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Our ref

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Date

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2 June 2016

Dear Grant,

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

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc in relation to Ofgem's informal consultation dated 18th May 2016, which covers the proposed changes to the Financial Handbook for close out methodologies for the DPCR5 Price Control.

WPD has been engaged with the process of the development of these methodologies since the initial DNO meeting on 29 July 2015. Subsequent consultations and working group meetings have provided all interested parties with the opportunity to contribute to the development of the methodologies that have been documented in the revised Financial Handbook.

We welcome this opportunity to provide further informal input to the process. As part of our review of the Financial Handbook we have carried out a detailed analysis of the text. This has resulted in numerous minor points being identified that would improve the clarity and consistency of the drafting. We provide a separate track-changed document which includes both changes to the text and comments.

There are a small number of specific points that we would like to highlight.

Valuation of Fault Rate Network Outputs Gap

The Authority's consultation letter dated 2nd December 2015 introduced a requirement for the monetisation of fault rate network outputs gaps. In our response to the original consultation dated 29th September 2015 we highlighted that although DNOs activities do influence fault rates, external influences (such as weather) can also influence them.

We therefore welcome 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.

As part of our review we have identified a missing step in the valuation of a Fault Rate Outputs Gap. The methodology developed by the working group converts forecast and actual fault rates into a number of faults, determines the difference and converts the difference into an equivalent asset replacement activity that is assumed to be required in order to prevent the faults. The asset replacement volumes for this conversion are specified in Annex A2 paragraph 3.8, but the methodology in Annex A1 paragraph 1.66 omits the conversion step. We assume that this is an omission in drafting rather than a change to the intended process.

Definition of DPCR5 IQI Incentive Rates

The IQI incentive rates specified in the definition of 'DPCR5 IQI Incentive Rate' incorrectly use the values for Adjusted DPCR5 IQI Incentive Rates.

Profiling of Financial Adjustments

The proposed methodologies make assessments covering the whole of the DPCR5 period, but the financial adjustments require the results to be converted into regulatory years. 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.

Changes required to Licence Condition CRC 3A

The inclusion of an additional methodology for the SSEH's flood prevention costs means that Table 15.2 will no longer match the table 1 in Licence Condition CRC 3A. CRC 3A needs to be updated.

Should you wish to discuss any aspects of this response please contact amichalowski@westernpower.co.uk or kbartlam@westernpower.co.uk.

Yours sincerely



ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager