance (RIGs). The NADPR RIGs were developed in cooperation with the DNOs after Final Proposals were published and reflect evolutions in our thinking. In some cases we are proposing changes from Final Proposals to address areas of uncertainty or to provide clarification. In September and December 2015, we consulted on the proposed changes.

We are now consulting on draft text for the full suite of DPCR5 close out methodologies to be incorporated into the Handbook.

We will be closing out these mechanisms as part of the 2017 Annual Iteration Process (AIP).

Associated documents to this consultation

Documents published alongside this consultation

- Supplementary Annex 1: Changes to Part 3 of the RIIO-ED1 Financial Handbook for the DPCR5 Close Out

Other relevant documents

- [Electricity Distribution Price Control Review Final Proposals - Allowed Revenue - Cost Assessment](#)
- [Electricity Distribution Price Control Review Final Proposals - Incentives and Obligations](#)
- [Network Outputs Data and Performance Reporting \(NADPR\) Regulatory Instructions and Guidance \(RIGs\)](#)
- [Consultation on the methodologies for DPCR5 close out](#)
- [DPCR5 Closeout Methodologies - further changes since informal consultation](#)

Contents

Executive summary	1
1. Introduction	2
Purpose of this document	2
Approach to licence drafting	3
Structure of this document	5
Responding to this consultation	5
2. Overview of the closeout methodologies	6
DPCR5 Network Output Measures	6
Load Related Re-opener	8
High Value Projects	10
Traffic Management Permit Costs	11
Flood prevention costs	13
Performance Assessment Submission	13
3. Next steps	15
Appendix 1 - Consultation response and questions	17
Appendix 2 – Financial Handbook structure and proposed modifications	18
Appendix 3 – feedback questionnaire	20

Executive summary

We are proposing methodologies to close out five elements of DPCR5:

- the assessment of delivery against the asset health, loading and fault rates deliverables (the Network Output Measures);
- the DPCR5 Load Related Re-opener;
- the expenditure reopener and the assessment of delivery against outputs for High Value Projects;
- the Traffic Management Act Permit Costs; and
- the reopener for DPCR5 Flood Protection expenditure which solely applies to Scottish and Southern Electricity in its Hydro region (SSEH).

This document sets out for consultation our proposed changes to the RIIIO-ED1 Price Control Financial Handbook (the "Handbook") to incorporate these methodologies. Our proposed changes are based on the approach and principles we described in DPCR5 Final Proposals as well as the outcome of our September and December consultations on the close out methodologies for the DPCR5 Price Control.

We have worked with the Distribution Network Operators (DNOs) to develop these methodologies. We established a Working Group which has met between December and May and which included representatives from all DNOs and British Gas.

In June, we will publish a 28-day statutory consultation of our proposed changes to the Handbook. We intend to publish our decision on the modifications by 31 July 2016. The changes will come into effect 56 days later.

We are developing these methodologies specifically within the context of DPCR5. The methodologies are not intended to set a precedent for how we will deal with similar mechanisms in other price controls and in other sectors, though they may be used to inform our approach in the future.

1. Introduction

Chapter Summary

This chapter sets out the purpose and structure of the document. It also provides an overview of our approach to DPCR5 Close out and our next steps in the development of the Close out methodologies.

Purpose of this document

- 1.1. The previous electricity distribution price control (DPCR5) ran from 2010 to 2015. As part of DPCR5, the DNOs committed to delivering specific outputs relating to network investment, and we put in place mechanisms to deal with areas of uncertainty.
- 1.2. At DPCR5 Final Proposals we explained that some of these mechanisms would need to be “closed out” ex-post at RIIO-ED1. These include reopeners which deal with under or overspend, and output mechanisms which enable us to impose a penalty on DNOs if they have not delivered the outputs they originally committed to. Adjustments are made to ED1 allowed revenues.
- 1.3. We are proposing changes to the Handbook for the purpose of introducing new methodologies to close out the following five elements of DPCR5:
 - DPCR5 Network Output Measures (NOMs): the assessment of delivery against the asset health, loading and fault rates deliverables;
 - the DPCR5 Load Related Re-opener;
 - the expenditure reopener and the assessment of delivery against outputs for High Value Projects;
 - the Traffic Management Act Permit Costs; and
 - the reopener for DPCR5 Flood Protection expenditure which solely applies to Scottish and Southern Electricity in its Hydro region (SSEH).
- 1.4. The effect of our proposed methodologies is to clarify how we will assess DNO performance under each mechanism and calculate any associated RIIO-ED1 revenue adjustments.
- 1.5. The methodologies for closing out these mechanisms could not be finalised as part of the RIIO-ED1 process. We decided to develop and introduce methodologies to the Handbook at a later stage. We amended the licence to this effect on 3 February

2015¹. We are seeking to reach a decision for closing these out in time for the 2017 AIP.

