

Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ
gillian.hilton@sse.com

Grant McEachran
RIIO, Electricity Distribution
Ofgem
107 West Regent Street
Glasgow
G2 2BA

2 June 2016

Dear Grant,

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

We welcome this Informal Consultation and the opportunity to review the latest Financial Handbook drafting. This has been a substantial exercise and we acknowledge the significant efforts of you and your team to produce the drafting within the required timescales.

We have endeavoured to undertake a thorough review of the proposed changes to the drafting during this two week period, but are mindful of the complexity of the DPCR5 Close Out mechanisms. To this end, we have tabled our comments in an annex to this letter although this list is not exhaustive. The vast majority of these relate to minor corrections in the drafting, which is commensurate with where we are in the process and efforts expended to date. We will continue to review the drafting and welcome the opportunity to discuss further at the meeting on the 10th of June and comment on the formal consultation in due course.

Should you wish to discuss any of our observations, please do not hesitate to get in touch.

Yours sincerely,

Gillian Hilton
Regulation, Networks.

ANNEX: Financial Handbook Drafting comments

PAGE REFERENCE	PARAGRAPH REFERENCE	COMMENT
26	15.100 (iii)	The reference to DPCR 5 IQI incentive rate as defined in the glossary is the adjusted incentive rate for slow money whereas there is a mixture of fast and slow money in TMA costs. The relevant IQI incentive rate should be used as is the case for LRE and HVP.
33	15.124	Paragraph reference does not appear to align with paragraph content.
34	15.128	Reference to 'Special Condition CRC 18'. Believe it would be more correct to refer to Charge Restriction Condition 18 and remove reference to Special Condition.
34	15.131	Delete reference to '(or saved expenditure)'. This does not add anything and overlooks the fact that incurred expenditure above 120% is also captured.
39	15.143	Paragraph reference has no text associated with it.
40	15.152 (i)	Superfluous comma in opening line.
47	15.187	Opening paragraph refers to 'a three stage process', however the subsequent sub-paragraphs suggest this is a four stage process.
48	15.187 (i)(b)	Reference to 'cost levels' in opening line does not seem appropriate. Suggest this is replaced by 'relating to expenditure , using ...'.
48	15.187 (iv)	Perhaps helpful to include relevant reference to section on 'Adjustment for double-counting' (paragraph 15.214-15.219)
49	15.194	To align with Appendix 1 Glossary, reference to 'Total HVP Outputs Gap' should be 'Total HVP Network Outputs Gap'.
49	15.194	In the case of HVPs, where there is both a reopener element and an outputs element, we are mindful that the timing profile for the former is actual expenditure and the latter is allowance. Whilst unlikely to be a significant issue, we are mindful that this is potential source of conflict where both elements of HVP Close Out are in play.
49	15.195 (a)	This should include reference to 'restated in 2012/13 prices'.
51	15.201	Reference to 'a review of cost levels' does not seem appropriate. We believe this paragraph would be better re-worded to read: 'The Authority will carry out a review of the licensee's DPCR5 HVP Actual Incurred Expenditure as specified in the HVP Re-opener Legacy Assessment Methodology in Annex C1 '.
55	15.208 (e)	The reference should not be to 'efficient expenditure'. To reflect wording used elsewhere, suggest this subparagraph is replaced with 'is deemed consistent with the definition of efficiency as provided in paragraph 1.11 of Annex C1'.
55	15.209 (a)	Suggest amending paragraph to read 'the licensee's total DPCR5 HVP Efficient Qualifying Expenditure is sufficiently 120% higher than its Aggregate Baseline Expenditure Allowances for their to be a HVP Post-Threshold Amount'

56	15.210 (a)	To align with Appendix 1 Glossary, reference should be to 'Aggregate Baseline Expenditure Allowance' (not 'Aggregate Baseline Allowance Figure').
56	15.214	Superfluous punctuation in row 6.
58	15.220 (i)	The amounts referred to in subparagraphs (a) and (c) are positive values; the value referred to in (b) is negative. It would appear that these should be on a consistent basis.
68	15.283 (iii)	Suggest that this would work better if it resulted in the lower of the two values (i.e. cap or actual expenditure) being taken forward to future steps, e.g. '(iii) The lower of the total derived under step (ii) above and the cap amount of £2.7 m will be used in future steps as the revised total'.
68	15.283 (v)	It is not clear how SSEH's '£ per risk reduced value achieved' will be calculated.
68	15.283 (vi)	Suggest amending paragraph to read 'If SSEH's '£ per risk reduced value achieved' is higher than the upper quartile £ per risk calculated at step (iv) above, then the Authority will ... '
76	16.15	Conscious that any re-calculation as a result of insufficiently robust or consistent data is limited to the Network Outputs Gap. Does this cover off any knock-on effect on re-openers in the event of a double count issue?
86	16.63	'require' in row 3 should read 'requires'.
105	1.44 (i)	Delete 'was' from second line.
107	1.50	Insert the text 'DPCR5' between the words 'during' and 'against' in row 3. Also in row 3, a space is required between 'theDPCR5'.
108	1.57 (ii)	'meets' should read 'meet'.
109	1.64 (i)	To be consistent, reference to 'DPCR5 allowed unit cost (a)' in row 3 should be 'DPCR5 allowed unit cost (A) '. Also, it would be helpful if, at this point, it referenced ', as defined in Annex A2, 1.6,'.
109	1.64 (ii)	To aid understanding / reading, suggest this is amended to read 'for each HI Asset Category, the volume of work, from step (i) above, is multiplied by the licensee's DPCR5 outturn unit cost (as specified in Annex A2) and separately by the licensee's DPCR5 allowed unit cost ...'. This is consistent with the text used in para 1.66 (ii).
110	1.64 (v)	Also applicable to 1.65 (iv) and 1.66 (iv). Understand these calculations to be scaling the total monetary gap to reflect the tolerances (5%, 5% and 10% respectively) that apply. However, it would be worth including explanatory text to this effect.
110	1.65 (v)	Reference to 'HI' in row 3 should be 'LI'.
111	1.66 (ii)	Reference to 'the volume of work' in row 1 should be replaced with 'the number of faults'.
114	1.6	In calculation at end of para 1.6, reference to '(category a volumes' should be '((category A volumes'.
117	3.5 (ii)	It would be helpful if the reference to 'DPCR5 unit cost of an individual fault (D)' referred to 'as defined in para 3.7 below'.

