

DPCR5 Close out: Statutory Consultation on changes to the RIIO-ED1 Financial Handbook

Consultation

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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 developing methodologies for assessing a number of these areas.

We are consulting on our proposed changes to the RIIO ED1 Price Control Financial Handbook to incorporate these methodologies. The methodologies apply to all electricity distribution network operators (DNOs). Responses to this Statutory Consultation are sought by 18 July 2016 ahead of our intention to publish the modifications by 31 July 2016.

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

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 (Legacy price control adjustment methodologies).

We already have methodologies in place for closing out most of the remaining DPCR5 mechanisms. However, for five 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 (DPCR5 FPs) 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 DPCR5 FPs were published and reflect evolutions in our thinking. In some cases we are proposing changes from DPCR5 FPs to address areas of uncertainty or to provide clarification.

In September and December 2015, we consulted on the proposed changes. In May 2016 we issued an informal consultation on the associated changes to the Handbook. We have considered responses to the informal consultation and are now carrying out a statutory consultation 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
- Decision on close out methodologies for the DPCR5 Price Control

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 Close out Methodologies - further changes since informal consultation](#)
- [DPCR5 Close out: informal consultation on changes to the RIIO-ED1 Financial Handbook](#)

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Executive summary

The fifth electricity distribution price control (DPCR5) ended on 31 March 2015. DPCR5 Final Proposals (DPCR5 FPs) set out the policy for DPCR5. This included setting out the approach and principles for five specific areas where the arrangements could not be settled (closed out) until the price control had ended. We committed to developing more detailed methodologies for assessing the performance of the Distribution Network Operators (DNOs) in these areas.

We have developed the following methodologies to close out five elements (there are two parts for High Value Projects) of DPCR5:

- **Network Output Measures (NOMs)** – a methodology to enable us to assess whether the DNOs have delivered a package of outputs in relation to asset health, asset loading and faults that they committed to deliver at DPCR5 FPs. The methodology enables us to adjust DNOs’ revenue downwards where they have failed to deliver those outputs or equivalent outputs.
- **Load Related Re-opener** – a methodology to enable us to adjust DNOs revenue upwards or downwards depending on whether their expenditure for load growth was materially higher or lower than provided for in allowances at DPCR5 FPs.
- **A High Value Projects (HVP) Re-opener** – a methodology to enable us to adjust DNOs revenue upwards or downwards depending on whether their expenditure on specific projects over £15m which they committed to deliver during DPCR5 was materially higher or lower than provided for in allowances at DPCR5 FPs.
- **A HVP outputs adjustment** – a methodology to enable us to assess whether DNOs have delivered specific outputs they committed to deliver for HVPs in DPCR5 FPs.
- **A Traffic Management Act Permit Costs reopener** – a methodology to enable DNOs to recover costs incurred for permits when working on roads and highways which were not provided for at DPCR5 FPs; and
- **A Flood Prevention Re-opener** – a methodology which only applies to Scottish and Southern Electricity in its Hydro region in the north of Scotland (SSEH) and allows SSEH to recover money spent on flood prevention that was not in its baseline expenditure allowance for DPCR5.

This document sets out for statutory consultation our proposed changes to the RIIO-ED1 Price Control Financial Handbook (the “Handbook”) to incorporate these methodologies.

We have worked with the DNOs to develop these methodologies. We established a Working Group which met between December 2015 and May 2016 and which included representatives from all DNOs and British Gas. We consulted on the content of these methodologies in September 2015 and December 2015 as well as publishing an informal consultation on Handbook drafting in May 2016. This document identifies how we have addressed those comments.

The modifications will be made to the Handbook by 31 July 2016 and will come into effect 56 days after publication.

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 DPCR5 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 (DPCR5 FPs) 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 and clarifying existing 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 DPCR5 Traffic Management Act Permit Costs reopener; 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 and 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. 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.

Approach to licence drafting

Working Group

1.7. We created a Working Group 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, in September 2015 (the 'September 2015 consultation') and again in December 2015 (the 'December 2015 consultation'). The consultations and all non-confidential responses are available on our website³.

September 2015 consultation

1.9. This set out high-level draft methodologies. It noted that the methodologies were based on the approach and principles described in DPCR5 FPs. 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;

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>

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

- 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 financial adjustments for Fault Rates as we did not consider at the time it was possible to establish a clear link between costs and Fault Rates.
- Load Related Re-opener
 - to avoid double 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 double counting between the HVP Re-opener 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 consultation

1.11. Having considered responses to the September 2015 consultation, we published a further consultation in December 2015 in which we noted we had reconsidered our approach to assessing the NOMs from the position we set out in the September 2015 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 FPs and the NADPR RIGs.
- Fault Rates – we outlined our intention to monetise Fault Rates as being in line with the original intention of DPCR5 FPs 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 in the north of Scotland (SSEH). Again, this was to reflect the policy intention in DPCR5 FPs.

DPCR5 Close out Decision

1.13. We have published a decision document on DPCR5 Close out alongside this document (“DPCR5 Close out Decision”). The DPCR5 Close out Decision summarises responses to the September 2015 consultation and the December 2015 consultation and sets out in detail our final decision on the policy behind the drafting of the Handbook set out in this Statutory Consultation.

Handbook structure

1.14. 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.

1.15. 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.

Structure of this document

1.16. Chapter 2 sets out further detail of the proposed methodologies. Chapter 3 summarises the key comments we received to our informal consultation and highlights where we have changed the licence drafting in response to those comments. Chapter 4 sets out the next steps in the DPCR5 Close out process. The new structure of the Handbook is outlined in Appendix 2.

1.17. Alongside this document we have published our Notice of our Statutory Consultation on CRC 3A (Legacy price control adjustments) and the associated Part 3 of the RIIO-ED1 Price Control Financial Handbook, a supplementary annex setting out for the purpose of this Statutory Consultation, drafts of the DPCR5 Close out methodologies – Supplementary Annex 1 and an Issues Log which sets out all of the comments received as part of the informal consultation and how we have addressed these.

1.18. Finally, we have also published our DPCR5 Close out Decision document on the DPCR5 Close out methodologies which outlines the final policy reflected in the methodologies.

Responding to this consultation

1.19. We welcome comments on the proposed drafting by 18 July 2016 to RIIO.ED1@ofgem.gov.uk or in writing to:



DPCR5 Close out: Statutory Consultation on changes to the RIIO-ED1 Financial Handbook

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

2. Overview of the methodologies

Chapter Summary

This chapter explains at a high level 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 areas for which we are proposing methodologies for DPCR5 Close out. These methodologies reflect the policy set out in the DPCR5 FPs, the NADPR RIGs and the outcome of the September 2015 consultation and the December 2015 consultation.

2.2. Alongside this Statutory Consultation we have published the DPCR5 Close out Decision. It summarises and considers responses to the September 2015 consultation and the December 2015 consultation and sets 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. As part of our DPCR5 FPs, we stated that in return for the revenues received from customers over DPCR5, DNOs were required by the end of the price control period (2015) to have delivered a "package of output measures", including:

- **Health Indices (HIs)** - measures of the health of the DNOs' assets. They 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.

- **Load Indices (LIs)** - measures of 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** – measures of asset reliability in terms of the number of faults which occur annually and over a number of years. They only apply to assets which presently have no HIs. For this reason, Fault Rates are referred to as a 'secondary' network output measure.

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 Performance Assessment of whether the DNO has delivered an agreed (or equivalent) package of NOMs (comprising of a quantitative and qualitative assessment of the three individual components of the NOMs – HIs, LIs and Fault Rates).
- the introduction of a quantitative materiality threshold of 5% for HIs and LIs and a 10% materiality threshold for Fault Rates;
- a provision to allow DNOs or Ofgem to make changes to the agreed DPCR5 outputs to account for Material Changes, in particular for HIs and LIs (eg changes in input data, methodologies, external factors and changes in asset management approach). This involves making appropriate adjustments to the Agreed Network Outputs to take account of Material Changes in line with the original intent in DPCR5 FPs and the NADPR RIGs. For LIs, Material Changes will include changes in capacity. Changes in demand will be captured from the Load Related Reopener uncertainty mechanism, in line with DPCR5 FPs. We would make these revisions prior to carrying out the final assessment of whether there is an outputs gap and the value of any outputs gap; and,
- monetising Fault Rates to ensure a consistent approach to performance assessment for all asset classes not covered by HIs, where asset replacement or refurbishment expenditure was allowed in DPCR5. The methodology to monetise Fault Rates ensures a broadly consistent treatment across all NOMs.

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”. 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 to

limit the extent to which DNOs are exposed to volume risk and the extent to which they can earn additional returns through a drop off from forecast load growth. 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 double 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 double counting between the HVP Re-opener and HVP outputs adjustment;
- taking into account the fact that projects may be at different stages in their delivery;
- offsetting the 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 RPEs from any adjustments applied under the HVP Re-opener.

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;
- 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 Re-opener 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 Act Permit 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 associated with Permitting Schemes as there was insufficient information on these costs at the time. The introduction of Permitting Schemes is entirely at the discretion of the local authorities. Permitting Schemes provide local authorities with an alternative to the noticing system whereby DNOs inform them of their intentions to carry out work. A Permitting 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 Permitting 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 DPCR5 Traffic Management Act Permit Costs reopener

2.29. Key components of the DPCR5 Traffic Management Act Permit Costs reopener 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 make minor clarifications to 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 in the north of Scotland (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. Responses to the informal consultation

Chapter Summary

This chapter summarises the key comments we received to our informal consultation on the Handbook drafting with respect to each of the methodologies and highlights where we have changed the licence drafting in response to those comments.

3.1. We received seven responses to our informal consultation on changes to the RIIO-ED1 Financial Handbook. All responses were marked as non-confidential and are published on our website.

3.2. We set out below a summary of the key responses by methodology. We note that there were a significant number of other drafting comments. Alongside this document we have published an Issues Log which sets out all of the comments received and how we have addressed these.

DPCR5 Network Output Measures

3.3. In this section we have summarised comments relating to the following sections of the Handbook:

- Chapter 16: DPCR5 NOMs revenue adjustment;
- Annex A1: DPCR5 NOMs Failure to Deliver Outputs Methodology; and
- Annex A2: NOMs Risk Points Methodologies.

3.4. All seven respondents commented on the NOMs drafting. The key responses and our views are summarised in Table 1.

Table 1: DPCR5 NOMs

| Summary of comment | Our views/ changes to drafting |
|---|--|
| HVP/NOMs interactions One respondent noted that paragraph 1.7 of Annex A1 suggested that Interventions delivered as part of HVPs are to be included in the NOMs | Agree. We have clarified drafting to reflect correct intent. |

| | |
|--|---|
| <p>calculations, however we assume that the Authority's intent is that Interventions delivered via HVPs will be excluded from the NOMs methodology.</p> | |
| <p>Materiality thresholds</p> <p>Two respondents welcomed the introduction of a materiality threshold into the assessment process that recognises the imperfect link between asset replacement and refurbishment activity and the resultant Fault Rates observed on the network. However, one argued the level should be higher than the 10% proposed for Fault Rates and that their own analysis suggested 18% would be more appropriate.</p> | <p>We believe that in the case of the fault rate methodology proposed, a materiality threshold of 10% is prudent to allow for the variations caused by factors such as annual weather fluctuations, third party damage, overloading and bird strikes, defects. DNOs submitted a set of forecasts for 'Damage Fault Rates' as part of their well justified business plans for DPCR5 which took into account the factors listed above and form the outputs against which they are to be assessed.</p> <p>In addition, DNOs have had the opportunity to explain any variations in outturn Fault Rates through Material Changes (which covers any changes due to external factors).</p> |
| <p>Fault Rate Outputs Gap</p> <p>One respondent noted a missing step in the valuation of a Fault Rate Outputs Gap. The asset replacement volumes for the conversion of forecast and actual Fault Rates into a number of faults are specified in Annex A2 but the methodology in Annex A1 omits the conversion step.</p> | <p>Agree. We have clarified drafting and included the missing step.</p> |
| <p>Financial adjustments for Fault Rates</p> <p>One respondent noted that the proposal to introduce financial adjustments in relation to Fault Rates represents a divergence from the original DPCR5 policy intent. The reasons for the changes in fault rate in some cases will be beyond the DNOs control, and the impact will not be able to be precisely explained e.g. severe weather events and other environmental factors. The approach to valuing a fault rate outputs gap requires further work if financial adjustments are to be applied.</p> | <p>DPCR5 FPs and the NADPR RIGs stated that there will be financial consequences where the DNOs have failed to deliver on their Agreed Network Outputs. Fault Rates are defined as an Agreed Network Output and were introduced to deal with assets not covered by the HI mechanism. We consider that our approach recognises and mitigates the risks associated with the monetisation of Fault Rates raised in the consultation responses.</p> |

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| <p>Reflecting customers’ best interests</p> <p>One respondent noted that network outputs delivered over DPCR5 should be demonstrated to have been in customers’ best interests.</p> | <p>We agree that DNOs should demonstrate that their actions were in the interests of consumers. Specifically, in line with DPCR5 FPs and the NADPR RIGs, we consider that the licensee should demonstrate that the network outputs delivered during the DPCR5 period are consistent with the change in the level of risk funded by customers through the DPCR5 settlement.</p> <p>The DPCR5 FPs further noted the importance of two factors in delivering in the interests of customers, these were a focus on long-term asset stewardship and the continued improvement and innovation in asset management and network planning techniques. These are two areas that we can consider in deciding whether the DNOs have delivered in the interests of their customers.</p> |
| <p>HI and LI outputs</p> <p>One respondent noted that changes should be made to the agreed DPCR5 HI and LI outputs to account for Material Changes, external factors and changes in asset management approaches.</p> | <p>We agree that Material Changes are a key component of the NOMs mechanism and ensuring DNOs have delivered the agreed outputs. With regards to LIs, we consider that Material Changes relating to drop in demand are dealt with under the Load Related Re-opener. Therefore, while we will be adjusting LIs to account for Material Changes in capacity, we do not propose to account for changes in demand as part of this process.</p> |
| <p>Overall NOMs assessment</p> <p>One respondent noted that Ofgem had endeavoured to respect the principle that the assessment must be made in the round, taking a holistic and balanced view of asset health, loading and Fault Rates.</p> <p>Similarly, another respondent supported the proposals for the overall assessment of NOMs. The respondent noted that that, as the valuation of each component is not directly comparable, it is essential</p> | <p>In both DPCR5 FPs and the NADPR RIGs we set out that the NOMs represented a “package of outputs” and that we would conduct a qualitative assessment “to determine whether or not a DNO has satisfactorily delivered a package of outputs consistent with the change in the level of risk funded by its customers through the DPCR5 settlement”.</p> <p>The approach we have outlined in the methodology reflects this position as it outlines our intention to “assess the licensee’s aggregate performance across all three NOMs component”. In doing so</p> |

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| <p>that the methodology provides the Authority with the discretion to apply appropriate penalties where necessary.</p> <p>However, one respondent had a very different view and argued that the original policy to levy penalties for under-delivery of network outputs in a NOMs category (independent of performance in the other two categories) should be retained. While it was proposed in the September 2015 consultation that the trading of risk within each NOMs category could be permitted, the trading of risk across NOMs categories was not considered. This appears to be a material change in policy.</p> | <p>we will check that delivered NOMs are delivered in the interests of their customers.</p> <p>We agree with the respondent that the Authority must have the discretion to apply penalties where necessary i.e. for significant underperformance in one area. The approach we have proposed enables this and reflects the policy intent set out in our September 2015 consultation.</p> <p>We do not consider that material under-delivery in one area, which is to the detriment of customers, should be mechanically offset by over-delivery in another. In judging this we will take into consideration evidence provided by any DNO as part of its Performance Assessment Submission.</p> |
| <p>Holding DNOs accountable for delivery</p> <p>One respondent noted that DNOs have achieved returns significantly in excess of the baseline largely through significant levels of under-spending of the allowances provided. DNOs should be held fully accountable for delivery of the outputs agreed at the outset of the price control and, to the extent that outputs have not been delivered, funding allowances should be returned to customers.</p> | <p>We agree that DNOs should be held accountable for the delivery of outputs. Where DNOs have underspent and not delivered outputs then this funding should be returned to customers.</p> |

Load Related Re-opener

3.5. In this section we have summarised key responses and our views relating to the following sections of the Handbook:

- Chapter 15: DPCR5 Load Related Re-opener - adjustment resulting from revised allowance levels; and
- Annex B: Load Related Re-opener Legacy Assessment Methodology.

3.6. Six respondents commented on these sections. The key responses and our views are summarised in Table 2.

Table 2: DPCR5 Load Related Re-opener

| Summary of comment | Our views/ changes to drafting |
|--|--|
| <p>Profiling</p> <p>One respondent noted that most mechanisms have a profiling approach defined, but this is missing from the licensee initiated Load Related Re-opener mechanism (paragraph 15.141). To be consistent with the Authority initiated Load Related Re-opener mechanism (paragraph 15.135), this profiling should be based upon expenditure.</p> | <p>We agree. The approach to profiling should be based on actual expenditure. We have revised the drafting to be consistent with the approach adopted for the HVP Re-opener.</p> |

High Value Projects

3.7. In this section we have summarised key responses and our views relating to the following sections of the Handbook:

- Chapter 15: DPCR5 High Value Projects Adjustments/ Chapter 16: DPCR5 High Value Projects - failure to deliver outputs adjustment;
- Annex C1: HVP Re-opener Legacy Assessment Methodology; and
- Annex C2: HVP Network Outputs Review Methodology.

3.8. Seven respondents commented on these sections. The key responses and our views are summarised in Table 3.

Table 3: DPCR5 High Value Projects

| Summary of comment | Our views/ changes to drafting |
|--|---|
| <p>Accounting for delays or deferrals</p> <p>One respondent noted that the methodology fails to constrain the scope of adjustments to take account of project delays and deferrals which could be interpreted to suggest that the Authority</p> | <p>We have redrafted to clarify that any adjustment relating to project delay or deferral will only apply where a project is delayed or deferred into RIIO-ED1.</p> |

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| <p>plans to make adjustments to take account of delays within the DPCR5 price control period.</p> <p>The drafting should be modified to clarify that this adjustment is intended to only apply to delays and deferrals of projects into the RIIO-ED1 price control period.</p> | |
| <p>Application of indices</p> <p>One respondent noted that the table at paragraph 1.30 - should be amended to include details of all types of project that each of the two indices is to be used for e.g. BT 21CN, in order to avoid any confusion.</p> | <p>We have redrafted to clarify which index applies to which project driver.</p> |
| <p>Treatment of DPCR5 HVP expenditure not funded through RIIO-ED1</p> <p>One respondent noted that the drafting should explicitly clarify that ongoing DPCR5 High Value Project expenditure not financed in RIIO-ED1 will be accounted for to ensure that the rolling expenditure incentives continue to operate correctly.</p> | <p>We have redrafted to clarify that we will account for HVP expenditure not funded through ED1, where the licensee has provided evidence that the outputs will be delivered during RIIO-ED1 and that this is in the interest of consumers.</p> |
| <p>Limit on penalties for delayed HVPs</p> <p>One respondent noted that, where High Value Projects have been delayed into RIIO ED1, Ofgem should consider a backstop to ensure the overall outcome is not more penal than if the whole project had fallen in the DPCR5 period.</p> | <p>We have reflected this change in the drafting.</p> |

Traffic Management Act Permit Costs

3.9. In this section we have summarised key responses and our views relating to the following sections of the Handbook:

- Chapter 15: DPCR5 Traffic Management Act Permit Costs adjustment; and
- Annex D: Traffic Management Permit Costs Legacy Assessment Methodology.

Table 4: DPCR5 Traffic Management Act Permit Costs

| Summary of comment | Our views/ changes to drafting |
|---|--|
| <p>DPCR5 IQI Incentive Rate</p> <p>One respondent noted that the reference to DPCR5 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.</p> | <p>We agree. We have reflected this change in the glossary definition.</p> |

Flood prevention costs

3.10. In this section we have summarised comments relating to the following sections of the Handbook:

- Chapter 15: DPCR5 Flood Prevention - adjustment resulting from revised allowance levels.

3.11. Three respondents commented on this chapter. The key responses and our views are summarised in Table 5.

Table 5: DPCR5 Flood Prevention

| Summary of comment | Our views/ changes to drafting |
|--|--|
| <p>Calculation of '£ per risk reduced value achieved'</p> <p>One respondent noted that it was not clear how SSEH's '£ per risk reduced value achieved' will be calculated.</p> | <p>We are working with SSEH on developing this. The approach should be proportionate.</p> |
| <p>Updating Special Licence Condition CRC 3A</p> <p>Three respondents noted that the inclusion of an additional methodology for the SSEH's flood prevention costs means Special Licence Condition CRC 3A needs to be updated.</p> | <p>We agree. As part of this Statutory Consultation we are consulting on associated modifications to Special Licence Condition CRC 3A.</p> |

Performance Assessment Submission

3.12. In this section we have summarised comments relating to the following sections of the Handbook:

- Annex E: Performance Assessment Submission.