1.6. The purpose of this consultation is to seek views on the draft methodologies for inclusion in the Handbook.

Approach to licence drafting

Working Group

1.7. We created a Working Group (WG) comprising members of the Ofgem team, DNO representatives and British Gas. This group has met regularly to review and develop the DPCR5 Close out methodologies. Notes of the meetings of the working group are published on our website².

Methodology consultations

1.8. We consulted twice on our approach to closing out DPCR5. A brief summary of those consultations is set out below.

September 2015

1.9. This set out high-level draft methodologies. It noted that the methodologies were based on the approach and principles described in DPCR5 Final Proposals. However, it also noted that in some cases our thinking had evolved during the five years of the price control and highlighted the rationale for the changes.

1.10. In particular, it proposed the following changes:

- NOMs
 - to undertake a quantitative and qualitative assessment of DNO performance rather than just carrying out qualitative assessment of the NOMs;
 - the introduction of a quantitative materiality threshold before making a financial adjustment;
 - not to make changes to the HI NOMs deliverables for material changes; and
 - not to apply a financial adjustments for fault rates.

¹ RIIO-ED1: Modifications to the standard conditions of the electricity distribution licences <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-modifications-standard-conditions-electricity-distribution-licences-0>

² <https://www.ofgem.gov.uk/publications-and-updates/dpcr5-close-out-working-group>

- Load Related Re-opener
 - to avoid doubling counting between the Load Related Re-opener and Load Indices (LI) NOMs; and
 - to widen the definition of innovation to include smart grids, energy storage or any other innovative technique that the DNOs used to avoid network reinforcement during DPCR5.
- HVPs
 - to avoid doubling counting between the HVP reopener and HVP outputs adjustment;
 - to take into account the fact that projects may be at different stages in their delivery;
 - to develop additional approaches based on four different categories of project to ensure our assessment accurately reflects whether or not outputs have been delivered and the type of projects delivered; and
 - to ensure that any partial delivery of outputs and/or any changes in outputs is reflected in our assessment of whether there is an outputs gap and the valuation of the outputs gap.

December 2015

1.11. Having considered responses to the September consultation, we published a further consultation in December in which we noted we had reconsidered our approach to assessing the NOMs from the position we set out in the September consultation, in two key respects:

- Material changes – we outlined our intention to make appropriate adjustments to the agreed outputs to take account of material changes in line with the original intent in DPCR5 Final Proposals and the NADPR RIGs.
- Fault Rates – we outlined our intention to monetise fault rates as being in line with the original intention of DPCR5 Final Proposals and ensuring a consistent approach to performance assessment for all asset classes where asset replacement or refurbishment expenditure was allowed in DPCR5.

1.12. In addition, we noted that we proposed to include an additional methodology for assessing the amounts that Scottish and Southern Electricity had spent on flood prevention in its Hydro region (SSEH). Again, this was to reflect the policy intention in DPCR5 Final Proposals.

Respondents' views

1.13. The consultations and all non-confidential responses are available on our website³.

³ <https://www.ofgem.gov.uk/publications-and-updates/consultation-methodologies-dpcr5-close-out>

1.14. We intend to publish a Decision document on DPCR5 close out alongside our statutory consultation on licence drafting. This will summarise responses to our September 2015 and December 2015 consultations and set out in further detail our final decision on the policy aspects set out above.

Handbook structure

1.15. We do not propose significant changes to the structure of the current Handbook. We have sought to insert any new text at appropriate places within the current Handbook structure.

1.16. Most of methodologies have been inserted as new annexes to Part 3 of the Handbook - Legacy price control adjustment methodologies. In doing so we are also proposing changes to the relevant sections of the existing Chapters 15 and 16 of the Handbook. The exception will be in relation to the methodology on Flood Prevention which will be inserted as a whole into Chapter 15.

1.17. The new structure of the Handbook is outlined in Appendix 2.

Structure of this document

1.18. Chapter 2 set out further detail of the proposed methodologies. Chapter 3 sets out the next steps in the DPCR5 Close out process.

1.19. Alongside this document we have published a supplementary annex setting out drafts of the DPCR5 Close out methodologies – Supplementary Annex 1.

Responding to this consultation

1.20. We welcome comments on the proposed drafting by 2 June 2016 to RIIO.ED1@ofgem.gov.uk or in writing to:

Grant McEachran
RIIO - Electricity Distribution
Ofgem
3rd Floor
Cornerstone
West Regent Street
Glasgow
G2 2BA

1.21. Unless clearly marked confidential, all responses will be published on our website.

2. Overview of the closeout methodologies

Chapter Summary

This chapter explains the methodologies that we are consulting on for DPCR5 Close out.

Questions

Question 1: Do you have any views on the proposed changes to the Financial Handbook? The draft methodologies are found in Supplementary Annex 1.

2.1. We set out below a high level summary of the policy areas for which we are proposing methodologies for DPCR5 Close out. These methodologies reflect the policy set out in the DPCR5 Final Proposals, the NADPR RIGs and the outcome of our September and December 2015 consultations.

2.2. As noted in Chapter 1, we intend to publish a Decision document on DPCR5 close out alongside our statutory consultation on licence drafting. This will summarise responses to our September 2015 and December 2015 consultations and set out in further detail our final decisions on policy.

DPCR5 Network Output Measures

2.3. In the DPCR5 price control review we created new indicators called Network Output Measures (NOMs). These were designed to distinguish between DNOs that had innovated and found alternative methods to deliver customers' needs more efficiently, against those that had deferred investment at the expense of network health, loading and/or performance. We concluded that DNOs should retain a share of genuine efficiency improvements and should not benefit from not doing work or deferring work that benefits consumers.

2.4. If a company fails to invest in the network it is likely that the network reliability will suffer. However, it may be a long time before network interruptions increase as a result of reduced maintenance expenditure, lower asset replacement or refurbishment expenditure.

2.5. The NOMs are leading indicators of the performance of network assets and link closely with network expenditure. There are three measures:

- **health indices (HI)** – these cover the health of the DNOs' assets and are based on a combination of age, condition data and fault history. Asset categories range from HI1 assets, which are new or "as new" assets at the beginning of their asset lives, to HI5 assets which are towards the end of their asset lives. HI4 and HI5 assets may require replacement or refurbishment. HIs only applies to a subset of DNO assets for which condition information is

available. There are some differences between DNOs in terms of which assets were in scope for DPCR5.

- **load indices (LI)** – these cover the loading on primary substations on the DNOs’ networks based on peak demand at each substation site and firm capacity. Asset categories range from LI1 with a relatively low level of loading to LI4 and LI5 which represent peak loading above firm capacity and which may require adding additional capacity through network reinforcement.
- **fault rates** – these apply to assets with no HIs. They measure asset reliability in terms of the number of faults which occur annually and over a number of years.

Key policy components of proposed DPCR5 NOMs Failure to Deliver Outputs Methodology

2.6. Key components of the DPCR5 NOMs Failure to Deliver Outputs Methodology include:

- a quantitative and qualitative assessment of three individual components of the NOMs – HIs, LIs and fault rates, followed by an overall assessment of each licensee’s performance across all three components;
- the introduction of a quantitative materiality threshold of 5% of the agreed risk point reduction for DPCR5 for HIs and LIs and 10% for fault rates meaning that a DNO could under deliver by up to the materiality threshold before any financial adjustment would apply;
- adjustments to the agreed outputs to take account of material changes; and
- monetising fault rates to ensure a broadly consistent treatment of the three NOMs components.

Proposed changes to the Handbook

2.7. Part 3, Chapter 16 of the existing Handbook contains the “DPCR5 Network Output Measures - failure to deliver outputs adjustment” methodology. We propose to:

- amend Chapter 16;
- introduce a new Annex A1 to the Handbook setting out the new “DPCR5 NOMs Failure to Deliver Outputs Methodology”; and
- introduce a new Annex A2 to the Handbook setting out “NOMs Risk Points Methodologies”.

Reasons for proposed changes

2.8. The reason for amending Chapter 16 is to reflect and reference the addition of a new “DPCR5 NOMs Failure to Deliver Outputs Methodology” methodology. The other reason for amending Chapter 16 is to introduce the potential for a licensee to have to restate information and thus for the Authority to re-run its assessment of that licensee’s performance if that licensee has not provided sufficiently robust and consistent data.

2.9. The reason for introducing the new Annex A1 is to set out the methodology the Authority will use to assess whether the licensee has delivered its DPCR5 NOMs outputs, comprising HIs, Lis and Fault Rates and, if not, whether there should be any adjustment to its allowed revenue.

2.10. The reason for introducing the new Annex A2 is to set out the methodologies the Authority will use for calculating the HI Risk Points, LI Risk Points and Fault Rate Points as part of its quantitative assessment of whether each licensee has delivered its DPCR5 NOMs outputs.

Load Related Re-opener

2.11. Load related expenditure is the costs of adding more capacity to the distribution networks to connect more customers and to accommodate increased demand. When we set the DPCR5 price control we recognised that there was significant uncertainty in economic conditions which could impact on forecast load growth and volume of new connections and therefore the need for investment. We therefore included two uncertainty mechanisms to allow the DNOs to be funded for these costs later in the period.

2.12. In DPCR5 we introduced a volume driver for high volume low cost (HVLC) connections. The volume drivers modify the allowed revenues according to the volume of work done. The volume driver for these connections adjusts to HVLC connections baseline to reflect the actual volume of connections times the unit cost we specified at DPCR5. It also takes account of the actual proportion of gross HVLC connections expenditure that is recovered through connection charges.

2.13. We also introduced a reopener to recalculate the allowed revenues for specified costs (called the Load Related Re-opener) for general reinforcement (excluding fault level reinforcement) and low volume high cost (LVHC) connections. General reinforcement typically consists of lumpy projects at the higher voltages which have significant variability in unit costs. LVHC connections are a subset of demand connections for which there are relatively small volumes and significant variability in unit costs.

Key policy components of the proposed Load Related Re-opener Methodology

2.14. Key components of the Load Related Re-opener Methodology include:

- a materiality threshold for the Load Related Re-opener comprising two parts:
 - the reopener can be triggered if efficient expenditure is at least 20% higher or 20% lower than the baseline; and
 - the additional costs above or reduced costs below the reopener threshold baseline, after application of the efficiency incentive rate, must be greater than 1% of DPCR5 base revenue for an adjustment to be made;
- provisions to avoid doubling counting between the Load Related Re-opener and LI NOMs;
- provisions to take into account the offsetting impact of any efficiencies that the companies have made through innovative techniques to avoid general reinforcement or LVHC connections expenditure such as demand-side management, smart grid technologies, energy storage or other innovative approaches; and
- discount the impact of real price effects (RPEs) from any adjustments applied under the Load Related Re-opener.

Proposed changes to the Handbook

2.15. Part 3, Chapter 15 of the existing Handbook contains the “DPCR5 Load Related Re-opener - adjustment resulting from revised allowance levels” methodology. We propose to:

- amend Chapter 15; and
- introduce a new Annex B to the Handbook setting out the new “Load Related Re-opener Legacy Assessment Methodology”.

Reasons for changes to the Handbook

2.16. The reason for amending Chapters 15 is to reflect and reference the addition of a new Load Related Re-opener Methodology.

2.17. The reason for introducing a new Annex B is to set out the methodology by which the Authority will use to assess load related expenditure to determine whether

the licensee has triggered the Load Related Re-opener and, if so, the value of any adjustment to its allowed revenue.

High Value Projects

2.18. High Value Projects (HVPs) were defined in DPCR5 as discrete projects with a value of more than £15m over the lifetime of the project (in 2007-08 prices).

2.19. At DPCR5 there were a range of HVPs which we considered separately as part of the cost assessment. We included an assumption for the costs associated with these projects in the FP allowed revenues. We recognised that there was uncertainty as to the need and costs of this work and therefore we also included an expenditure reopener for HVPs. In addition, DNOs committed to delivering specific outputs for each individual HVP.


Key policy components of the proposed HVP methodologies

2.20. Key components of the HVP Re-opener Methodology include:

- a materiality threshold comprising two parts:
 - the reopener can be triggered if efficient expenditure is at least 20% higher or 20% lower than the baseline; and
 - the additional costs above or reduced costs below the reopener threshold baseline, after application of the efficiency incentive rate, must be greater than 1% of DPCR5 base revenue for an adjustment to be made
- removing the possibility of doubling counting between the HVP re-opener and HVP outputs adjustment;
- provisions to take into account the offsetting impact of any efficiencies that the companies have made through innovative techniques such as demand-side management, smart grid technologies, energy storage or other innovative approaches; and
- discounting the impact of real price effects (RPEs) from any adjustments applied under the HVP reopener.

2.21. Key components of the HVP Outputs Review Methodology include:

- taking into account the fact that projects may be at different stages in their delivery;



DPCR5 Close out: Informal consultation on changes to the RIIO-ED1 Financial Handbook

- reflecting whether or not outputs have been delivered and the type of projects delivered; and
- ensuring that any partial delivery of outputs and/or any changes in outputs is reflected in our assessment of whether there is an outputs gap and the valuation of the outputs gap.

Proposed changes to the Handbook

2.22. Part 3, Chapter 15 and Chapter 16 of the existing Handbook contains the “DPCR5 High Value Projects Re-opener” and “DPCR5 High Value Projects failure to deliver outputs” methodologies. We propose to:

- amend Chapter 15 and Chapter 16;
- introduce a new Annex C1 to the Handbook setting out the new “HVP Re-opener Legacy Assessment Methodology”; and
- introduce a new Annex C2 to the Handbook setting out the new “HVP Network Outputs Review Methodology”.

Reasons for changes to the Handbook

2.23. The reason for amending Chapters 15 and 16 is to reflect and reference the addition of two new HVP methodologies.

2.24. The reason for introducing a new Annex C1 is to set out the methodology by which the Authority will use to assess HVP costs to determine whether the licensee has triggered the HVP reopener and, if so, the value of any adjustment to its allowed revenue.

2.25. The reason for introducing a new Annex C2 is to set out the methodology by which the Authority will use to assess whether the licensee has delivered its HVP outputs and, if not, whether there should be any adjustment to its allowed revenue.

Traffic Management Act Permit Costs

2.26. Traffic management costs are the costs of complying with traffic management legislation when a company is undertaking activities which involve the occupation of the highway. For example, it includes the cost of administering notifications of street works, suspensions and closures of the highway such as traffic signals, the cost of inspections undertaken by the highway authority, and congestion charging.

2.27. When we set allowances for traffic management costs at DPCR5, we did not include the costs of permit schemes as there was insufficient information on these

costs at the time. The introduction of permit schemes is entirely at the discretion of the local authorities. Permit schemes provide local authorities with an alternative to the noticing system whereby DNOs inform them of their intentions to carry out work. A permit scheme requires a DNO to apply for a permit to do the works which incur a cost. The local authority can also set conditions when granting the permit.

2.28. The costs associated with permit schemes were instead logged up by companies to be reclaimed at the end of the period. These costs include the cost of the permits, conditions associated with the permits, set up and administration costs. These logged up costs can now be assessed in order to make appropriate adjustments to allowances.

Key policy components of the proposed Traffic Management Permit Costs Legacy Assessment Methodology

2.29. Key components of the Traffic Management Permit Costs Legacy Assessment Methodology include:

- the Authority carrying out an assessment of costs reported by a licensee using a combination of qualitative and quantitative methods in order to assess cost efficiency for each of four permitting cost components - Permit Costs, Permitting Conditions Costs, System Set Up Costs and Incremental Administration Costs;
- an assessment excluding costs and volumes outside the price control e.g. costs and volumes associated with connection costs not subject to the apportionment rule are excluded; and
- applying a materiality threshold of one percent of the licensee's DPCR5 revenue allowance.

Proposed changes to the Handbook

2.30. Part 3, Chapter 15 of the existing Handbook contains the "DPCR5 Traffic Management Act Permit Costs adjustment" methodology. We propose to:

- amend Chapter 15; and
- introduce a new Annex D to the Handbook setting out the new "Traffic Management Permit Costs Legacy Assessment Methodology".

Reasons for changes to the Handbook

2.31. The reason for amending Chapter 15 is to clarify how Ofgem will determine the Traffic Management Act Permit Costs adjustment to allowed revenue for the licensee, including a materiality test to check applicability for the adjustment.

