

# Supplementary Annex 1

## Changes to Part 3 of the RIIO- ED1 Financial Handbook for the DPCR5 Close Out

# 15. Legacy price control adjustments – financial methodologies

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## Reference documents

1. [\[DPCR5\] Electricity Distribution Price Control Review Final Proposals – Financial Methodologies](#)  
<https://www.ofgem.gov.uk/publications-and-updates/electricity-distribution-price-control-review-final-proposals-%E2%80%93-financial-methodologies>
2. [Decision letter on the pension deficit allocation methodology applicable to our funding in price controls of network operators’ pension deficits](#)  
<https://www.ofgem.gov.uk/publications-and-updates/decision-letter-pension-deficit-allocation-methodology-applicable-our-funding-price-controls-network-operators%E2%80%99-pension-deficits.?docid=149&refer=Networks>
3. [Energy Network Operators' Price Control Pension Costs - Regulatory Instructions and Guidance: Triennial Pension Reporting Pack supplement including pension deficit allocation methodology](#)  
<https://www.ofgem.gov.uk/ofgem-publications/42761/nwo-triennial-pension-rigs-supplements-v1.0-12apr13.pdf>
4. [Strategy decision for the RIIO-ED1 electricity distribution price control - Financial issues](#)  
<https://www.ofgem.gov.uk/ofgem-publications/47071/riioed1decfinancialissues.pdf>
5. [\[DPCR5 \] Electricity Distribution Price Control Cost and Revenue Reporting - Regulatory Instructions and Guidance: Version 3.1](#)  
<https://www.ofgem.gov.uk/publications-and-updates/electricity-distribution-price-control-cost-and-revenue-reporting-regulatory-instructions-and-guidance-version-3.1>
6. [\[DPCR5\] Electricity Distribution Price Control Review Final Proposals – Allowed Revenue - Cost assessment](#)  
<https://www.ofgem.gov.uk/publications-and-updates/electricity-distribution-price-control-review-final-proposals-allowed-revenue-cost-assessment>
7. [\[DPCR5\] Electricity Distribution Price Control Review Final Proposals – Allowed Revenue - Cost assessment - appendix](#)  
<https://www.ofgem.gov.uk/ofgem-publications/46749/fp3cost-assesment-network-investmentappendix.pdf>
8. [\[DPCR5\] Electricity Distribution Price Control Review Final Proposals – Incentives and Obligations](#)  
<https://www.ofgem.gov.uk/ofgem-publications/46748/fp2incentives-and-obligations-final.pdf>
9. [\[DPCR5\] Electricity Distribution Price Control Review Final Proposals – Allowed Revenues and Financial Issues](#)  
<https://www.ofgem.gov.uk/ofgem-publications/46769/fp5financial-issues.pdf>

10. [Open letter: Clawback of tax benefit due to excess gearing](https://www.ofgem.gov.uk/publications-and-updates/open-letter-clawback-tax-benefit-due-excess-gearing?docid=49&refer=Networks)  
<https://www.ofgem.gov.uk/publications-and-updates/open-letter-clawback-tax-benefit-due-excess-gearing?docid=49&refer=Networks>
11. [Best practice guidelines for gas and electricity network operator credit cover \(58/05\)](https://www.ofgem.gov.uk/ofgem-publications/61607/9791-5805.pdf)  
<https://www.ofgem.gov.uk/ofgem-publications/61607/9791-5805.pdf>
12. [Consultation letter - permitting reopener adjustment for London Power Networks plc \(6 November 2012\)](https://www.ofgem.gov.uk/ofgem-publications/46507/tmamindedtoconsultation061112.pdf)  
<https://www.ofgem.gov.uk/ofgem-publications/46507/tmamindedtoconsultation061112.pdf>
13. [Electricity Distribution Price Control Network Asset Data and Performance Reporting – Network Outputs and Quality of Service Regulatory Instructions and Guidance: Version 3](https://www.ofgem.gov.uk/publications-and-updates/direction-issued-pursuant-condition-49.6-standard-conditions-electricity-distribution-licence-modifying-all-electricity-distribution-licences-granted-or-treated-granted-under-section-61c-electricity-act-1989)  
<https://www.ofgem.gov.uk/publications-and-updates/direction-issued-pursuant-condition-49.6-standard-conditions-electricity-distribution-licence-modifying-all-electricity-distribution-licences-granted-or-treated-granted-under-section-61c-electricity-act-1989>
14. [RIIO-ED1 final determinations for the slow-track electricity distribution companies](https://www.ofgem.gov.uk/ofgem-publications/91564/rriio-ed1finaldeterminationoverview.pdf)  
<https://www.ofgem.gov.uk/ofgem-publications/91564/rriio-ed1finaldeterminationoverview.pdf>
15. [Ofgem’s determination of Scottish Hydro Electric Power Distribution plc’s \(SHEPD\) submission required under Charge Restriction Condition \(CRC\) 18A](https://www.ofgem.gov.uk/ofgem-publications/87381/ofgemdeterminationofshepdsundercrc18a.pdf)  
<https://www.ofgem.gov.uk/ofgem-publications/87381/ofgemdeterminationofshepdsundercrc18a.pdf>

## Section 1 – Overview

- 15.1 This chapter contains the methodologies for determining:
- (a) the legacy price control adjustments to revenue allowances set out in Table 1 in CRC3A (Legacy price control adjustments) and revisions to the associated PCFM Variable Value (the OLREV value); and
  - (b) legacy adjustments to RAV additions and revisions to the associated PCFM Variable Value (the OLRAV value),
- for the licensee.

15.2 The methodologies referred to in paragraph 15.1 take into account any provisional adjustments that were included in the determination of the licensee’s Opening Base Revenue Allowances.

### Timings for reviews of adjustments

15.3 This subsection presents the timelines relating to the Authority’s assessment of whether to make financial adjustments to the licensee’s allowances relating to the following methodologies:

- DPCR5 Load Related Re-opener - adjustment resulting from revised allowance levels (chapter 15 section 2(vii)); and
- DPCR5 High Value Projects Re-opener - adjustment resulting from revised allowance levels (chapter 15 section 2(ix)).

15.4 Table 15.1 outlines the timetable for the assessment and subsequent notification of any financial adjustment.

**Table 15.1: Timetable for assessment and notification**

The Authority to carry out an Initial High Level Analysis	By 31 July 2016
The licensee to provide the Performance Assessment Submission	By 31 October 2016
The Authority to carry out a Performance Assessment	Between 31 October 2016 and 28 February 2017
The Authority to provide its Preliminary View to the licensee	By 28 February 2017
The Authority to initiate a formal two month consultation	By 31 May 2017
The Authority to decide whether adjustment should be included in the calculation of a revised OLREV value for the licensee	By 30 September 2017
The Authority to provide 28 days' notice of its decision	By 30 September 2017

15.5 The Authority will undertake an Initial High Level Analysis as specified in the relevant sections for each of the methodologies listed in paragraph 15.3, to determine the requirements **foref** the Performance Assessment Submission (Annex E).

15.6 The information requested by the Authority for submission in the Performance Assessment Submission will be proportionate to the results of the Initial High Level Analysis and will include any outstanding information required to address issues identified by the Authority through its Initial High Level Analysis.

15.7 The Authority will inform the licensee of the results of its Initial High Level Analysis by 31 July 2016.

15.8 If requested, the licensee will, by 31 October 2016, submit to the Authority a Performance Assessment Submission as specified in the relevant section for each of the methodologies listed in paragraph 15.3.

15.9 Between 31 October 2016 and 28 February 2017, the Authority will carry out a Performance Assessment with respect to the licensee in accordance with each of the methodologies listed in paragraph 15.3.

15.10 The Authority may request additional relevant information from the licensee to inform its Performance Assessment under paragraph 15.9, allowing a reasonable amount of time for the licensee to respond.

15.11 Where the Authority proposes to make an adjustment for the licensee under any of the methodologies listed in paragraph 15.3, it will, by 28 February 2017, inform the licensee of its Preliminary View for each of the methodologies listed in paragraph 15.3, and allow the licensee at least 28 days in which to provide comments before initiating a consultation under paragraph 15.13.

15.12 The Authority's Preliminary View will include the Authority's proposed adjustment to the licensee's revenue under the relevant methodology listed in paragraph 15.3, and details of the reasoning behind the proposed adjustment.

~~15.13~~ 15.13 Having considered any comments received from the licensee the Authority will, by 31 May 2017, initiate a formal two month consultation. The Authority will allow at least two months after the publication of its consultation for the submission of any information that respondents consider should be taken into account in relation to its view.

~~15.13~~15.14 Further to consultation responses raised under paragraph 15.13, the licensee may, within a reasonable time period, submit any additional information to the Authority ahead of its decision under paragraph 15.15.

~~15.14~~15.15 Where applicable, having considered any information received in response to its consultation as set out in paragraph ~~15.13~~15.12 and any additional information submitted by the licensee under paragraph 15.14, the Authority will, by 30 September 2017, decide whether any adjustment to the licensee's allowances under the methodologies specified in paragraph 15.3, should be included in the calculation of a revised OLREV value for the licensee, as specified in the relevant sections of the methodologies noted in paragraph 15.3.

~~15.15~~15.16 By 30 September 2017, the Authority will give the licensee at least 28 days' notice of its decision and will take into account any representations made by the licensee.

## **Section 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**

~~15.16~~15.17 This section sets out the methodologies for determining:

- (a) the legacy price control adjustments to revenue allowances set out in Table 1 in CRC3A; and
- (b) revisions to the PCFM Variable Value for legacy adjustments to revenue allowances (the OLREV value).

~~15.17~~15.18 The adjustments referred to in paragraph ~~15.17~~15.16(a) are set out in Table 1 in CRC3A which is reproduced below. The methodologies in subsections (i) to

(xi) of this section set out the key features and principles of the individual adjustment schemes but they do not attempt to reproduce all of the detailed criteria contained in relevant DPCR5 Price Control decisions. Therefore, reference is made to the Authority's previous price control decisions where appropriate.

**Table 15.2 - Table 1 in CRC3A - Adjustments comprising the OLREV value**

<b>Adjustment</b>	<b>Section of chapter 15 of the ED1 Price Control Financial Handbook containing methodology</b>
DPCR5 Pension adjustment	Section 2 (i)
DPCR5 Tax adjustment	Section 2 (ii)
DPCR5 Distributed Generation adjustment	Section 2 (iii)
DPCR5 DUoS Bad Debts adjustment	Section 2 (iv)
DPCR5 Traffic Management Act Permit Costs adjustment	Section 2 (v)
DPCR5 Undergrounding and Worst Served Customer Improvements adjustment	Section 2 (vi)
DPCR5 Load Related Re-opener - adjustment resulting from revised allowance levels	Section 2 (vii)
DPCR5 High Volume Connections Volume Driver - adjustment resulting from revised allowance levels	Section 2 (viii)
DPCR5 High Value Projects Re-opener - adjustment resulting from revised allowance levels	Section 2 (ix)
DPCR5 Enhanced Physical Site Security and Black Start - adjustment resulting from revised allowance levels	Section 2 (x)
DPCR5 Shetland adjustment	Section 2 (xi)
DPCR5 Flood Prevention adjustment	Section 2 (xii)

~~15.18~~15.19 The DPCR5 Shetland adjustment and the DPCR5 Flood Prevention adjustment are only relevant to SSEH. For all other licensees the value of this adjustment is zero.

## **i) DPCR5 Pension adjustment**

### *References:*

- i. Chapter 10 of reference document 1 specified at the start of this chapter.
- ii. Reference document 2 specified at the start of this chapter.
- iii. Reference document 3 specified at the start of this chapter.
- iv. Chapter 6 and Appendix 6 of Reference document 4 specified at the start of this chapter.
- v. Reference document 5 specified at the start of this chapter.

### **Overview**

~~15.19~~15.20 The term DPCR5 Pension adjustment means the adjustment described in this subsection, the basis for which is set out in Chapter 10 and Table 10.8 in reference document 1.

~~15.20~~15.21 This subsection sets out the methodology for determining the DPCR5 Pension adjustment to allowed revenue for the licensee which is comprised of:

- (a) an adjustment relating to DPCR5 ongoing pension expenditure; and
- (b) an adjustment relating to DPCR5 Pension Protection Fund Levy expenditure.

### **Adjustment relating to DPCR5 ongoing pension expenditure**

~~15.21~~15.22 DPCR5 ongoing pension expenditure consists of:

- (a) the funding of defined benefit pension schemes in respect of pensionable service that took place on or after 1 April 2010;
- (b) the funding of defined contribution benefit schemes and Personal Accounts associated with Qualifying Workplace Pension Schemes under the provisions of the Pensions Act 2008; and
- (c) pension administration costs.

~~15.22~~15.23 The overall adjustment relating to DPCR5 ongoing pension expenditure applies incentivised true-up rates to any underspend or overspend by the licensee against the allowances it was given at the outset of the DPCR5 Price Control period. It comprises an adjustment to the licensee's revenue allowances and an adjustment to the licensee's RAV additions, the latter also being used in determining revisions to the PCFM Variable Values for legacy adjustments to RAV additions (see section 3 of this chapter).

~~15.23~~15.24 The following steps will be carried out to calculate the adjustment relating to DPCR5 ongoing pension expenditure:

- (i) Expenditure allowances for each Regulatory Year in DPCR5 will be obtained and restated in 2012/13 prices.
- (ii) Actual expenditure amounts for each Regulatory Year in DPCR5 will be obtained and restated in 2012/13 prices.
- (iii) The actual expenditure amounts obtained at step (ii) will be split into:
  - Slow Money components;
  - Fast Money components (excluding business support and non-operational capex); and
  - business support and non-operational capex components, and totalled for the DPCR5 Price Control.
- (iv) The total amount of over or under spend will be calculated in 2012/13 prices.
- (v) The relevant incentive rate will be applied the value calculated at step(iv) to produce a value that is:
  - 80% of any over spend; or
  - 50% of any under spend.
- (vi) The value obtained under step (v) will be allocated back to the components referred to in step (iii), with a percentage of the total value attributed to each Regulatory Year in DPCR5 that is equal to the percentage of the equivalent component of actual expenditure for the Regulatory Year concerned.
- (vii) The following values will be calculated, based on the allocation referred to in step (vi):
  - (a) an amount of Fast Money;
  - (b) an amount of depreciation (being annual values calculated as the applicable value divided by 20); and
  - (c) an amount of return at WACC for DPCR5 (applied to the NNRRB),for each Regulatory Year in DPCR5 in 2012/13 prices.

The amounts referred to in substeps (b) and (c) will be calculated on the basis of notional RAV balance impacts attributable to the over spend or under spend.
- (viii) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (vii) to put them on a common 2015/16 time value basis and the values will then then be totalled.

If the amount referred to in step (iv) is an under spend, then the total value will be a negative amount.

If the amount referred to in step (iv) is an over spend, then the total value will be a positive amount.
- (ix) An adjustment for the impact of corporation tax will be applied to the total obtained under step (viii), calculated as the total obtained under step (viii) multiplied by -1 and then multiplied by the corporation tax rate used in the modelling of DPCR5 Revenue Allowances for the licensee which is 28%.

If the total obtained under step (viii) is a positive amount, then the adjustment for the impact of corporation tax will involve the addition of a negative value.

If the total obtained under step (viii) is a negative amount, then the adjustment for the impact of corporation tax will involve the addition of a positive value.

- (x) Any provisional adjustment relating to the licensee's DPCR5 ongoing pension expenditure that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (ix).

~~15.24~~15.25 The value obtained at step (x) in paragraph ~~15.24~~15.23 is the adjustment relating to DPCR5 ongoing pension expenditure for the licensee.

~~15.25~~15.26 In order to perform the steps set out in paragraph ~~15.24~~15.23 the Authority will require the licensee's actual DPCR5 ongoing pension expenditure levels, analysed into:

- (a) amounts admissible to the licensee's RAV;
- (b) Fast Money components (excluding business support and non-operational capex); and
- (b) expenditure reportable by the licensee as business support and non-operational capex,

under the terms of the DPCR5 Price Control.

These expenditure levels are due to be reported by the licensee by 31 July 2015 under applicable Regulatory Instructions and Guidance and will be reviewed by the Authority.

*Adjustment to the licensee's RAV additions (see also section 3 of this chapter)*

~~15.26~~15.27 If the value obtained under step (iv) in paragraph ~~15.24~~15.23 represents an under spend amount, then the amount of the overall notional RAV balance impact referred to in step (vii) in paragraph ~~15.24~~15.23, less any provisional amount that was included in the calculation of the licensee's Opening Base Revenue Allowances will be added to the licensee's RAV additions. This involves multiplying the negative RAV balance impact by -1 to achieve a positive number to add to the RAV. This adjustment is required to ensure that the revenue adjustment calculated under paragraph ~~15.24~~15.23, and this addition to the licensee's RAV, taken together, achieve the incentive effect due as a result of an underspend.

~~15.27~~15.28 If the value obtained under step (iv) in paragraph ~~15.24~~15.23 represents an over spend amount, then 25% of the overall notional RAV balance impact referred to in step (vii) in paragraph ~~15.24~~15.23, less any provisional amount that was included in the calculation of the licensee's Opening Base Revenue Allowances, will be deducted from the licensee's RAV additions. This involves multiplying the positive RAV balance impact by -0.25 to achieve a negative number to be added to the RAV. This adjustment is required to ensure that the revenue adjustment calculated under paragraph ~~15.24~~15.23, and this deduction from additions to the licensee's RAV, taken together, achieve the incentive effect due as a result of an overspend.

## **Adjustment relating to DPCR5 Pension Protection Fund Levy expenditure**

~~15.28~~15.29 The adjustment relating to DPCR5 Pension Protection Fund Levy expenditure consists of:

- (a) an amount of Fast Money;
- (b) an amount of depreciation (being annual values calculated as the applicable value divided by 20); and
- (c) an amount of return, at WACC for DPCR5,

relating to the differences between the licensee's actual DPCR5 Pension Protection Fund Levy expenditure, and the expenditure allowances it was given at the outset of the DPCR5 Price Control period.

~~15.29~~15.30 The following steps are carried out to calculate the adjustment relating to DPCR5 Pension Protection Fund Levy expenditure:

- (i) Expenditure allowances for each Regulatory Year in DPCR5 will be obtained and restated in 2012/13 prices.
- (ii) An amount of depreciation (being annual values calculated as the applicable value divided by 20) associated with the expenditure allowances referred to in step (i) will be calculated for each Regulatory Year in DPCR5.
- (iii) An amount of return associated with the expenditure allowances referred to in step (i) will be calculated for each Regulatory Year in DPCR5 at WACC for DPCR5 (applied to the NNRRB).
- (iv) The amounts calculated under steps (ii) and (iii) will be added to the Fast Money amounts attributable to the expenditure allowances referred to in step (i) for each Regulatory Year in DPCR5.
- (v) Actual expenditure amounts will be obtained for each Regulatory Year in DPCR5 and restated in 2012/13 prices.
- (vi) Any exceptional adjustment amounts, in 2012/13 prices, will be deducted from the actual expenditure amounts referred to in step (v) – see paragraphs ~~15.35~~15.34 to ~~15.37~~15.36.
- (vii) An amount of depreciation (being annual values calculated as the applicable value divided by 20) associated with the actual expenditure amounts referred to in step (v) will be calculated for each Regulatory Year in DPCR5.
- (viii) An amount of return associated with the actual expenditure amounts referred to in step (v), or as applicable (vi), will be calculated for each Regulatory Year in DPCR5 at the WACC for DPCR5.
- (ix) The amounts calculated under steps (vii) and (viii) will be added to the Fast Money amounts attributable to the actual expenditure amounts referred to in step (v) for each Regulatory Year in DPCR5.
- (x) For each Regulatory Year of DPCR5, the total obtained at step (iv) will be deducted from the total obtained at step (ix).
- (xi) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (x) to put them on a common 2015/16 time value basis and the values will then be totalled.

- (xii) An adjustment for the impact of corporation tax will be added to the total obtained under step (xi), calculated as the total obtained under step (xi) multiplied by -1 and then multiplied by the corporation tax rate used in the modelling of allowed revenues for the licensee for DPCR5.
- (xiii) Any provisional adjustment relating to the licensee's DPCR5 Pension Protection Fund Levy expenditure that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (xii).

~~15.30~~15.31 The value obtained at step (xiii) in paragraph ~~15.30~~15.29 is the adjustment relating to DPCR5 Pension Protection Fund Levy expenditure for the licensee.

~~15.31~~15.32 In order to perform the steps set out in paragraphs ~~15.30~~15.29, the Authority will require the licensee's actual DPCR5 Pension Protection Fund Levy expenditure levels, analysed into:

- (a) network investment & closely associated indirect costs; and
- (b) business support and non-operational capex,

as expenditure reported by the licensee in accordance with applicable Regulatory Instructions and Guidance. These expenditure levels are due to be reported by the licensee by 31 July 2015 under applicable Regulatory Instructions and Guidance and will be reviewed by the Authority.

~~15.32~~15.33 The adjustment relating to DPCR5 Pension Protection Fund Levy expenditure does not involve an adjustment to the licensee's RAV additions unless there has been an exceptional deduction from the licensee's actual expenditure amounts (see steps (v) and (vi) in paragraph ~~15.30~~15.29 and paragraphs ~~15.35~~15.34 to ~~15.37~~15.36).

*Exceptional adjustments to DPCR5 Pension Protection Fund Levy expenditure*

~~15.33~~15.34 There are two cases in which the Authority can apply deductions to the licensee's DPCR5 Pension Protection Fund Levy expenditure values for the purpose of legacy price control adjustments which are set out in paragraphs ~~15.35~~15.34 and ~~15.36~~15.35.

~~15.34~~15.35 The licensee was subject to an annual cap of £0.1m on the fixed element of DPCR5 Pension Protection Fund Levy and annual cap of £0.4m on the risk based element (in both cases in 2007/08 prices) – see paragraph 10.27 in reference document 1 specified at the start of this chapter. If the licensee's reported expenditure (in 2007/08 prices) breaches either of these caps then the Authority will apply a deduction equivalent to the excess amount for the Regulatory Year concerned.

~~15.35~~15.36 If the Authority determines that the licensee has incurred excessive DPCR5 Pension Protection Fund Levy costs as a result of inadequately managing the risk factors taken into account by the Pension Protection Fund in setting the levy, then the Authority will apply a deduction, for the Regulatory Year concerned, equivalent to the amount it determines to be attributable to the inadequate risk management. Before determining that a deduction should be applied in respect of the licensee's management of risk factors, the Authority will consult with the licensee

and consider any representations made by the licensee in response to that consultation.

~~15.36~~15.37 If any deductions are applied to the licensee's DPCR5 Pension Protection Fund Levy expenditure in accordance with paragraph ~~15.35~~15.34 or paragraph ~~15.36~~15.35, then an amount equivalent to a notional overall RAV balance impact attributable to the deductions, less any provisional amount that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the licensee's RAV additions.

### **Determination of DPCR5 Pension adjustment value**

~~15.37~~15.38 The Authority will sum the adjustment relating to DPCR5 ongoing pension expenditure (see paragraph ~~15.25~~15.24) and the adjustment relating to DPCR5 Pension Protection Fund Levy expenditure (see paragraph ~~15.31~~15.30) to determine the DPCR5 Pension adjustment value for the licensee.

~~15.38~~15.39 The values referred to in paragraphs ~~15.26~~15.25 and ~~15.32~~15.31 are due to be reported by the licensee to the Authority by 31 July 2015. The Authority will complete a review of the reported values by 31 October 2015 and, subject to paragraph ~~15.40~~15.39, will use the values to determine the DPCR5 Pension adjustment value for the licensee by 30 November 2015.

~~15.39~~15.40 Subject to paragraphs ~~15.41~~15.40 and ~~15.42~~15.41, the Authority will determine a revised DPCR5 Pension adjustment value for the licensee if, with respect to the values referred to in paragraph ~~15.39~~15.38:

- (a) the Authority apprised the licensee, by 31 October 2015, of any provisionality it had attached to those values with regard to a possible restatement requirement or in relation to the provision set out in paragraph ~~15.36~~15.35, (see also paragraph 1.17 in chapter 1); or
- (b) the licensee is required, under any provision of the licence to restate any of those values.

~~15.40~~15.41 A revised DPCR5 Pension adjustment value for the licensee may be determined by the Authority:

- (a) by 30 November 2016 for the purpose of determining the value of OLREV by 30 November 2016; and
- (b) by 30 November 2017 for the purpose of determining the value of OLREV by 30 November 2017.

~~15.41~~15.42 No further revisions to the DPCR5 Pension adjustment value for the licensee will be determined after 30 November 2017 for the purpose of determining a revised value of OLREV, but this is without prejudice to any requirement for the licensee to restate the values referred to in paragraph ~~15.39~~15.38 for any other purpose.

## **ii) DPCR5 Tax adjustment**

*References:*

- i. Chapter 4 of reference document 9 specified at the start of this chapter
- ii. Chapter 7 of reference document 5 specified at the start of this chapter
- iii. Reference document 10 specified at the start of this chapter

## Overview

~~15.42~~15.43 This subsection sets out the methodology for determining the DPCR5 Tax adjustment to allowed revenue for the licensee which is comprised of:

- (a) an adjustment relating to the licensee's Gearing levels and debt interest costs during the DPCR5 Price Control period; and
- (b) an adjustment relating to the changed regulatory basis for setting tax liability allowances at the end of the DPCR5 Price Control period.

~~15.43~~15.44 The term DPCR5 Tax Claw-back adjustment means the adjustment described in this subsection and, with respect to the adjustment relating to Gearing levels and debt interest costs, whose basis is set out in chapter 4 of reference document 8 and in reference document 9.

## Adjustment relating to Gearing levels and debt interest costs

~~15.44~~15.45 The DPCR5 Price Control included a tax claw-back mechanism applicable where, in any Regulatory Year:

- the licensee's actual Gearing exceeded the Gearing level assumed in modelling the licensee's DPCR5 Revenue Allowances; and
- the licensee's interest costs exceeded the interest costs assumed in modelling the licensee's DPCR5 Revenue Allowances,

meaning that the licensee would have had lower tax liabilities than those for which allowances had been given because of the tax shield effect of interest payments.

~~15.45~~15.46 The following steps are carried out to calculate the adjustment relating to the licensee's Gearing levels and debt interest costs:

- (i) The licensee's finalised RAV balances (taking into account the finalised RAV additions referred to in paragraph ~~15.30~~15.300) as at the end of each Regulatory Year in DPCR5, in nominal prices, will be obtained.
- (ii) The figures referred to in step (i) will be inflated to year end nominal prices as at 31 March at the end of each Regulatory Year concerned by multiplying them by the March/April RPI Factor for that Regulatory Year<sup>1</sup>.
- (iii) The licensee's overall net debt balances as at 31 March for each Regulatory Year in DPCR5, in nominal prices, will be obtained.
- (iv) Amounts outside of the definition of applicable net debt set out in reference document 10 will be deducted from the values obtained under step (iii).