3.13. Seven respondents commented on this annex. The key responses and our views are summarised in Table 6.

Table 6: Performance Assessment Submission

| Summary of comment | Our views/ changes to drafting |
|--|--|
| One respondent noted that the description of the types of Innovative Solution that the licensee is permitted to should be broadened to also allow inclusion of Innovative Solutions designed to address reinforcement requirements or defer reinforcement. | We have sought to ensure that language on innovative solutions is consistent throughout the documents. |
| One respondent noted that each close out area requires a proportionate response based on the Authority's analysis of the information already provided. | We agree. The methodologies highlight that Ofgem will be proportionate in its request for information based on the outcome of our Initial High Level Analysis. |

Definitions

3.14. Six respondents commented on the definitions set out in Appendix 1. The key responses and our views are summarised in Table 7.

Table 7: Definitions

| Summary of comment | Our views/ changes to drafting |
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| <p>Load Related Post-Threshold Amount/ HVP Post-Threshold Amount</p> <p>One respondent noted that the definitions of Load Related Post-</p> | We agree with the changes suggested and have reflected these in the drafting. |

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| <p>Threshold Amount and HVP Post-Threshold Amount do not operate correctly in circumstances where the licensee has spent less than 80% of its allowance. This issue can be resolved by amending the defined term so that for underspend situations it is calculated based on the saving against allowance rather than the expenditure.</p> | |
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Other

3.15. A number of respondents commented on changes to other sections of the Handbook. The key responses and our views are summarised in Table 8.

Table 8: Other/overarching comments

| Summary of comment | Our views/ changes to drafting |
|--|---|
| <p>Reflecting the DPCR5 NADPR RIGs</p> <p>One respondent noted that the outcome of the DPCR5 Close out review may not reflect Ofgem’s DPCR5 NADPR RIGs promise that there would be ‘few surprises’ in the close out. One example provided was the decision to monetise Fault Rates.</p> <p>The respondent noted that Ofgem should consider recognising this commitment in the drafting.</p> | <p>The NADPR RIGs identified that there should be ‘few surprises’ by the time companies come to make their Performance Assessment Submissions and we retain the view that this will be the case.</p> <p>On the example of monetising Fault Rates we recognise that the position has developed since the NADPR RIGs. The developments in Ofgem’s thinking in this area, which have taken place through consultation, have sought to ensure that the outcome of the DPCR5 Close out review reflects the intent of DPCR5 FPs. DPCR5 FPs set out the need for financial incentives to drive efficient network investment and Fault Rates are identified as a component of the NOMs package.</p> |
| <p>Stopping the assessment process –</p> <p>One respondent noted that the proposed methodologies do not include a step after July 2016 to formally stop the assessment process for an aspect of DPCR5 Close out of the Authority’s Initial High Level Analysis shows that no adjustment is needed.</p> | <p>Where we decide that no adjustment is needed because the licensee has delivered its outputs, we intend to consult on our proposal just as we would where we do propose to make an adjustment. This is to ensure a fair and transparent process and allow stakeholders to feed into the process ahead of our final decision. We will set out our intention not to make an</p> |

