

DPCR5 Close Out – Overview of Working Group Meeting

This meeting focussed on a range of issues reflecting comments provided on Ofgem's Informal Consultation on changes to the Financial Handbook.	From Date and time of Meeting Location	Grant McEachran 10 June 2016 Millbank CR4*, Glasgow G3M1*	12 June 2016
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1. Present

Grant McEachran, Clothilde Cantegreil, Aris Kalogeropoulos	Ofgem
Sarah Walls, Dave Ball	Electricity North West
Keith Noble Nesbit, John France	Northern Power Grid
Andrzej Michalowski, Katherine Bartlam	Western Power Distribution
Stephen Murray, Chris Elderfield	SPEN
Robert Friel, Paul Measday	UKPN
Gregory Edwards	British Gas

2. Areas discussed

Overview of process and next steps

2.1. GM outlined the plan for the meeting. He also noted the intention to publish the Statutory Consultation and the DPCR5 Close out Decision Document (the 'Decision Document') on Friday 17th June or earlier if possible.

Efficiency Paper

2.2. GM noted that respondents to the September 2015 consultation had sought further clarity on Ofgem's approach to assessing efficiency. He noted that this was why Ofgem had developed the efficiency paper and that its intention was to publish this as an annex to the Decision Document.

2.3. There were a range of views on the merits of publishing the paper. While some attendees favour its publication for the purposes of transparency, a number noted that much of the information set out in the paper was already in the text in the Financial Handbook and therefore that its publication would duplicate the Handbook or risk contradicting it.

2.4. On balance, Ofgem set out the view that there was no need to publish the paper but that key sections on the scope of the definition of efficiency and the principles Ofgem would adopt could usefully be set out in the relevant sections of Decision Document.

Informal Consultation – overview of significant issues raised

2.5. GM took the group through the list of significant issues raised. The key points raised by respondents were as follows:

- HVP/NOMs interactions – It was noted that the drafting had intended to exclude interventions delivered via HVPs from the NOMs methodology. Some DNOs noted that the drafting should allow flexibility in this definition to account for the fact that HVPs may have been included in targets.
- Reflecting customers 'best interest' – A number of attendees questioned how DNOs could achieve or measure the 'best interests'. It was recognised this term was used in FPs but that it must be seen in the context it was set out including

the DNOs responsibility for asset stewardship and that it must reflect the wider principle of 'no hindsight'.

- NOMs overall assessment – While a number of attendees recognised that material under-delivery in one area should not be offset by over-delivery in another, some argued this should be possible in line with the principle of delivering a 'package of outputs'. Additional wording was suggested including that the trade-off should not be 'mechanistic' and to reflect the importance of information provided under the Performance Assessment Submission in deciding on whether to make an adjustment.
- Holding DNOs accountable for delivery – Ofgem recognised that its proposed wording around efficiency assessments was relevant for the re-openers but not for the delivery of outputs and therefore will remove this language.
- Changes to CRC 3A – Ofgem agreed to share its proposed changes to CRC 3A.
- NADPR RIGs references to 'few surprises' – Respondents noted that, while the intention to monetise fault rates may have been in Final Proposals, various developments since then including the NADPR RIGs and the September 2015 consultation suggested they would not be monetised. They therefore suggested that the wording would need to recognise the broader context in referencing the decision to monetise fault rates.
- Profiling – It was recognised that there were still a range of different views on the most appropriate approach to adopt for profiling adjustments over time. On balance, it was noted that Ofgem's proposal to use different approaches for the profiling of re-openers and the outputs gap assessment was the most pragmatic approach.
- Lessons learned – It was suggested that the lessons learned exercise could also look at the Common Methodology.

Methodology drafting

2.6. The key comments in relation to the methodology drafting were as follows:

- HVP (Annexes C1 and C2) – There were very few detailed comments.
- Timetable (Chapters 15 and 16) – There were very few comments on these tables. There was a suggestion whether they should be move to more appropriate sections in both Chapters 15 and 16. However, on balance it was recognised that this was not a major issue.
- Glossary – There were specific suggestions made in relation to changes to a number of terms. There was more substantive discussion on the terms 'Material Changes', 'Network Output Measures (NOMs)' and 'Qualitatively Equivalent Network Outputs'. Ofgem agreed to review these and re-circulate definitions to the group for review.
- NOMs (Annex A1) – There was more substantive discussion on Annex A1. In particular:
 - The steps set out for determining whether a Networks Output Gap has arisen should be reviewed as different parts of the process are not currently under the right headings.
 - The paragraphs on the review of the licensee's Adjusted Network Outputs for HIs, LIs and Fault Rates need substantial redrafting to ensure a logical flow.
 - The paragraphs on the qualitative adjustment need redrafting to remove the use of the factors and the subsequent references to 'results' from this test.
- NOMs (Annex A2) – There were a number of specific detailed comments on drafting.

Issues Log

2.7. GM sought clarity on a number of specific issues raised by respondents which are now set out in an Issues Log. GM noted the intention to review all issues in the log and to publish this alongside the Statutory Consultation.

3. Actions arising

3.1. The following table summarises the actions arising from the meetings.

NOMs Drafting	
<ul style="list-style-type: none">Ofgem to re-circulate drafting in relation to the Authority's assessment of HIs, LIs and Fault Rates (and related Glossary terms) for final views before publication	Ofgem
Comments on methodologies	
<ul style="list-style-type: none">Attendees to provide any further comments by e-mail.	All

4. Date of next meeting

4.1. No date was set for a future meeting. However, Ofgem agreed to put a provisional date in diaries for mid-July in case further discussion was required.