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<sup>1</sup> See Glossary

- (v) The licensee's actual Gearing will be calculated for each Regulatory Year in DPCR5 by dividing each of the values obtained at step (iv) by the RAV value for the same Regulatory Year obtained at step (ii).
- (vi) The licensee's actual interest payment total for each Regulatory Year in DPCR5 will be obtained, in nominal prices, in accordance with the definition set out in reference document 10.
- (vii) Any interest received by the licensee during each Regulatory Year of DPCR5 that falls within the definition referred to in step (vi) will be deducted from the interest payment total for the Regulatory Year concerned.
- (viii) The interest costs assumed in modelling DPCR5 Revenue Allowances for the licensee will be obtained, in nominal prices, for each Regulatory Year in DPCR5.
- (ix) The interest costs obtained at step (viii) will be adjusted so that they reflect actual RPI values rather than the assumed RPI values used in modelling DPCR5 Revenue Allowances for the licensee.
- (x) The adjusted modelled interest cost values calculated at row (ix) will be deducted from the net interest payment values calculated at step (vii) for each Regulatory Year in DPCR5.
- (xi) For each Regulatory Year in DPCR5 a check will be made to see whether both of the following tests are passed:  
 The first test is passed if the licensee's actual Gearing calculated at step (v) is higher than the Gearing level assumed in modelling the licensee's DPCR5 Revenue Allowances.  
 The second test is passed if the value calculated at step (x) is a positive value.
- (xii) If, for any Regulatory Year in DPCR5, either of the tests in step (xi) has failed, then no adjustment relating to Gearing levels and debt interest costs will apply in respect of that year.
- (xiii) If, for any Regulatory Year in DPCR5, both of the tests in step (xi) are passed, then the value calculated at step (x) for the Regulatory Year concerned will be multiplied by the corporation tax rate used in DPCR5 modelling to calculate the licensee's tax benefit in nominal prices.
- (xiv) Any values for Regulatory Years in DPCR5 calculated at step (xiii) will be restated in 2012/13 prices.
- (xv) Any values restated at step (xiv) will be summed to obtain a total adjustment value.
- (xvi) Any provisional adjustment relating to Gearing levels and debt interest costs for the licensee that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the adjustment value calculated at step (xv).

~~15.46~~15.47 Subject to step (xii), the value obtained at step (xvi) in paragraph ~~15.46~~15.45 is the adjustment relating to Gearing levels and debt interest costs for the licensee.

~~15.47~~15.48 In order to perform the steps set out in paragraph ~~15.46~~15.45, the Authority will require the following information from the licensee:

- RAV balances as at the end of each Regulatory Year in DPCR5, in nominal prices - see step (i);
- net debt balances as at 31 March for each Regulatory Year in DPCR5 - see steps (iii) and (iv); and
- actual interest payment and interest received totals for each Regulatory Year in DPCR5.

These values will be reported by the licensee under applicable Regulatory Instructions and Guidance and will be reviewed by the Authority.

~~15.48~~15.49 The adjustment relating to Gearing levels and debt interest costs does not involve an adjustment to the licensee's RAV additions.

### **Adjustment relating to the changed basis for setting tax liability allowances**

~~15.49~~15.50 Up until (and including) Regulatory Year 2012/13 in the DPCR5 Price Control, the licensee was given tax liability allowances based on the actual payments it would be required to make to HM Revenue and Customs in the Regulatory Year concerned under relevant tax legislation (the 'old basis'). However, for Regulatory Years after 2012/13, the basis for setting tax liability allowances was changed so that they were based on the modelled tax charge applicable to the licensee for the Regulatory Year concerned (the 'new basis').

~~15.50~~15.51 Because there was no Annual Iteration Process or other mechanism to update tax liability allowances during DPCR5, an adjustment in respect of Regulatory Years 2013/14 and 2014/15 is required. The overall adjustment process involves:

- (a) modelling the licensee's tax liability allowances for 2013/14 and 2014/15 on the new basis;
- (b) determining relevant amounts foregone by the licensee because the allowances it actually received during DPCR5 were set on the old basis;
- (c) checking that the amounts at (b) reflect modelled tax liabilities (as opposed to tax losses);
- (d) applying a materiality test to the foregone amounts referred to at (b) set at 120% of the modelled tax liability allowance for Regulatory Year 2015/16 for the licensee;
- (e) determining, if applicable, the value of the foregone amounts that is in excess of the modelled tax liability allowance for Regulatory Year 2015/16 for the licensee; and
- (f) applying, if applicable, a grossing up adjustment in respect of the tax on tax allowance effect.

~~15.51~~15.52 The following steps are carried out to calculate the adjustment relating to the changed regulatory basis for setting tax liability allowances at the end of the DPCR5 Price Control period:

- (i) The licensee's tax liability allowances for Regulatory Years 2013/14 and 2014/15, modelled in nominal prices on the new basis, will be obtained from the financial issues pack.

- (ii) The figures referred to in step (i) will be deflated to 2012/13 prices.
- (iii) The licensee's tax liability allowance for Regulatory Year 2013/14, that was modelled in nominal prices on the old basis will be obtained from the financial issues pack.
- (iv) The figure referred to in step (iii) will be deflated to 2012/13 prices.
- (v) The figure calculated at step (iv) will be deducted from the figure calculated at step (ii) for Regulatory Year 2013/14. This will provide a value for the amount of allowance foregone by the licensee in respect of Regulatory Year 2013/14.
- (vi) The licensee's tax liability allowance for Regulatory Year 2015/16, modelled in nominal prices on the new basis will be obtained from the ED1 Price Control Financial Model.
- (vii) The figure referred to in step (vi) will be deflated to 2012/13 prices.
- (viii) The figure calculated at step (vii) will be multiplied by 0.5 to provide a proxy value for the amount of allowance foregone by the licensee in respect of Regulatory Year 2014/15. The factor of 0.5 represents two quarters of a year.
- (ix) The three values calculated at steps (ii) and (vii) will be summed to check that there is a positive value representing an overall tax liability.
- (x) The values calculated at steps (v) and (viii) will be summed to calculate the total amount of allowance foregone by the licensee in respect of Regulatory Years 2013/14 and 2014/15.
- (xi) The materiality test value will be calculated as 120 percent of the value calculated at step (vii).
- (xii) If the value calculated at step (x) is greater than the materiality test value calculated at step (xi), then step (xiii) will be performed; otherwise the adjustment relating to the changed basis for setting tax liability allowances for the licensee is zero.
- (xiii) The value at step (vii) will be deducted from the value at step (x) to calculate the amount of allowance foregone by the licensee in respect of Regulatory Years 2013/14 and 2014/15 that is in excess of a threshold level equal to the licensee's tax liability allowance for Regulatory Year 2015/16 (in 2012/13 prices).
- (xiv) The value calculated at step (xiii) will be divided by a value that is itself calculated as one minus the corporation tax rate used in modelling the licensee's tax liability allowance for Regulatory Year 2014/15. This will gross up the value calculated at step (xiii) to apply the tax allowance on tax allowance factor.
- (xv) Any provisional adjustment for the licensee relating to the changed basis for setting tax liability allowances that was included in the calculation of the licensee's Opening base Revenue Allowances will be deducted from the value calculated at step (xiv).

~~15.52~~15.53 Subject to step (xii), the value obtained at step (xv) in paragraph ~~15.52~~15.54 is the adjustment relating to the changed regulatory basis for setting tax liability allowances for the licensee.

~~15.53~~15.54 In order to perform the steps set out in paragraph ~~15.52~~15.51, the Authority will require:

- the licensee's tax liability allowances for Regulatory Years 2013/14 and 2014/15, modelled in nominal prices on the new basis;
- the licensee's tax liability allowance for Regulatory Year 2013/14, modelled in nominal prices on the old basis; and
- the licensee's tax liability allowance for Regulatory Year 2015/16, modelled in nominal prices on the new basis.

~~15.54~~15.55 These values will be reported by the licensee under applicable Regulatory Instructions and Guidance and will be reviewed by the Authority.

~~15.55~~15.56 The adjustment relating to the changed basis for setting tax liability allowances does not involve an adjustment to the licensee's RAV additions.

### **Determination of DPCR5 Tax adjustment value**

~~15.56~~15.57 The Authority will sum the adjustment relating to Gearing levels and debt interest costs (see paragraph ~~15.47~~15.46) and the adjustment relating to the changed basis for setting tax liability allowances (see paragraph ~~15.53~~15.52) to determine the DPCR5 Tax adjustment value for the licensee in 2012/13 prices.

~~15.57~~15.58 As noted at paragraphs ~~15.48~~15.47 and ~~15.54~~15.53, the values required by the Authority to determine the DPCR5 Tax adjustment value for the licensee will be reported by the licensee under applicable Regulatory Instructions and Guidance and will be reviewed by the Authority.

~~15.58~~15.59 The values referred to in paragraph ~~15.58~~15.57 are due to be reported by the licensee to the Authority by 31 July 2015. The Authority will complete a review of the reported values by 31 October 2015 and, subject to paragraph ~~15.60~~15.59, will use the values to determine the DPCR5 Tax adjustment value for the licensee by 30 November 2015.

~~15.59~~15.60 Subject to paragraphs ~~15.61~~15.60 and ~~15.62~~15.61, the Authority will determine a revised DPCR5 Tax adjustment value for the licensee if, with respect to the values referred to in paragraph ~~15.58~~15.57:

- (a) the Authority apprised the licensee, by 31 October 2015, of any provisionality it had attached to those values with regard to a possible restatement requirement (see also paragraph 1.17 in chapter 1); or
- (b) the licensee is required, under any provision of the licence to restate any of those values.

~~15.60~~15.61 A revised DPCR5 Tax adjustment value for the licensee may be determined by the Authority:

- (a) by 30 November 2016 for the purpose of determining the value of OLREV by 30 November 2016; and
- (b) by 30 November 2017 for the purpose of determining the value of OLREV by 30 November 2017.

~~15.61~~15.62 No further revisions to the DPCR5 Tax adjustment value for the licensee will be determined after 30 November 2017 for the purpose of determining a revised value of OLREV, but this is without prejudice to any requirement for the

licensee to restate the values referred to in paragraph ~~15.58~~~~15.57~~ for any other purpose.

### iii) DPCR5 Distributed Generation adjustment

#### References:

- i. Chapter 5 of reference document 1 specified at the start of this chapter
- ii. Reference document 5 specified at the start of this chapter
- iii. Chapter 3 of reference document 8 specified at the start of this chapter

#### Overview

~~15.62~~~~15.63~~ This subsection sets out the methodology for determining the DPCR5 Distributed Generation adjustment to allowed revenue for the licensee.

~~15.63~~~~15.64~~ The term DPCR5 Distributed Generation adjustment means the adjustment described in this subsection that relates to the remuneration and incentive mechanism for the connection of Distributed Generation (DG) capacity during DPCR5. The mechanism is set out in Chapter 5 in reference document 1 and in Special Condition CRC 11 of the licence in the form it was in on 31 March 2015 ("CRC 11").

~~15.64~~~~15.65~~ All outstanding adjustments relating to the remuneration and incentive mechanism for the connection of DG capacity in DPCR4 were included in the calculation of the licensee's Opening Base Revenue Allowances.

~~15.65~~~~15.66~~ The DPCR5 DG incentive mechanism comprised:

- (a) a 5.6% rate of return on 80% of eligible capital expenditure for a period of 15 years from the year of expenditure;
- (b) an incentive payment of £1,000 per year (in 2007/08 prices) for each megawatt of connected capacity for a period of 15 years from the year of connection;
- (c) a cap and collar on the percentage return represented by the revenue streams derived from the items in subparagraphs (a) and (b), with
  - the cap set at 11.2 percent; and
  - the collar set at 3.6 percent;and
- (d) an operation and maintenance allowance of £1,000 per year (in 2007/08 prices) for each megawatt of connected capacity for a period of 15 years from the year of connection.

~~15.66~~~~15.67~~ The overall adjustment relating to DPCR5 Distributed Generation to allowed revenue for the licensee takes into account:

- the licensee's projected revenue entitlements out to Regulatory Year 2029/30 (being 15 years from the end of DPCR5);

- amounts that were included in the licensee's allowed revenue during DPCR5; and
- the cap and collar referred to in paragraph ~~15.66~~15.65(c).

~~15.67~~15.68 The DPCR5 DG adjustment does not involve an adjustment to the licensee's RAV additions.

### **Calculation of the DPCR5 Distributed Generation adjustment value**

~~15.68~~15.69 The following steps are carried out to calculate the adjustment relating to DPCR5 DG:

- (i) Total incentivised DG capacity for each Regulatory Year in DPCR5 will be obtained.
- (ii) Incentive payments will be calculated by multiplying the totals in step (i) by the incentive rate of £1,000 per megawatt in 2007/08 prices.
- (iii) The values obtained under step (ii) will be inflated into nominal prices.
- (iv) The nominal value incentive payments for Regulatory Years after 2014/15 will be calculated using an RPI indexation factor of 3.1% to uplift the incentive payment value in the final year of DPCR5. For Regulatory Years from 2026/27 to 2029/30, the capacity total will be abated with respect to capacity for which the 15 year payment period has elapsed.
- (v) Use of System Capex amounts will be obtained for each Regulatory Year in DPCR5.
- (vi) The values obtained under step (v) will be inflated into nominal prices and totalled.
- (vii) The Use of System Capex subject to pass through for each Regulatory Year in DPCR5 will be calculated by multiplying the values obtained in step (vi) by the pass through rate of 80%.
- (viii) Any Use of System Capex transferred to the licensee's RAV in accordance with Part K of CRC 11 will be deducted from the values obtained in step (vii).
- (ix) Rate of return payments on the Use of System Capex figures calculated at step (viii) will be projected for all Regulatory Years from 2010/11 to 2029/30 applying Time Value of Money Adjustments using the 5.6 percent rate of return referred to in paragraph ~~15.66~~15.65(a).
- (x) Allowed revenue streams in nominal prices will be calculated using the sum of rate of return payments as calculated in step (ix) and the total incentive payments calculated in steps (iii) and (iv).
- (xi) Internal Rates of Return (IRRs) will be calculated:
  - a. for the DPCR5 period; and
  - b. for the entire period from 1 April 2011 to 31 March 2030.
- (xii) The Internal Rates of Return calculated at step (xi) will be compared to the cap and collar referred to in paragraph ~~15.66~~15.65(c).

- (xiii) If the Internal Rate of Return referred to in step (xi)(b) is between the cap and collar percentages, then no adjustment under the cap or collar is applied.

If the Internal Rate of Return referred to at step (xi)(b) is lower than the collar rate of 3.6 percent then an adjustment will be made to the total allowed revenue streams referred to in step (x) such that the Internal Rate of Return matches the collar.

If the Internal Rate of Return at step (xi)(a) is above the cap rate of 11.2 percent, then an adjustment will be made to the total allowed revenue in Regulatory Year 2015/16 such that the Internal Rate of Return matches the cap.

If the Internal Rate of Return referred to in step (xi)(b) is above the cap rate of 11.2 percent, then an adjustment will be made to the total allowed revenue streams referred to in step (x) such that the Internal Rate of Return matches the cap.

If the total of Use of System Capex amounts values referred to at step (v) are zero, then the mechanism does not apply and the allowed revenue streams referred to in step (x) are set to zero.

- (xiv) Operational and maintenance allowances will be calculated by multiplying the totals in step (i) by the incentive rate of £1,000 per megawatt in 2007/08 prices.
- (xv) The values obtained under step (xiv) will be inflated into nominal prices.
- (xvi) The nominal value operational and maintenance allowances for Regulatory Years after 2014/15 will be calculated using an RPI indexation factor of 3.1% to uplift the operational and maintenance allowance value in the final year of DPCR5. For Regulatory Years from 2026/27 to 2029/30, the capacity total will be abated with respect to capacity for which the 15 year payment period has elapsed.
- (xvii) DG revenue for each Regulatory Year from 2015/16 to 2029/30 will be calculated by summing the value for each of those Regulatory Years included in the allowed revenue amounts obtained at steps (xiii) and (xvi).
- (xviii) The revenues amounts obtained at step (xvii) will be deflated to 2012/13 prices and then discounted to a single value for Regulatory Year 2015/16 using the Vanilla WACC percentage applicable to the licensee for Regulatory Year 2015/16.
- (xix) Any provisional adjustment relating to the DPCR5 remuneration and incentive mechanism for DG that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (xviii).

~~15.69~~15.70 The value obtained at step (xix) in paragraph ~~15.69~~15.68 is the adjustment relating to DPCR5 DG adjustment values for the licensee.

~~15.70~~15.71 In order to perform the steps set out in paragraphs ~~15.69~~15.68, the Authority will require the following information with respect to the licensee:

- (a) total incentivised DG capacity connected;

- (b) total eligible capital expenditure; and
  - (c) eligible capital expenditure transferred to the licensee's RAV.
- for each Regulatory Year of DPCR5.

These items will be reported by the licensee under applicable Regulatory Instructions and Guidance and will be reviewed by the Authority.

### **Determination of the DPCR5 Distributed Generation adjustment value**

~~15.71~~15.72 The values referred to in paragraph ~~15.71~~15.70 are due to be reported by the licensee to the Authority by 31 July 2015. The Authority will complete a review of the reported values by 31 October 2015 and, subject to paragraph ~~15.73~~15.72, will use the values to determine the DPCR5 Distributed Generation adjustment value for the licensee by 30 November 2015.

~~15.72~~15.73 Subject to paragraphs ~~15.74~~15.73 and ~~15.75~~15.74, the Authority will determine a revised DPCR5 Distributed Generation adjustment value for the licensee if, with respect to the values referred to in paragraph ~~15.72~~15.71:

- (a) the Authority apprised the licensee, by 31 October 2015, of any provisionality it had attached to those values with regard to a possible restatement requirement (see also paragraph 1.17 in chapter 1); or
- (b) the licensee is required, under any provision of the licence to restate any of those values.

~~15.73~~15.74 A revised DPCR5 Distributed Generation adjustment value for the licensee may be determined by the Authority:

- (a) by 30 November 2016 for the purpose of determining the value of OLREV by 30 November 2016; and
- (b) by 30 November 2017 for the purpose of determining the value of OLREV by 30 November 2017.

~~15.74~~15.75 No further revisions to the DPCR5 Distributed Generation adjustment value for the licensee will be determined after 30 November 2017 for the purpose of determining a revised value of OLREV, but this is without prejudice to any requirement for the licensee to restate the values referred to in paragraph ~~15.72~~15.71 for any other purpose.

### **iv) DPCR5 DUoS Bad Debts adjustment**

#### *References:*

- i. Chapter 3 of reference document 1 specified at the start of this chapter
- ii. Reference document 5 specified at the start of this chapter
- iii. Reference document 11 specified at the start of this chapter

### **Overview**

~~15.75~~15.76 The term DPCR5 DUoS Bad Debts adjustment means the adjustment described in this subsection, the basis for which is set out in Chapter 3 in reference document 1.

~~15.76~~15.77 The DPCR5 Price Control provided for bad debt costs in respect of distribution use of system (DUoS) charges, incurred by the licensee during the DPCR5 Price Control, to be reimbursed, subject to criteria set out in reference document 11.

~~15.77~~15.78 This subsection sets out the methodology for determining the DPCR5 DUoS Bad Debts adjustment to allowed revenue for the licensee. The DPCR5 DUoS Bad Debts adjustment does not involve an adjustment to the licensee's RAV additions.

~~15.78~~15.79 In order to determine the DPCR5 DUoS Bad Debts adjustment for the licensee the Authority will:

- (a) assess the eligible bad debt cost for the licensee for each Regulatory Year of DPCR5; and
- (b) calculate the adjustment to allowed revenue for the licensee arising from the eligible bad debt costs referred to in subparagraph (a).

#### **Determination of eligible bad debt cost**

~~15.79~~15.80 The following steps are carried out to determine eligible bad debt costs for the licensee for each Regulatory Year of DPCR5:

(i) By 30 April 2015, the Authority will send the licensee an electronic claim form for DPCR5 DUoS Bad Debts in Microsoft Excel ® format, copies of which can be completed and returned by the licensee at any time up to 30 June 2018, with bad debt cost values stated in 2012/13 prices.

(ii) By 31 August in each Regulatory Year from 2015/16 to 2018/19, the Authority will evaluate any completed claim forms received from the licensee against the criteria set out in reference document 11.

If the Authority is of the opinion that any bad debt cost amount included by the licensee in a claim form should not be reimbursed, it will notify the licensee, and give the licensee 28 days in which to make any representations, which the Authority will duly consider before deciding whether the amount should be reimbursed or not.

(iii) Having carried out steps (i) and (ii), the Authority will, by 31 October in each Regulatory Year from 2015/16 to 2018/19, determine an updated eligible bad debt cost for the licensee for each Regulatory Year of the DPCR5 price control.

~~15.80~~15.81 Subject to paragraph ~~15.80~~15.79 (i), the licensee may submit one or more updated claims in relation to any particular debtor.

~~15.81~~15.82 If the Authority has not received any completed claim forms by 30 June 2018, then the eligible bad debt cost for the licensee for each Regulatory Year of the DPCR5 price control will be fixed at zero (see also paragraphs ~~15.85~~15.84 to ~~15.87~~15.86).

## Calculation of adjustment to allowed revenue for the licensee

~~15.82~~15.83 The following steps are carried out to calculate the adjustment:

- (i) By 31 October in each Regulatory Year from 2015/16 to 2018/19, DPCR5 Time Value of Money Adjustments will be applied to the updated eligible bad debt costs for the licensee for each Regulatory Year of DPCR5 obtained at step (iii) in paragraph ~~15.80~~15.79 to put them on a common 2015/16 time value basis, and the values will then be totalled.
- (ii) Any provisional adjustment relating to DPCR5 DUoS Bad Debts that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (i).

~~15.83~~15.84 The value obtained at step (ii) in paragraph ~~15.83~~15.82 is the adjustment relating to DPCR5 DUoS Bad Debts for the licensee.

## Determination of the DPCR5 DUoS Bad Debts adjustment value

~~15.84~~15.85 The Authority will determine a DPCR5 DUoS Bad Debts adjustment value for the licensee by 30 November 2015 for the purpose of determining the value of OLREV by 30 November 2015.

~~15.85~~15.86 A revised DPCR5 DUoS Bad Debts adjustment value for the licensee will be determined by the Authority:

- (a) by 30 November 2016 for the purpose of determining the value of OLREV by 30 November 2016;
- (b) by 30 November 2017 for the purpose of determining the value of OLREV by 30 November 2017; and
- (c) by 30 November 2018 for the purpose of determining the value of OLREV by 30 November 2018,

where that is required by the methodology set out in paragraphs ~~15.79~~15.78 to ~~15.84~~15.83.

~~15.86~~15.87 No further revisions to the DPCR5 DUoS Bad Debts adjustment value for the licensee will be determined after 30 November 2018 for the purpose of determining a revised value of OLREV. However, if, after that date, the licensee makes a material recovery of bad debt amounts previously reimbursed through revisions to the value of OLREV, the Authority may take those recoveries into account in proposing the RIIO-ED2 price control arrangements for the licensee.

## v) DPCR5 Traffic Management Act Permit Costs adjustment

### References:

- i. Chapter 2 of reference document 1 specified at the start of this chapter
- ii. Reference document 5 specified at the start of this chapter
- iii. Chapters 4 and 7 of reference document 6 specified at the start of this chapter
- iv. Reference document 12 specified at the start of this chapter

## Overview

~~15.87~~15.88 This subsection sets out how we will determine the DPCR5 Traffic Management Act Permit Costs adjustment to allowed revenue for the licensee. The term DPCR5 Traffic Management Act Permit Costs adjustment means the adjustment described in this subsection that relates to the DPCR5 traffic management permitting reopener that is set out in chapter 2 of reference document 1 and chapter 4 of reference document 6.

### *Supplementary Detailed Assessment Procedures*

~~15.88~~15.89 The Traffic Management Permit Costs Legacy Assessment Methodology, in Annex D-particular, sets out the way in which the Authority will determine the input values marked ▲ in the materiality test referred to in paragraph ~~15.100~~15.99 and, if applicable, calculate the DPCR5 Traffic Management Act Permit Costs adjustment value set out in paragraphs ~~15.100~~15.101~~15.100~~ – ~~15.103~~15.102.

~~15.89~~15.90 In formulating the Traffic Management Permit Costs Legacy Assessment Methodology, the Authority ~~has will~~ has taken into account the following, without limitation:

- (a) the requirement to determine whether costs have been efficiently incurred by the licensee or not;
- (b) the policy set out in reference documents 1, 5, 6 and 12; and
- (c) further work on how to define and assess costs, undertaken by the Authority in conjunction with Electricity Distribution Network Operators during DPCR5.

### *Background to adjustment*

~~15.90~~15.91 Although some expenditure allowances for Traffic Management Act costs were deemed to be included in the calculation of DPCR5 Revenue Allowances for the licensee, these did not include any amounts in respect of Permitting Scheme requirements which were uncertain at the outset of DPCR5. The DPCR5 traffic management permitting reopener provides for the licensee to be given additional allowed revenue to reflect:

- (a) the number of cases where works projected at the outset of DPCR5 required the purchase of permits rather than the giving of notices;
- (b) the average ~~cost of the~~ Permit Costs ~~referred to in subparagraph (a)~~; and
- (c) the efficient costs in the categories listed in (i) to (iii) below:
  - i. Permitting Conditions Costs;
  - ii. System Set Up Costs; and
  - iii. Incremental Administration Costs

defined in the Glossary and associated with the permits referred to in subparagraph (a).

~~15.91~~15.92 The total number of permits purchased, referred to in paragraph ~~15.91~~15.90 (a) is subject to a cap equal to the assumed number of required works notices for the whole of DPCR5 used in setting the licensee's DPCR5 Revenue Allowances.

~~15.92~~15.93 The DPCR5 Traffic Management Act Permit Costs adjustment is subject to a materiality test set at one percent of the licensee's DPCR5 Revenue Allowance for Regulatory Year 2010/11 as referred to in paragraph ~~15.100~~15.99(ix).