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| | <p>adjustment and associated reasoning in our preliminary view and consultation in May 2017.</p> <p>Where there was no allowance under particular methodology (eg. no HVP allowance), there will be no assessment process and no adjustment.</p> |
| <p>Updating RRI</p> <p>One respondent noted that the RRI mechanism has not been updated to include an additional adjustment in the calculation of 'adjusted total capex allowance' to reflect the new flooding mechanism for SSEH. It should also cross reference the adjustments to allowances for load reopener and HVP Re-opener to the specific paragraphs so it is clear that it is the post-double count adjustment allowance changes that must be used.</p> | <p>We have now updated Section (i) of Chapter 16 to reflect these comments.</p> |
| <p>DPCR5 IQI Incentive Rates</p> <p>Two respondents noted that the IQI incentive rates specified in the definition of 'DPCR5 IQI Incentive Rate' incorrectly use the values for Adjusted DPCR5 IQI Incentive Rates.</p> | <p>Agree. This has now been corrected.</p> |
| <p>Profiling</p> <p>One respondent supported the proposed varied approach to profiling any adjustments over time as justified in the circumstances but noted that, absent specific reasons to the contrary, the most sensible approach is to use the profile of allowances actually given at DPCR5 so allowances are clawed back in proportion.</p> <p>Another respondent argued there should be consistent treatment of profiling between the re-openers and outputs gap assessments. Using actual expenditure is the most appropriate approach as it would ensure the fair and equitable treatment of double counting between outputs and the re-openers.</p> | <p>We consider that the most appropriate way to profile the Network Outputs Gap (for both HVP and NOMs) is to do so based on allowances. Ideally, we would profile the Re-opener adjustments on the same basis - however the existing Handbook text already included provisions for profiling based on actual expenditure. We therefore do not intend to amend existing text or make changes to already agreed upon policy unless absolutely necessary.</p> |

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| <p>A third respondent highlighted that, in the case of HVP, this would mean a different approach was used for the outputs and re-openers components.</p> | |
| <p>Data quality</p> <p>One respondent noted that any re-calculation as a result of insufficiently robust or consistent data is limited to the Network Outputs Gap and questioned whether this addressed any knock-on effect on re-openers in the event of a double count issue,</p> | <p>We note that there may be interactions in terms of double counting with the Load Related Re-opener and have redrafted accordingly.</p> |
| <p>Setting out data and reasoning to support proposed adjustments</p> <p>One respondent noted that, in consulting on any proposed adjustments to revenue allowances, Ofgem should set out the detailed data that supports the DPCR5 Close out assessments including data tables of DPCR5 allowances, actual expenditure, efficiency gains, savings and the customer share of those savings for each of the close out mechanisms.</p> | <p>We will set out our reasoning for proposing adjustments and associated analysis as part of our May 2017 consultation.</p> |
| <p>Publishing Preliminary View – May 2017</p> <p>One respondent noted that, to aid transparency and engagement, Preliminary Views on DNO close out positions should be published within the industry consultation expected in May 2017 (along with summaries of DNOs’ representations and reasons for any revision of the Preliminary Views).</p> | <p>We agree with this proposed approach. We consider that publishing the Preliminary View is important for transparency and will follow this approach in May 2017.</p> |
| <p>RPEs</p> <p>Two respondents explicitly supported Ofgem’s approach to recognise the DPCR5 FPs provision that DNOs bear the risk of RPEs and that the methodology correctly implements this.</p> | <p>We agree. This is already reflected in the methodologies.</p> |
| <p>Unit costs</p> <p>It is appropriate that Ofgem will not make any adjustments for unit costs; the</p> | <p>We agree. This is already reflected in the methodologies.</p> |



DPCR5 Close out: Statutory Consultation on changes to the RIIO-ED1 Financial Handbook

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| <p>DPCR5 benchmarks have served their purpose as a starting point for the sharing factor, and further unit cost adjustments would break this architecture.</p> | |
| <p>Lessons learned One respondent suggested that Ofgem consider the DPCR5 Close out process as part of its ED1 lessons learned exercise.</p> | <p>We agree and propose to take this approach.</p> |

4. Next steps

Chapter Summary

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

4.1. 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 |
|---|---------|
| Decision document and 28 day statutory licence modification consultations | 20 June |
| Statutory consultation closes | 18 July |
| Licence modification decisions and modifications published | 29 July |
| Licence changes come into force | 23 Sept |

4.2. All responses to this 28 day statutory licence modification consultation must be provided by 18 July.

4.3. In line with the deadline set out in the Handbook, we will publish our licence modification decisions by 31 July 2016. The changes will come into effect 56 days following the publication.

4.4. 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 | 30 |
| 2 | Financial Handbook structure and proposed modifications | 31 |
| 3 | Feedback questionnaire | 33 |

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 18 July 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 modifications to the Financial Handbook and to special licence condition CRC3A by 31 July 2016, 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 | Amendments | 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 | Amendments | 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