2.32. The reason for introducing Annex D is to set out the methodology for calculating efficient traffic management permitting costs.

Flood prevention costs

2.33. Scottish and Southern Electricity in its Hydro region (SSEH) was not given any baseline expenditure allowance for flood prevention works in DPCR5 because information was not available in time for an assessment of expenditure requirements to be carried out. As a result, SSEH was allowed to log-up its expenditure to allow for the subsequent award of expenditure allowance amounts.

Key policy components of the proposed DPCR5 Flood Prevention methodology

2.34. The proposed methodology includes:

- (1) a cap of £2.3 million, in 2007-08 prices (£2.7m in 2012/13 prices), on allowed expenditure relating to the protection of substations against flooding during DPCR5; and
- (2) a test that SSEH's expenditure represents a cost 'per risk reduced' that is above the 'upper quartile £ per risk reduced'.

Proposed changes to the Handbook

2.35. We propose to introduce a new "DPCR5 Flood Prevention - adjustment resulting from revised allowance levels" methodology in Chapter 15 of the Handbook.

Reasons for changes to the Handbook

2.36. There is no existing methodology on DPCR5 Flood Prevention in the Handbook. The changes will enable SSEH to recover flood prevention costs up to a cap of (£2.7m in 2012/13 prices) where that expenditure is calculated to be above the 'upper quartile £ per risk reduced'.

Performance Assessment Submission

2.37. The DNOs may be required to submit a Performance Assessment Submission to inform Ofgem's DPCR5 close out assessment by 31 October 2016.

2.38. The Authority will only request information in the Performance Assessment Submission where it identifies gaps in its existing information or where specific questions have arisen.

2.39. The information requested by the Authority will be proportionate and will include any outstanding information required to address issues identified. The Authority will inform each licensee of the specific information required to be submitted by the licensee in its Performance Assessment Submission in relation to NOMs, HVPs, the Load Related Re-opener and Traffic Management Act Permit Costs.

Proposed changes to the Handbook

2.40. We propose to introduce a new Annex E "Performance Assessment Submission" to provide clarity on the reporting requirements.

Reasons for changes to the Handbook

2.41. There is no existing text outlining the reporting requirements on the DNOs as part of their Performance Assessment Submission. This annex has been developed to reflect the reporting requirements associated with the other draft methodologies. It has been developed through engagement with the Working Group.

3. Next steps

Chapter Summary

This chapter sets out the next steps in the process for DPCR5 Close out.

3.1. The timetable for making the necessary changes to the Handbook to incorporate the DPCR5 Close out methodologies is set out in Table 1.

Table 1: Timetable for DPCR5 Close out methodology development

Stage	Date
Informal consultation	18 May
Decision document and 28 day statutory licence modification consultations	w/c 12 June
Licence modification decisions and modifications published	29 July
Licence changes come into force	23 Sept

3.2. Having considered responses to this informal consultation, we intend to publish our 28 day statutory licence modification consultation during the week commencing 12 June 2016. Alongside that document we will publish our Decision document on DPCR5 close out. This will summarise responses to our September 2015 and December 2015 consultations and set out our final decision on the policy aspects of DPCR5 close out consulted on in those documents.

3.3. In line with the deadline set out in the Handbook, we will publish our licence modification decisions by 31 July 2016. The licensees will then have 56 days in which to appeal our decision.

3.4. In the next stage of the process we will undertake an assessment of each licensee's performance to determine whether we will be making any adjustments to the revenues of the DNOs. The DNOs will be required to submit their Performance Assessment Submissions currently by 31 October 2016. We will then commence our assessment of each licensee's performance, in order to reach a final decision on any revenue adjustment for the November 2017 AIP.

Appendices

Appendix	Name of Appendix	Page Number
1	Consultation response and questions	17
2	Financial Handbook structure and proposed modifications	18
3	Feedback questionnaire	20

Appendix 1 - Consultation response and questions

1.1. We would like to hear your views on any of the issues set out in this document.

1.2. We especially welcome responses to the specific questions at the beginning of each chapter. These are replicated below. Responses should be received by 2 June 2016 and should be sent to grant.meachran@ofgem.gov.uk .

1.3. Unless marked confidential, all responses will be published in our library and on our website www.ofgem.gov.uk. You may request that their response is kept confidential. We shall respect this request, unless the law requires us to disclose anything, for example - under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.4. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. Respondents are asked to put any confidential material in the appendices to their response.

1.5. We intend to publish our decision on the draft SLCs in May, after considering the responses to this consultation. Any questions should, initially be directed to:

- Grant McEachran
- 0141 331 6034
- grant.meachran@ofgem.gov.uk

CHAPTER: Two

- **Question 1:** Do you have any views on the proposed changes to the Financial Handbook? The draft methodologies are found in Supplementary Annex 1.

Appendix 2 – Financial Handbook structure and proposed modifications

Section	Part 3 of the RIIO-ED1 Financial Handbook	Proposed change for DPCR5 Close out	Associated Document Created?
Chapter 15: Legacy price control adjustments – financial methodologies			
1	Overview	Amendments	No
2	Determination of legacy adjustments to revenue allowances (other than those associated with the DPCR5 RAV Rolling Incentive mechanism) and revisions to the OLREV value	Amendments	No
2i	DPCR5 Pension adjustment	No Change	No
2ii	DPCR5 Tax adjustment	No Change	No
2iii	DPCR5 Distributed Generation adjustment	No Change	No
2iv	DPCR5 DUoS Bad Debts adjustment	No Change	No
2v	DPCR5 Traffic Management Act Permit Costs adjustment	Amendments	No
2vi	DPCR5 Undergrounding and Worst Served Customer Improvements adjustment	No Change	No
2vii	DPCR5 Load Related Re-opener - adjustment resulting from revised allowance levels	Amendments	No
2viii	DPCR5 High Volume Connections Volume Driver - adjustment resulting from revised allowance levels	No Change	No
2ix	DPCR5 High Value Projects Re-opener - adjustment resulting from revised allowance levels	Amendments	No
2x	DPCR5 Enhanced Physical Site Security and Black Start -adjustment resulting from revised allowance levels	No Change	No
2xi	DPCR5 Shetland adjustment	No Change	No
2xii	DPCR5 Flood Prevention - adjustment resulting from revised allowance levels	New	No
2xiii	Determination of the OLREV value for the licensee	Amendments	No

3	Determination of revisions to the PCFM Variable Values for legacy adjustments to DPCR5 RAV Additions (OLRAV values)	No Change	No
4	Section 4 – Direction of revisions to the OLREV value and to OLRAV values	No Change	No
Chapter 16: Legacy DPCR5 RAV Rolling Incentive adjustments - financial methodologies			
1	Overview	Amendments	No
2	Determination of revisions to the PCFM Variable Value for legacy adjustments associated with the DPCR5 RAV Rolling Incentive mechanism (the RIREV value)	Amendments	No
2i	Adjustment for items subject to DPCR5 IQI Incentive Rates	No Change	No
2ii	DPCR5 High Value Projects - failure to deliver outputs adjustment	Amendments	No
2iii	DPCR5 Network Output Measures - failure to deliver outputs adjustment	Amendments	No
2iv	DPCR5 Rising and Lateral Mains - adjustment relating to the level of customer contributions	No Change	No
2v	DPCR5 Workforce Renewal - adjustment resulting from overspend or underspend against allowance	No Change	No
3	Section 3 – Determination of revisions to the PCFM Variable Value for legacy adjustments associated with the DPCR5 RAV Rolling Incentive mechanism (the RIREV value)	No Change	No
4	Direction of revisions to the RIREV value	No Change	No
Appendix 1	Glossary	Amendments	No
Annexes			
A1	DPCR5 NOMs Failure to Deliver Outputs Methodology	New	No
A2	NOMs Risk Points Methodologies	New	No
B	Load Related Re-opener Legacy Assessment Methodology	New	No
C1	HVP Re-opener Legacy Assessment Methodology	New	No
C2	HVP Network Outputs Review Methodology	New	No
D	Traffic Management Permit Costs Legacy Assessment Methodology	New	No
E	Performance Assessment Submission	New	No

Appendix 3 – Feedback questionnaire

1.1. Consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. We would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

Andrew MacFaul

Consultation Co-ordinator

Ofgem

9 Millbank

London

SW1P 3GE

andrew.macfaul@ofgem.gov.uk