#### *DPCR5 reopener*

~~15.93~~15.94 The licensee was able to apply for an adjustment during the DPCR5 period in a window that ran from 1 July to 31 July 2012, where at least six months' worth of permit data was available. Adjustments to revenue allowances determined under this provision were collected by the licensee as a component of the term UNC under Special Condition CRC 18 (Arrangements for the recovery of uncertain costs) of the licence in the form it was in on 31 March 2015. Relevant cost data associated with permitting and not addressed through the DPCR5 reopener window that ran from 1 July to 31 July 2012 was logged up to be dealt with under the Traffic Management Permit Costs Legacy Assessment Methodology.

~~15.94~~15.95 The reopener can be triggered by an application lodged by the licensee during a window that runs from 1 October 2016 to 31 October 2016. The licensee's application must comprise a Performance Assessment Submission as detailed in Annex E.

~~15.95~~15.96 In order to calculate the DPCR5 Traffic Management Act Permit Costs adjustment value for the licensee, the Authority will require input data as detailed in the Performance Assessment Submission in Annex E.

~~15.96~~15.97 The Authority will determine the provisional DPCR5 Traffic Management Act Permit Costs adjustment value by 31 August 2017 using price control information reported by the licensee and the detailed Traffic Management Permit Costs Legacy Assessment Methodology.

~~15.97~~15.98 After making the provisional determination referred to in paragraph 15.96 the Authority will consult with the licensee for at least 28 days and take into account any representations made by the licensee during that period.

~~15.98~~15.99 Having carried out the consultation referred to in paragraph ~~15.98~~15.97, the Authority will determine the input values to be used (marked ▲) in the materiality test ~~referred to~~ in paragraph ~~15.100~~15.99 and, if applicable, ~~in the to~~ calculation of the DPCR5 Traffic Management Act Permit Costs adjustment value set out in paragraphs ~~15.100~~15.100 – ~~15.103~~15.102.

#### **Calculation of adjustment**

~~15.99~~15.100 The Authority will carry out the following steps to apply the materiality test referred to in paragraph ~~15.93~~15.92 and, if applicable, to calculate the DPCR5 Traffic Management Act Permit Costs adjustment value for the licensee:

#### *Materiality test*

- (i) ▲The licensee's efficient Incremental Administration Costs associated with permitting requirements for each Regulatory Year of DPCR5 will be restated in 2012/13 prices.
- (ii) ▲The licensee's efficient Permitting Conditions Costs for each Regulatory Year of DPCR5 will be restated in 2012/13 prices.
- (iii) The values obtained under step (i) and (ii) will be multiplied by the DPCR5 IQI Incentive Rate for the licensee to calculate the Incremental Administration Costs and Permitting Conditions Costs amounts to be taken into account for each Regulatory Year in DPCR5 in 2012/13 prices.
- (iv) ▲The licensee's efficient Permit Costs for each Regulatory Year of DPCR5 will be restated in 2012/13 prices.
- (v) ▲The licensee's efficient System Set Up Costs associated with permitting requirements for each Regulatory Year of DPCR5 will be restated in 2012/13 prices.
- (vi) The values obtained at steps (iii) to (v) will be summed to give a total amount for each Regulatory Year of DPCR5 in 2012/13 prices.
- (vii) The values obtained at step (vi) will be summed to give a total value for DPCR5 in 2012/13 prices.
- (viii) The total value (restated in 2012/13 prices) of any previous DPCR5 Traffic Management Act Permit Costs for the licensee will be deducted from the value calculated at step (vii).
- (ix) The materiality test value will be calculated as one percent of the DPCR5 Revenue Allowance for the licensee for Regulatory Year 2010/11, restated in 2012/13 prices.

~~15.100~~15.101 If the value calculated under step (viii) in paragraph ~~15.100~~15.99 is less than the materiality value calculated under step (ix) in paragraph 15.100, then the calculated value of the DPCR5 Traffic Management Act Permit Costs adjustment for the licensee will be zero and steps (x) to (xiv) in paragraph ~~15.102~~15.101 will not be carried out.

~~15.101~~15.102 If the value calculated under step (viii) in paragraph ~~15.100~~15.99 is equal to or greater than the materiality test value calculated under step (ix) in paragraph 15.100, then steps (x) to (xiv) will be carried out.

- (x) The values obtained under steps (i) and (ii) of paragraph ~~15.100~~15.99 will be multiplied by 85% to calculate an amount for each Regulatory Year in DPCR5 that would have been added to the licensee's RAV if the values calculated at steps (i) and (ii) had been taken into account.
- (xi) The values calculated at step (x) will be used to calculate:
  - (a) an amount of depreciation (being annual values calculated as the applicable value divided by 20); and
  - (b) an amount of return, at WACC for DPCR5 (applied to the NNRRB),

for each Regulatory Year in DPCR5 on the basis of attributable, notional RAV balance impacts.

- (xii) The values obtained under steps (i) and (ii) will be multiplied by 15% to calculate the DPCR5 Fast Money amount for efficient Incremental Administration Costs and for efficient Permitting Conditions Costs for each Regulatory Year in DPCR5 in 2012/13 prices.
- (xiii) The values obtained at steps (iv), (v), (xi) and (xii) will be summed, and the value of any previous DPCR5 reopener adjustment (obtained as part of step viii) will be deducted, to give a total value for each Regulatory Year of DPCR5 in 2012/13 prices.
- (xiv) DPCR5 Time Value of Money Adjustments will be applied to the values calculated under step (xiii) to put them on a common 2015/16 time value basis and the values will then be totalled.

~~15.102~~15.103 Any ~~ex-ante~~provisional DPCR5 Traffic Management Act Permit Costs adjustment (in 2012/13 prices) that was included in the calculation of the licensee's RIIO-ED1 Opening Base Revenue Allowances will be deducted from the value calculated at step (xiv) in paragraph ~~15.102~~15.101 or, as applicable, the value of zero referred to in paragraph ~~15.101~~15.100.

*Restatement of price control information*

~~15.103~~15.104 If, under any provision of the licence, before 31 July 2018, the licensee restates any price control information used in the determination of input values used in the calculation set out in paragraphs ~~15.100~~15.99 to ~~15.103~~15.102~~15.101~~, the Authority will, by 30 September 2018, provisionally re-determine the DPCR5 Traffic Management Permit Costs adjustment value using the restated information and the Traffic Management Permit Costs Legacy Assessment Methodology in Annex D.

~~15.104~~15.105 If applicable, after making any provisional re-determination referred to in paragraph ~~15.104~~15.103 the Authority will consult with the licensee for at least 28 days and take into account any representations made by the licensee during that period.

~~15.105~~15.106 If applicable, having carried out any consultation under paragraph ~~15.105~~15.104, the Authority will re-determine the input values (marked ▲) to be used in a re-calculation of the adjustment value as per paragraphs ~~15.100~~15.99 to ~~15.102~~15.101.

*Determination of the DPCR5 Traffic Management Act Permit Costs adjustment value*

~~15.106~~15.107 The Authority will, by 30 November 2017, determine the DPCR5 Traffic Management Act Permit Costs adjustment value for the licensee to be the value calculated under paragraphs ~~15.100~~15.99 to ~~15.103~~15.102 for the purpose of determining the value of OLREV by 30 November 2017.

~~15.107~~15.108 If the Authority has re-calculated the adjustment value under paragraph ~~15.106~~15.105, it will, by 30 November 2018, determine the DPCR5 Traffic Management Act Permit Costs adjustment value for the licensee to be the value calculated under that paragraph for the purpose of determining the value of OLREV by 30 November 2018.

~~15.108~~15.109 The DPCR5 Traffic Management Act Permit Costs adjustment does not involve:

- (a) an adjustment to the licensee's RAV additions; or
- (b) an adjustment under the DPCR5 RAV Rolling Incentive (except in respect of efficient Incremental Administration Costs associated with permitting requirements and efficient Permitting Conditions Costs).

~~15.109~~15.110 No further revisions to the DPCR5 Traffic Management Act Permit Costs adjustment value for the licensee will be determined after 30 November 2018 for the purpose of determining a revised value of OLREV, but this is without prejudice to any requirement for the licensee to restate the values referred to in paragraph ~~15.104~~15.103 for any other purpose.

## **vi) DPCR5 Undergrounding and Worst Served Customer Improvements adjustment**

### *References:*

- i. Chapter 7 of reference document 1 specified at the start of this chapter
- ii. Reference document 5 specified at the start of this chapter
- iii. Chapters 9 and 15 of reference document 8 specified at the start of this chapter

~~15.110~~15.111 This subsection sets out the methodology for determining the DPCR5 Undergrounding and Worst Served Customer Improvements adjustment to allowed revenue for the licensee.

~~15.111~~15.112 The term DPCR5 Undergrounding and Worst Served Customer Improvements adjustment means the adjustment described in this subsection that relates to:

- the undergrounding in Areas of Outstanding Natural Beauty and National Parks mechanism; and
- the worst served customer improvements mechanism,

that are set out in chapters 9 and 15 of reference document 8 respectively.

### *Undergrounding in Areas of Outstanding Natural Beauty and National Parks mechanism*

~~15.112~~15.113 At the outset of the DPCR5 Price control, the licensee was given an allowance for expenditure on undergrounding distribution system assets to help preserve visual amenity in and around Areas of Outstanding Natural Beauty and National Parks. The allowance is specified in 2007/08 prices in Table 9.1 in reference document 8.

~~15.113~~15.114 The licensee was required to 'log up' its expenditure, with the allowance amount acting as an overall cap. However, eligible expenditure in excess of the cap is included in the separate calculation of the overall adjustment for items subject to the DPCR5 IQI Incentive Rates for the licensee (see paragraph ~~15.119~~15.118 and section 2 of chapter 16).

### *Worst served customer improvements mechanism*

~~15.114~~15.115 At the outset of the DPCR5 Price Control, the licensee was given an allowance for expenditure on projects to improve distribution system performance for customers who had experienced a large numbers of supply interruptions over a number of years. The allowance is specified in 2007/08 prices in Table 15.1 in reference document 8.

~~15.115~~15.116 The licensee was required to 'log up' its expenditure, with the allowance amount acting as an overall cap. There was also an expenditure limit of £1,000 per customer (in 2007/08 prices) that applied on an average basis across all customers included in all projects across DPCR5. Eligible expenditure in excess of the cap/limit is included in the separate calculation of the overall adjustment for items subject to the DPCR5 IQI Incentive Rates for the licensee (see paragraph

~~15.119~~15.118 and section 2 of chapter 16).

### *Calculation of consolidated DPCR5 Undergrounding and Worst Served Customer Improvements adjustment*

~~15.116~~15.117 The following steps are carried out to calculate the DPCR5 Undergrounding and Worst Served Customer Improvements adjustment value:

#### *Initial steps with respect to DPCR5 Undergrounding expenditure*

- (i) The overall DPCR5 Undergrounding expenditure allowance (cap) for the licensee will be obtained and restated in 2012/13 prices.
- (ii) The licensee's actual eligible DPCR5 Undergrounding expenditure for each Regulatory Year in DPCR5 will be obtained and restated in 2012/13 prices.
- (iii) The cumulative figure for actual DPCR5 Undergrounding expenditure for each Regulatory Year in DPCR5 will be calculated using the values obtained under step (ii).
- (iv) The amount of actual DPCR5 Undergrounding expenditure in excess of the cap referred to in step (i) will be calculated for each Regulatory Year in DPCR5 using the cumulative values calculated under step (iii).
- (v) Any positive (excess) value calculated under step (iv) will be deducted from the value obtained at step (ii) for the Regulatory Year concerned. In years where the spend is within the cap then no adjustment is made.

#### *Initial steps with respect to DPCR5 Worst Served Customer Improvements expenditure*

- (vi) The overall DPCR5 Worst Served Customer Improvements expenditure allowance (cap) for the licensee will be obtained and restated in 2012/13 prices.
- (vii) The expenditure limit per customer referred to in paragraph ~~15.116~~15.115 will be restated in 2012/13 prices.
- (viii) The licensee's eligible actual DPCR5 Worst Served Customer Improvements expenditure for each Regulatory Year in DPCR5 will be obtained and restated in 2012/13 prices. Eligibility of expenditure cannot be determined until three years post scheme completion.

Therefore, eligible actual DPCR5 Worst Served Customer Improvements expenditure will be calculated by:

- (a) Taking the baseline for each Regulatory Year as total actual DPCR5 Worst Served Customer Improvements expenditure; and
  - (b) Annually revising this value for total actual DPCR5 Worst Served Customer Improvements expenditure per Regulatory Year by subtracting ineligible expenditure, once eligibility can be determined on a scheme-by-scheme basis.
- (ix) The values calculated at step (viii) will be summed to give a total value of eligible actual expenditure for the whole of DPCR5.
  - (x) The total number of customers included in eligible Worst Served Customer Improvements projects by the licensee during DPCR5 will be obtained.
  - (xi) The total value of eligible actual expenditure calculated at step (ix) will be divided by the total number of customers obtained at step (x) to derive the actual expenditure per customer.
  - (xii) If the value of actual expenditure per customer calculated at step (xi) is greater than the restated expenditure limit per customer referred to in step (vii), then a limit per customer reduction factor is calculated by dividing the expenditure limit per customer at step (vii) by the actual expenditure per customer at step (xi).
  - (xiii) If the value of actual expenditure per customer calculated at step (xi) is less than or equal to the restated expenditure limit per customer referred to in step (vii), then the value of the limit per customer reduction factor is set to one.
  - (xiv) The limit per customer reduction factors calculated in either step (xii) or step (xiii) will be applied to restated eligible actual expenditure for each Regulatory Year in DPCR5 calculated in step (viii). These values will be referred to as the residual eligible actual expenditure.
  - (xv) The cumulative values for residual eligible actual expenditure for each Regulatory Year in DPCR5 will be calculated using the values obtained under step (xiv).
  - (xvi) The cumulative values for residual eligible actual expenditure for each Regulatory Year calculated under step (xv) will be compared to the expenditure cap calculated in step (vi).
  - (xvii) If the cumulative value for residual eligible actual expenditure in any Regulatory Year calculated under step (xv) is lower than or equal to the expenditure cap calculated at step (vi) no adjustment is made to the value of residual eligible actual expenditure calculated in step (xiv) for the Regulatory Year.
  - (xviii) If the cumulative value for residual eligible actual expenditure in any Regulatory Year calculated under step (xv) is higher than the expenditure cap calculated at step (vi), and this is the first Regulatory Year the cumulative value exceeds the expenditure cap, the excess amount above the expenditure cap will be deducted from the value of residual eligible actual expenditure calculated in step (xiv) for the Regulatory Year.