119	1.6	The final row refers to 'paragraph 15.7'. It might be clearer to reference 'paragraph 15.7 of Chapter 15' given the size of the Handbook. This suggestion would apply throughout the document where references are made to paragraphs outside the chapter or annex.
122	1.18 (ii)	It is not clear what this subparagraph is trying to capture. Suggest it is intended to read 'the Authority's own analysis of LVHC connections'.
127	1.17	Reference to 'project' at end of para should be 'projects'.
129	1.28	The definition given of 'HVP Efficient Qualifying Expenditure' differs from that set out in Appendix 1 Glossary. In addition, in both para 1.28 and Appendix 1 Glossary, reference is made to 'HVP Efficient Reopener (E)xpenditure', which itself is not a defined term.
130	1.1 (ii)	Insert 'a' between 'where' and 'HVP' in row 1.
130	1.2	The second bullet refers to the 'Performance Assessment Submission'. Suggest this is deleted given that this list focuses on the Authority's steps.
130	1.6	Suggest that where there is no DPCR5 HVP allowance, it is not necessary to rely on an Initial High Level Analysis to indicate that there is no requirement on the licensee to submit a PAS. As such, suggest text is amended to read 'Where an Initial High Level Analysis indicates that there was no DPCR5 HVPs allowance for the licensee, ...'.
131	1.7 (ii)	This subparagraph does not appear to belong here. This para relates to instances where licensees are not required to submit a PAS. It seems odd that a licensee would not be asked to submit a PAS in the event that the Authority's Initial High Level Analysis indicates a full Performance Assessment. Indeed this is at odds with para 1.1 of Annex E, which require a PAS in order for the Authority to undertake its Performance Assessment.
133	1.27	The final section of text refers to the DPCR5 IQI Incentive Rate multiplied by a factor of 1.025. This aligns with a separate defined term ('DPCR5 Network Outputs Incentive Rate'). It is clearer to the reader if left as set out in para 1.27, but questions the usefulness of the separately defined 'DPCR5 Network Outputs Incentive Rate' term.
153	6.13 (iii)	Reference to 'cost efficient manner' is not consistent with policy on efficiency elsewhere in drafting. Suggest this is amended to read 'an assessment of whether outputs have been delivered in a manner that is deemed to be consistent with the definition of efficiency in para 1.11 of Annex C1 and whether the Delivered HVP Network Outputs are in the interest of consumers'.
160	Glossary	'DPCR5 IQI Incentive Rate': Reference to 'Special Condition CRC 18'. Believe it would be more correct to refer to Charge Restriction Condition 18 and remove reference to Special Condition.
161	Glossary	'DPCR5 IQI Incentive Rate': Percentage values in table match 'slow money' values in table under 'Adjusted DPCR5 IQI Incentive Rate'. These values should correspond to the overall IQI incentive rate.
166	Glossary	'HI Target Delta': Remove superscript text from dates to be consistent with formatting elsewhere.
166	Glossary	'HVP Efficient Qualifying Expenditure': Definition refers to a term ('HVP Efficient

		Re-opener Expenditure'), which does not appear to be defined. Moreover, definition is not consistent with para 1.28 of Annex C1. Suggest definition refers to existing term of 'HVP Efficient Actual Expenditure'.
169	Glossary	'Load Related Efficient Qualifying Expenditure': Definition refers to undefined terms and references 'LRE' where it should refer to 'Load Related'. Note a fuller definition appears in para 1.30 of Annex B.
169	Glossary	'Load-related Reopener Legacy Assessment Methodology: Capitalise 'related' in term, i.e. 'Load-Related'.
174	Glossary	'Permitting Conditions Costs': In row 4, 'have be incurred' should read 'have been incurred'.
177	Glossary	'Total HVP Network Outputs Gap': In row 1, reference to 'HVPS' should be 'HVPs'. Also reference to 'Network Outputs Incentive Rate' in row 2 should be ' DPCR5 Network Outputs Incentive Rate'.