- (xix) If the cumulative value for residual eligible actual expenditure in any Regulatory Year calculated under step (xv) is higher than the expenditure cap calculated at step (vi), and this is not the first Regulatory Year the cumulative value exceeds the expenditure cap, the residual eligible actual expenditure is set to zero for the Regulatory Year.

*Consolidating steps to determine the DPCR5 Undergrounding and Worst Served Customer Improvements adjustment*

- (xx) The amounts calculated at steps (v) and, as applicable (xvii), (xviii) or (xiv) will be summed to give the consolidated amount of actual expenditure within the consolidated expenditure allowance for each Regulatory Year in DPCR5, taking account of the expenditure limit per customer applicable to Worst Served Customer Improvements projects.
- (xxi) The values calculated at step (xx) will be multiplied by 15% to calculate DPCR5 Fast Money amounts for DPCR5 Undergrounding and Worst Served Customer Improvements for each Regulatory Year in DPCR5.
- (xxii) The values calculated at step (xx) will be multiplied by 85% to calculate an amount for each Regulatory Year in DPCR5 that would have been added to the licensee's RAV if the values calculated at step (xx) had been taken into account.
- (xxiii) The values calculated at step (xxii) will be used to calculate:
  - (a) an amount of depreciation (being the applicable value divided by 20); and
  - (b) an amount of return, at WACC for DPCR5 (applied to the NNRRB),for each Regulatory Year in DPCR5 on the basis of attributable, notional RAV balance impacts.
- (xxiv) The values calculated at steps (xxi) and (xxiii) will be summed for each Regulatory Year in DPCR5.
- (xxv) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (xxiv) to put them on a common 2015/16 time value basis and the values will then be totalled.
- (xxvi) Any provisional adjustment relating to DPCR5 Undergrounding and Worst Served Customer Improvements that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (xxv).

~~15.117~~15.118 The value obtained at step (xxvi) in paragraph ~~15.117~~15.116 is the DPCR5 Undergrounding and Worst Served Customer Improvements adjustment for the licensee.

~~15.118~~15.119 The DPCR5 Undergrounding and Worst Served Customer Improvements adjustment does not involve an adjustment to the licensee's RAV additions. However, the licensee's actual expenditure amounts are used in the calculation of DPCR5 RAV Rolling Incentive adjustments for the licensee (see chapter 16).

## **Determination of the DPCR5 Undergrounding and Worst Served Customer Improvements adjustment value**

~~15.119~~**15.120** The Authority will complete a review of the DPCR5 Undergrounding and Worst Served Customer Improvement expenditure and associated performance for the licensee by 30 November 2015.

~~15.120~~**15.121** Subject to paragraphs ~~15.122~~**15.121** and ~~15.123~~**15.122**, the Authority will determine a revised DPCR5 Undergrounding and Worst Served Customer Improvements adjustment value for the licensee if, with respect to the values referred to in paragraph ~~15.118~~**15.117**:

- (a) the Authority apprised the licensee, by 31 October 2015, of any provisionality, with regard to a possible restatement requirement or in relation to required circuit improvements, it had attached to those values (see also paragraph 1.17 in chapter 1); or
- (b) the licensee is required, under any provision of the licence to restate any of those values.

~~15.121~~**15.122** A revised DPCR5 Undergrounding and Worst Served Customer Improvements adjustment value for the licensee may be determined by the Authority:

- (a) by 30 November 2016 for the purpose of determining the value of OLREV by 30 November 2016;
- (b) by 30 November 2017 for the purpose of determining the value of OLREV by 30 November 2017; and
- (c) by 30 November 2018 for the purpose of determining the value of OLREV by 30 November 2018.

~~15.122~~**15.123** No further revisions to the DPCR5 Undergrounding and Worst Served Customer Improvements adjustment value for the licensee will be determined after 30 November 2018 for the purpose of determining a revised value of OLREV, but this is without prejudice to any requirement for the licensee to restate the values referred to in paragraph ~~15.118~~**15.117** for any other purpose.

## **vii) DPCR5 Load Related Re-opener - adjustment resulting from revised allowance levels**

### *References:*

- i. Chapter 2 of reference document 1 specified at the start of this chapter.
- ii. Reference document 5 specified at the start of this chapter.
- iii. Chapter 7 of reference document 6 and Appendix 4 in reference document 7 specified at the start of this chapter.

### **Overview**

~~15.123~~**15.124** This subsection sets out how the Authority will determine the DPCR5 Load Related Re-opener adjustment to allowed revenue for the licensee.

~~15.124~~15.125 The term DPCR5 Load Related Re-opener means the provision for reviewing the licensee's expenditure allowances for:

- (a) low volume high cost (LVHC) connections; and
- (b) General Reinforcement,

over DPCR5, for the purpose of making any necessary DPCR5 Load Related Re-opener adjustment. The provision is explained in this subsection and in chapter 2 of reference document 1 and chapter 7 of reference document 6.

~~15.125~~15.126 The DPCR5 Load Related Re-opener does not cover costs associated with fault level reinforcement or Distributed Generation (DG) connections expenditure or expenditure that was incurred as part of [a](#) DPCR5 HVP.

#### *Supplementary Detailed Assessment Procedures*

~~15.126~~15.127 The Load Related Re-opener Legacy Assessment Methodology in Annex B, sets out the way in which the Authority will determine the Load Related Efficient Qualifying Expenditure in the calculation of the adjustment set out in paragraph ~~15.153~~15.152 below.

#### *Background to adjustment*

~~15.127~~15.128 Baseline expenditure allowances for the licensee were specified as an aggregate amount (in 2007/08 prices), for the whole of DPCR5, in Charge Restriction Condition (CRC) 18 of the licence in the form it was in on 31 March 2015.

~~15.128~~15.129 The Load Related Re-opener provided for the licensee to be given additional amounts of allowed revenue, through revisions to expenditure allowance amounts, where Load Related Efficient Qualifying Expenditure was materially more than the Aggregate Baseline Expenditure Allowances set at the start of the DPCR5 Price Control. It also provided for reductions to the licensee's allowed revenue where Load Related Efficient Qualifying Expenditure was materially less than Aggregate Baseline Expenditure Allowances.

~~15.129~~15.130 The reopener can be triggered by:

- (a) a review by the Authority of the licensee's Load Related Actual Incurred Expenditure for DPCR5 (see paragraphs ~~15.133~~15.132 to ~~15.136~~15.135); or
- (b) an application lodged by the licensee during a window that runs from 1 October 2016 to 31 October 2016 (see paragraphs ~~15.137~~15.136 to ~~15.145~~15.144).

#### *Adjustment threshold and materiality test*

~~15.130~~15.131 The DPCR5 Load Related Re-opener adjustment is subject to an adjustment threshold (for both upward and downward adjustments). Using this threshold, only the amount by which Load Related Efficient Qualifying Expenditure, as determined in Annex B, restated in 2012/13 prices, ~~that~~ is:

- (a) above a figure calculated as 120 per cent; or
- (b) below a figure calculated as 80 per cent,

of the Aggregate Baseline Expenditure Allowances, restated in 2012/13 prices, (in this subsection a 'Load Related Post-threshold Amount') will be taken into account for the purposes of any calculation of a DPCR5 Load Related Re-opener adjustment.

~~15.131~~15.132 The DPCR5 Load Related Re-opener adjustment is subject to a materiality test set at one percent of the licensee's DPCR5 Revenue Allowance for Regulatory Year 2010/11, restated in 2012/13 prices. The test is applied to a Load Related Post-threshold Amount (see paragraph ~~15.131~~15.130), multiplied by the DPCR5 IQI Incentive Rate for the licensee.

#### **Re-opener upon Authority review**

~~15.132~~15.133 The Authority will carry out a review of Load Related Actual Incurred Expenditure as specified in the Load Related Re-opener Legacy Assessment Methodology in Annex B.

~~15.133~~15.134 Following the review under the Load Related Re-opener Legacy Assessment Methodology, the Authority will determine whether the licensee's Load Related Efficient Qualifying Expenditure as determined in Annex B:

- (a) is sufficiently lower than its Aggregate Baseline Expenditure Allowance for there to be a Load Related Post-threshold Amount (see paragraph ~~15.131~~15.130); and,
- (b) the materiality test set out in paragraph ~~15.132~~15.131 is passed.

~~15.134~~15.135 In making any decision to use reduced expenditure allowance amounts to calculate the DPCR5 Load Related Re-opener adjustment, the Authority will ~~review~~decide:

- (a) the proportion of the Aggregate Baseline Expenditure Allowance figure that should be attributed to each Regulatory Year of DPCR5; and
- (b) the proportion of the Load Related Post-threshold Amount that should be attributed to each Regulatory Year of DPCR5,

for the purpose of that calculation, having regard to the timing profile of Load Related Actual Incurred Expenditure reported by the licensee.

~~15.135~~15.136 Where the Authority determines that the licensee's Load Related Efficient Qualifying Expenditure meets the requirements set out in paragraph ~~15.131~~15.130 and ~~15.132~~15.131, the Authority will inform the licensee of its Preliminary View in accordance with paragraph ~~15.10~~15.11.

#### **Re-opener upon licensee's application**

~~15.136~~15.137 The licensee can apply for a re-opener during, and only during, the application window that runs from 1 October 2016 to 31 October 2016.

~~15.137~~15.138 The licensee may only apply for a re-opener if:

- (a) the licensee's total Load Related Efficient Qualifying Expenditure is sufficiently higher than its Aggregate Baseline Expenditure Allowances for there to be a Load Related Post-threshold Amount (see paragraph ~~15.131~~~~15.130~~); and
- (b) the materiality test set out in paragraph ~~15.132~~~~15.131~~ is passed.

~~15.138~~~~15.139~~ The licensee's application under paragraph ~~15.137~~~~15.136~~ must be prepared in line with the requirement set out in Annex E 'Performance Assessment Submission'.

~~15.139~~~~15.140~~ If a re-opener application is received by the Authority during the application window referred to in paragraph ~~15.137~~~~15.136~~, it will check that the requirements set out in the Load Related Re-opener Legacy Assessment Methodology have been met and that the application:

- (a) is based on information about LVHC connections and General Reinforcement costs that was not available when the licensee's DPCR5 Revenue Allowances were derived;
- (b) relates to LVHC connections and General Reinforcement costs incurred by the licensee during the DPCR5 period;
- (c) relates to LVHC connections and General Reinforcement costs that cannot be recovered under any other provision of the licence;
- (d) does not include costs on DPCR5 High Value Projects (see subsection ix));
- (e) includes direct costs on a net basis, setting customer contributions (relating to direct costs) off against costs, and in 2012/13 prices,
- (f) ~~excludes~~ customer contribution amounts released from the licensee's balance sheet that relate to connections carried out before DPCR5 ~~are excluded~~; and,
- (g) ~~relates to costs that are deemed consistent with the definition of efficiency as provided in paragraph 1.13 of Annex B~~ ~~is based on efficient expenditure~~.

~~15.140~~~~15.141~~ In assessing the application, the Authority will check that:

- (a) the licensee's Load Related Efficient Qualifying Expenditure is sufficiently higher than its Aggregate Baseline Expenditure Allowance for there to be a Load Related Post-threshold Amount (see paragraph ~~15.131~~~~15.130~~); and,
- (b) the materiality test set out in paragraph ~~15.132~~~~15.131~~ is passed.

~~15.141~~~~15.142~~ In making any decision to use increased expenditure allowance amounts to calculate an adjustment, the Authority will decide:

- (a) the proportion of the Aggregate Baseline Expenditure Allowance Figure that should be attributed to each Regulatory Year of DPCR5; and,
- (b) the proportion of the Load Related Post-threshold Amount that should be attributed to each Regulatory Year of DPCR5,

for the purpose of that calculation, having regard to the timing profile of Load Related Actual Incurred Expenditure reported by the licensee.

~~15.142~~15.143The Authority will reach a Preliminary View on whether to confirm, reject or amend the proposed changes to the licensee's expenditure allowance amounts for the purpose of determining a Load Related Re-opener adjustment.

~~15.143~~15.144The Authority will inform the licensee of its Preliminary View in accordance with paragraph ~~15.11~~15.10.

~~15.144~~15.145If the licensee does not apply for a re-opener during the application window that runs from 1 October 2016 to 31 October 2016, then the change to the licensee's expenditure allowance amounts under this provision (a re-opener upon the licensee's application), for the purposes of calculating the DPCR5 Load Related Re-opener adjustment for the licensee, will be zero.

### **Adjustment for double-counting**

~~15.145~~15.146Where the Authority determines that a network outputs gap has arisen for the LI component of the NOMs resulting in a DPCR5 NOMs revenue adjustment, and that reduced expenditure allowance amounts should be used to calculate a Load Related Re-opener adjustment for the licensee, the Authority will carry out steps 1 to 5 below to calculate a Revised Load Related Re-opener Value for the licensee.

~~15.146~~15.147The purpose of carrying out these steps is to ensure that there is no double-counting between a Load Related Re-opener adjustment and a DPCR5 NOMs revenue adjustment.

#### *Step 1*

~~15.147~~15.148In calculating a Revised Load Related Re-opener Value the Authority will subtract the total value of the LI component of the NOMs Network Outputs Gap as determined in paragraph 1.69 of Annex A1 and expressed as a positive value prior to the application of the DPCR5 Network Outputs Incentive Rate (if applicable), or the overall NOMs Network Outputs Gap expressed as a positive value (used in the calculation of the DPCR5 NOMs revenue adjustment, and again prior to the application of the DPCR5 Network Outputs Incentive Rate) if this is lower, from the Aggregate Baseline Expenditure Allowance for the licensee to calculate the post double-count Load Related Re-opener allowance.

#### *Step 2*

~~15.148~~15.149The value obtained at Step 1 will be multiplied by 20% to calculate the post double-count adjustment threshold amount for the licensee.

#### *Step 3*

~~15.149~~15.150The value obtained at Step 2 will be subtracted from the value obtained at Step 1.

#### Step 4

~~15.150~~15.151 The Authority will subtract the value obtained at Step 3 from the Load Related Efficient Qualifying Expenditure amount determined in Annex B to obtain the Revised Load Related Re-opener Value for the licensee, subject to Step 5.

#### Step 5

~~15.151~~15.152 If the value obtained at Step 4 is positive, it will be substituted by zero.

### Calculation of DPCR5 Load Related Re-opener adjustment

~~15.152~~15.153 If the Authority decides that revised expenditure allowance amounts should be used to calculate a DPCR5 Load Related Re-opener adjustment as a result of:

- a re-opener upon Authority review where no DPCR5 NOMs revenue adjustment relating to LIs ~~is required~~has been determined (see paragraphs ~~15.133~~15.132 to ~~15.136~~15.135);
- a re-opener upon Authority review where a DPCR5 NOMs revenue adjustment relating to LIs has been determined; or,
- a re-opener upon licensee application (see paragraphs ~~15.137~~15.136 to ~~15.145~~15.144),

then the following steps will be carried out to calculate the DPCR5 Load Related Re-opener adjustment value:

- (i) The re-opener value stated in 2012/13 prices will be given as:
  - the Load Related Post-threshold Amount for a re-opener upon Authority review where no DPCR5 NOMs revenue adjustment relating to LIs is required; or
  - the Revised Load Related Re-opener Value determined under steps 4 and 5 above for a re-opener upon Authority review where a DPCR5 NOMs revenue adjustment relating to LIs has been determined; or
  - the Load Related Post-threshold Amount for a re-opener upon licensee application.

~~(ii)~~—In making an adjustment for the re-opener value specified in Step ~~1(i)~~ the Authority will decide the proportion of the adjustment that should be attributed to each Regulatory Year of DPCR5, for the purpose of that calculation, having regard to the timing profile of actual expenditure reported by the licensee

~~(ii)~~—

~~(iii)~~—~~(ii)~~—The values obtained under step ~~(ii)~~ will be multiplied by 15% to calculate DPCR5 Fast Money amounts for the DPCR5 Load Related Re-opener adjustment for each Regulatory Year in DPCR5.

~~(iii)~~

~~(iv)~~ ~~(iii)~~ The values obtained at step (ii) will be multiplied by 85% to calculate an amount for each Regulatory Year in DPCR5 that would have been added to the licensee's RAV if the values calculated at step (i) had been taken into account.

~~(iv)~~

(v) ~~(iv)~~ The values calculated at step ~~(viii)~~ will be used to calculate:

- (a) an amount of depreciation (being annual values calculated as the applicable value divided by 20); and
- (b) an amount of return, at WACC for DPCR5 (applied to the NNRRB),

for each Regulatory Year in DPCR5 on the basis of attributable, notional RAV balance impacts.

~~(vi)~~ ~~(v)~~ The values obtained at steps (ii) and ~~(iv)~~ will be summed to give a total value for each Regulatory Year of DPCR5.

~~(vi)~~

~~(vii)~~ ~~(vi)~~ DPCR5 Time Value of Money adjustments will be applied to the values calculated under step ~~(iv)~~ to put them on a common 2015/16 time value basis and the values will then be totalled.

~~(vii)~~

(viii) ~~(vii)~~ Any provisional DPCR5 Load Related Re-opener adjustment that was included in the calculation of the licensee's ED1 Opening Base Revenue Allowances will be deducted from the value calculated at step ~~(vii)~~.

~~15.153~~15.154 The value obtained at step ~~(viii)~~ in paragraph ~~15.153~~15.152 is the DPCR5 Load Related Re-opener adjustment for the licensee.

~~15.154~~15.155 The DPCR5 Load Related Re-opener adjustment does not involve an adjustment to the licensee's RAV additions. However, the capitalised portions of any changes in expenditure allowance amounts (see step ~~(iv)~~~~(iii)~~ in paragraph ~~15.153~~15.152) are used in the calculation of DPCR5 RAV Rolling Incentive adjustments for the licensee (see chapter 16).

### **Determination of the DPCR5 Load Related Re-opener adjustment value**

~~15.155~~15.156 No revision to the DPCR5 Load Related Re-opener adjustment value for the licensee will be determined by 30 November 2016 for the purpose of determining the value of OLREV by 30 November 2016.

~~15.156~~15.157 The Authority will use any revised expenditure allowance amounts resulting from a re-opener upon the Authority's review or upon the licensee's application, to determine the DPCR5 Load Related Re-opener adjustment value for the licensee by 30 November 2017, for the purpose of determining the value of OLREV by 30 November 2017.

~~15.157~~15.158 If under paragraph ~~16.69~~16.67, the Authority re-determines the value of the Network Outputs Gap used in the calculation of a DPCR5 NOMs ~~r~~a Revenue Adjustment for the licensee and determines that this should be included in the calculation of a revised RIREV value for the licensee by 30 November 2018, the Authority will re-evaluate the double counting procedure set out in paragraphs ~~15.146~~15.145 to ~~15.152~~15.151. If this re-valuation leads to a different Revised Load Related Re-Opener Value for the licensee, this value shall be used for the purpose of redetermining the value of OLREV by 30 November 2018.

~~15.158~~15.159 Subject to paragraph ~~15.158~~15.157, no further revisions to the DPCR5 Load Related Re-opener adjustment value for the licensee will be determined after 30 November 2017 for the purpose of determining a revised value of OLREV, but this is without any prejudice to any requirement for the licensee to restate the values referred to in paragraph 15.153 for any other purpose.

### **viii) DPCR5 High Volume Connections Volume Driver - adjustment resulting from revised allowance levels**

#### *References:*

- i. Chapter 2 of reference document 1 specified at the start of this chapter
- ii. Chapter 7 of reference document 6 and Appendix 4 of reference document 7 specified at the start of this chapter
- iii. Chapter 10 of reference document 8 specified at the start of this chapter
- iv. Reference document 5

#### **Overview**

~~15.159~~15.160 This subsection sets out the methodology for determining the DPCR5 High Volume Connections Volumes Driver adjustment to allowed revenue for the licensee, using a two stage process:

- (i) determining revised expenditure allowance amounts; and
- (ii) calculating the allowed revenue adjustment.

~~15.160~~15.161 The term DPCR5 High Volume Connections Volume Driver (in this subsection the 'volume driver') means the provision for reviewing the licensee's expenditure allowances for:

- (a) small scale low voltage domestic and one-off commercial connections;
- (b) connections at low voltage but which involved some works at high voltage; and
- (c) all other low voltage connections (involving low voltage works only),

during DPCR5, for the purpose of making any necessary adjustment to the licensee's revenue allowances. The provision is explained in this subsection and in chapter 2 of reference document 1 and chapter 7 of reference document 6.

~~15.161~~15.162 The volume driver provided for the licensee to be given additional (or reduced) amounts of allowed revenue, through revisions to expenditure allowance amounts, where:

- (a) the number of connections in one of more of the categories set out in paragraph ~~15.161~~15.160 was higher (or lower) than the forecast level used in setting the licensee's DPCR5 Revenue Allowances;
- (b) the percentage of costs covered by customer contributions for connections in one of more of the categories set out in paragraph ~~15.161~~15.160 was higher (or lower) than the forecast level used in setting the licensee's DPCR5 Revenue allowances; or
- (c) a higher than expected number of connections were carried out by independent connection providers in the licensee's Distribution Services Area.

~~15.162~~15.163 Revisions to the licensee's expenditure allowance amounts in respect of the items set out in subparagraphs ~~15.162~~15.161(a) and (b) will be calculated using the approach set out in paragraphs ~~15.171~~15.170 to ~~15.173~~15.172.

~~15.163~~15.164 Revisions to the licensee's expenditure allowance amounts in respect of the item set out in subparagraph ~~15.162~~15.161(c) will be subject to the application and review process set out in paragraphs ~~15.174~~15.173 to ~~15.182~~15.181 below.

~~15.164~~15.165 The baseline expenditure allowance for the licensee is specified as an aggregate amount, in 2007/08 prices, for the whole of DPCR5, in Table 2 of appendix 4 in reference document 7.

*Apportionment of DPCR5 High Volume Connections that were contracted prior to the start of DPCR5*

~~15.165~~15.166 For DPCR5 High Volume Connections contracted after the start of DPCR5 (in this subsection 'DPCR5 contracted HVC'), categorisation information is held by the licensee.

~~15.166~~15.167 Some DPCR5 High Volume Connections were contracted prior to the start of DPCR5 (in this subsection 'pre-DPCR5 contracted HVC') and categorisation information is not held by the licensee.

~~15.167~~15.168 The percentage of pre-DPCR5 contracted HVC to be included in the 'small scale low voltage domestic and one-off commercial connections' category is derived by dividing:

- (a) the number of DPCR5 contracted HVC, completed during DPCR5, that are included in the 'small scale low voltage domestic and one-off commercial connections' category;  
by
- (b) the total number of DPCR5 contracted HVC completed during DPCR5.

~~15.168~~15.169 The percentage of pre-DPCR5 contracted HVC to be included in the 'connections at low voltage but which involved some works at high voltage' category is derived by dividing:

- (a) the number of DPCR5 contracted HVC, completed during DPCR5, that are included in the 'connections at low voltage but which involved some works at high voltage' category;  
by
- (b) the total number of DPCR5 contracted HVC completed during DPCR5.

~~15.169~~15.170 The percentage of pre-DPCR5 contracted HVC to be included in the 'all other low voltage connections (involving low voltage works only)' category is derived by dividing:

- (a) the number of DPCR5 contracted HVC, completed during DPCR5, that are included in the 'all other low voltage connections (involving low voltage works only)' category;  
by
- (b) the total number of DPCR5 contracted HVC completed during DPCR5.

#### **Calculation of revised expenditure allowance amounts in respect of connection numbers and contribution levels**

~~15.170~~15.171 By 31 May 2016, the Authority will carry out the following steps to calculate revised expenditure allowance amounts in respect of connection numbers and contribution levels:

- (i) For small scale low voltage domestic and one-off commercial connections:
  - (a) the number of connections carried out by the licensee;  
and
  - (b) the percentage of costs subject to recovery through use of system charges (as opposed to connection charges),  
will be obtained for each Regulatory Year of DPCR5.
- (ii) For connections at low voltage but which involved some works at high voltage:
  - (a) the number of connections carried out by the licensee;  
and
  - (b) the percentage of costs subject to recovery through use of system charges (as opposed to connection charges),  
will be obtained for each Regulatory Year of DPCR5.
- (iii) For other low voltage connections (involving low voltage works only):
  - (a) the number of connections carried out by the licensee;  
and
  - (b) the percentage of costs subject to recovery through use of system charges (as opposed to connection charges),

will be obtained for each Regulatory Year of DPCR5.

- (iv) The revised expenditure allowance amount in respect of small scale low voltage domestic and one-off commercial connections for each Regulatory Year in DPCR5 will be calculated as, the number obtained at step (i)(a) multiplied by the percentage obtained at step (i)(b) multiplied by the value for the licensee specified in the eighth column ('Final Proposals (FP) – Small scale') of Table 4 in Appendix 4 of reference document 7, restated in 2012/13 prices and multiplied by 1000, except where that value is zero, in which case it will be deemed to be equal to the highest value in that column, restated in 2012/13 prices.
- (v) The revised expenditure allowance amount in respect of other low voltage connections (involving low voltage works only) for each Regulatory Year in DPCR5 will be calculated as, the number obtained at step (ii)(a) multiplied by the percentage obtained at step (ii)(b) multiplied by the value for the licensee specified in the ninth column ('Final Proposals (FP) – All other') of Table 4 in Appendix 4 of reference document 7, restated in 2012/13 prices, and multiplied by 1000.
- (vi) The revised expenditure allowance amount in respect of other low voltage connections (involving high voltage works only) for each Regulatory Year in DPCR5 will be calculated as, the number obtained at step (iii)(a) multiplied by the percentage obtained at step (iii)(b) multiplied by the value for the licensee specified in the tenth column ('Final Proposals (FP) – LV with HV') of Table 4 in Appendix 4 of reference document 7, restated in 2012/13 prices,.
- (vii) The values calculated at steps (iv), (v) and (vi) will be totalled and divided by 1 million for each Regulatory Year in DPCR5, to restate values from £ to £m.

~~15.171~~15.172 The values obtained at step (vii) in paragraph ~~15.171~~15.170 are the revised expenditure allowance amounts in respect of connection numbers and contribution levels for the licensee.

~~15.172~~15.173 In order to perform the steps set out in paragraph ~~15.171~~15.170, the Authority will require the values referred to in steps (i), (ii) and (iii) of that paragraph. These values, or data from which they can be derived, are due to be reported by the licensee by 31 July 2015 under applicable Regulatory Instructions and Guidance and will be reviewed by the Authority.

### **Review of expenditure allowances in respect of independent connection provider activity levels**

~~15.173~~15.174 The licensee can apply for an additional revision to expenditure allowance amounts in respect of independent connection provider activity levels during, and only during, a window that runs from 1 January 2016 to 31 January 2016.

~~15.174~~15.175 An application of the type referred to in paragraph ~~15.174~~15.173 must provide evidence and must set out the revision, in 2012/13 prices, that the licensee proposes should be made to its expenditure allowance amount for each Regulatory Year in DPCR5.

~~15.175~~15.176 If the costs referred to in paragraph ~~15.175~~15.174(b) are included in any DPCR5 Load Related Re-opener application by the licensee (see subsection vii), then they must not also be included in an application under this subsection.

~~15.176~~15.177 If an application is received by the Authority during the window referred to in paragraph ~~15.174~~15.173, it will review any evidence provided under paragraph ~~15.175~~15.174 and will

- (a) take account of any relevant factors identified in its review of values relating to connection numbers and contribution levels referred to in paragraph ~~15.173~~15.172; and
- (b) ask the licensee to submit any additional information it requires, allowing the licensee a reasonable amount of time to provide any such information.

~~15.177~~15.178 After considering the information referred to in paragraphs ~~15.175~~15.174 and ~~15.177~~15.162, the Authority will reach a preliminary view on whether to confirm, reject or amend the proposed revision to the licensee's expenditure allowance amounts in respect of independent connection provider activity levels.

~~15.178~~15.179 Having reached the preliminary view referred to in paragraph ~~15.178~~15.177, the Authority will apprise the licensee of it, and allow the licensee at least 28 days in which to provide comments before initiating a consultation under paragraph ~~15.180~~15.179.

~~15.179~~15.180 Having considered any comments received from the licensee under paragraph ~~15.179~~15.178, the Authority will, by 31 May 2016, initiate a consultation with the licensee, network users, suppliers and other stakeholders. The Authority will allow at least two months after the publication of its consultation for the submission of any information that respondents consider should be taken into account in relation to the licensee's application.

~~15.180~~15.181 Where applicable, having considered any information received in response to its consultation, the Authority will, by 31 August 2016, decide whether to confirm, reject or amend the proposed revision to the licensee's expenditure allowance amounts for Regulatory Years in DPCR5 in respect of independent connection provider activity levels.

~~15.181~~15.182 The Authority will give the licensee at least 28 days' notice of its decision and take into account any representations made by the licensee during that period, before using the revised expenditure allowance amounts in the calculation of a DPCR5 High Volume Connections Volume Driver adjustment under paragraph ~~15.183~~15.182.

### **Calculation of DPCR5 High Volume Connections Volume Driver adjustment**

~~15.182~~15.183 The following steps are carried out to calculate the DPCR5 High Volume Connections Volume Driver adjustment value:

- (i) The values obtained at step (vii) in paragraph ~~15.171~~15.170 will be added to any revision amounts decided upon under paragraph ~~15.181~~15.180 for each Regulatory Year in DPCR5.
- (ii) The aggregate baseline expenditure allowance referred to in paragraph ~~15.165~~15.164 will be restated in 2012/13 prices, divided by five, and an equal part allocated to each Regulatory Year in DPCR5.

- (iii) The value obtained at step (ii) for each Regulatory Year in DPCR5 will be subtracted from the value obtained at step (i) for the same Regulatory Year.
- (iv) The values obtained under step (iii) will be multiplied by 15% to calculate DPCR5 Fast Money amounts for the DPCR5 High Volume Connections Volume Driver adjustment for each Regulatory Year in DPCR5.
- (v) The values obtained at step (iii) will be multiplied by 85% to calculate an amount for each Regulatory Year in DPCR5 that would have been added to the licensee's RAV if the values calculated at step (iii) had been taken into account.
- (vi) The values calculated at step (v) will be used to calculate:
  - (a) an amount of depreciation (being annual values calculated as the applicable value divided by 20); and
  - (b) an amount of return, at WACC for DPCR5 (applied to the NNRRB),
 for each Regulatory Year in DPCR5 on the basis of attributable, notional RAV balance impacts.
- (vii) The values calculated at steps (iv) and (vi) will be summed for each Regulatory Year in DPCR5.
- (viii) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (vii) to put them on a common 2015/16 time value basis and the values will then be totalled.
- (ix) Any provisional adjustment relating to the DPCR5 High Volume Connections Volume Driver that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (viii).

~~15.183~~15.184 The value obtained at step (ix) in paragraph ~~15.183~~15.182 is the DPCR5 High Volume Connections Volume Driver adjustment for the licensee.

~~15.184~~15.185 The DPCR5 High Volume Connections Volume Driver adjustment does not involve an adjustment to the licensee's RAV additions. However, the capitalised portions of any changes in expenditure allowance amounts (see step (v) in paragraph ~~15.183~~15.182) are used in the calculation of DPCR5 RAV Rolling Incentive adjustments for the licensee (see chapter 16).

#### **Determination of the DPCR5 High Volume Connections Volume Driver adjustment value**

~~15.185~~15.186 No revision to the DPCR5 High Volume Connections Volume Driver adjustment value for the licensee will be determined by 30 November 2015 for the purpose of determining the value of OLREV by 30 November 2015.

~~15.186~~15.187 The Authority will determine a DPCR5 High Volume Connections Volume Driver adjustment value for the licensee by 30 November 2016.

~~15.187~~15.188 No further revisions to the DPCR5 High Volume Connections Volume Driver adjustment value for the licensee will be determined after 30 November 2016 for the purpose of determining a revised value of OLREV, but this is without prejudice

to any requirement for the licensee to restate the values referred to in paragraph ~~15.173~~~~15.172~~ for any other purpose.

## ix) DPCR5 High Value Projects adjustments

### References:

- i. Chapter 2 of reference document 1 specified at the start of this chapter
- ii. Reference document 5 specified at the start of this chapter
- iii. Chapters 3 and 7 of reference document 6 specified at the start of this chapter
- iv. Chapter 19 and appendix 7 of reference document 8 specified at the start of this chapter
- v. Reference document 13 specified at the start of this chapter

### Overview

~~15.188~~~~15.189~~ The term DPCR5 High Value Projects adjustments means ~~the provision for reviewing adjustments to~~ the licensee's expenditure allowances in respect of:

- (a) ~~the achievement of Agreed HVP Network Outputs; and, HVP Actual Incurred Expenditure; and,~~
- (b) ~~HVP Actual Incurred Expenditure (DPCR5 HVP Re-opener), the achievement of HVP Agreed Network Outputs,~~

in respect of large investment projects that were expected to be carried out during the DPCR5 period, that is set out in this subsection and in the reference documents noted above.

~~15.189~~~~15.190~~ This subsection sets out how ~~the Authority we~~ will determine the DPCR5 High Value Projects adjustments to allowed revenue for the licensee, using the process below:

- (i) determining revisions to expenditure allowance amounts:
  - (a) relating to the achievement of Agreed HVP Network Outputs, using the HVP Network Outputs Review Methodology, in Annex C2, to determine the HVP failure to deliver outputs adjustment; and,
  - (b) relating to HVP Actual Incurred Expenditure, using the HVP Re-opener Legacy Assessment Methodology, in Annex C1, to determine the HVP Re-opener adjustment;
- (ii) calculating any allowed revenue adjustment in respect of the revision at subparagraph (i)(a) for inclusion in the calculation of the RIREV value for the licensee (see section 2 of chapter 16);
- (iii) calculating the allowed revenue adjustment in respect of the revision at subparagraph (i)(b) for inclusion in the calculation of the OLREV value for the licensee; and,
- (iv) calculating any allowed revenue adjustment in respect of the revisions at subparagraph (i)(a) and (i)(b) in order to remove the impact of

double-counting (see paragraph ~~15.216~~~~15.215~~ to paragraph ~~15.221~~~~15.220~~).

### **Review of achievement of Agreed HVP Outputs by the licensee**

~~15.190~~~~15.191~~ The HVP Network Outputs Review Methodology, in Annex C2, sets out the way in which the Authority will determine:

- (a) whether a HVP Network Outputs Gap has arisen; and,
- (b) where a HVP Network Outputs Gap has arisen, the value of the Total HVP Network Outputs Gap.

~~15.191~~~~15.192~~ If the Authority's view is that no HVP Network Outputs Gap has arisen, the Authority will inform the licensee of its Preliminary View in accordance with paragraph 15.11.

~~15.192~~~~15.193~~ If the Authority's view is that a HVP Network Outputs Gap has arisen, then it will quantify the HVP Network Outputs Gap in accordance with the HVP Network Outputs Review Methodology, as detailed in Annex C2.

~~15.193~~~~15.194~~ Having carried out the assessment described in the HVP Network Outputs Review Methodology, the Authority will reach a Preliminary View on the Total HVP Network Outputs Gap.

~~15.194~~~~15.195~~ The Authority will inform the licensee of its Preliminary View in accordance with paragraph 15.11.

~~15.195~~~~15.196~~ In making any decision to make an adjustment to the licensee's allowed revenues for RIIO-ED1 in respect of a DPCR5 HVP failure to deliver outputs adjustment, the Authority will decide the proportion of the Total HVP Network Outputs Gap that should be attributed to each Regulatory Year in DPCR5 for the purpose of that calculation, having regard to the timing profile of the licensee's DPCR5 HVP allowance.

~~15.196~~~~15.197~~ The Authority will then:

~~(a)~~ — apply DPCR5 Time Value of Money Adjustments to the values \_\_\_\_\_ calculated under paragraph ~~15.196~~~~15.195~~ to put them on a common 2015/16 time value basis and then total the values for ~~the whole of each Regulatory Year of~~ DPCR5; ~~and,~~

~~(b)~~ — ~~multiply the total value calculated under subparagraph (a) by minus 1.~~

~~15.197~~~~15.198~~ The Authority will use the value obtained at paragraph ~~15.197~~, to determine adjustments to the licensee's allowed revenues for RIIO-ED1 in respect of a HVP failure to deliver outputs adjustment, as specified in subsection ii) of Chapter 16.

### **DPCR5 HVP Re-opener – adjustment resulting from revised allowance levels**

*Background to adjustment*

~~15.198~~15.199 The HVP Re-opener Legacy Assessment Methodology in Annex C1 sets out the way in which the Authority will determine the HVP Efficient Qualifying Expenditure used in the calculation of a HVP Re-opener adjustment for the licensee.

~~15.199~~15.200 The re-opener can be triggered by:

- (a) a review by the Authority of the licensee's HVP Actual Incurred Expenditure for DPCR5; ~~and/or~~,
- (b) an application lodged by the licensee during a window that runs from 1 October 2016 to 31 October 2016.

*Adjustment threshold and materiality test*

~~15.200~~15.201 The HVP Re-opener adjustment applies across all DPCR5 HVPs in aggregate for the licensee and is subject to an adjustment threshold (for both upward and downward adjustments). Using this threshold, only the amount by which total HVP Efficient Qualifying Expenditure, as determined in Annex C1, restated in 2012/13 prices, is:

- (a) above a figure calculated as 120 per cent; or
- (b) below a figure calculated as 80 per cent,

of the Aggregate Baseline Expenditure Allowances figure, restated in 2012/13 prices, (in this subsection a HVP Post-threshold Amount) will be taken into account for the purposes of any calculation of a HVP Re-opener adjustment.

~~15.201~~15.202 The HVP Re-opener adjustment is subject to a materiality test set at one percent of the licensee's DPCR5 Revenue Allowance for Regulatory Year 2010/11, restated in 2012/13 prices. The materiality test is applied to a HVP Post-threshold ~~a~~Amount (see paragraph ~~15.201~~15.200), multiplied by the DPCR5 IQI Incentive Rate for the licensee.

**Re-opener upon Authority review of expenditure allowances in relation to HVP Actual Incurred Expenditure**

~~15.202~~15.203 The Authority will carry out a review of HVP Actual Incurred Expenditure relating to the licensee's DPCR5 HVP expenditure allowance as specified in the HVP Re-opener Legacy Assessment Methodology in Annex C1.

~~15.203~~15.204 Following a review under the HVP Re-opener Legacy Assessment Methodology, the Authority will determine whether:

- (a) the licensee's HVP Efficient Qualifying Expenditure as determined in Annex C1 is sufficiently lower than its Aggregate Baseline Expenditure Allowances for there to be a HVP Post-threshold Amount (see paragraph ~~15.201~~15.200); and
- (b) the materiality test set out in paragraph ~~15.202~~15.201 is passed.

~~15.204~~15.205 In making any decision to use reduced expenditure allowance amounts to calculate an adjustment, the Authority will decide:

- (a) the proportion of the Aggregate Baseline Expenditure Allowance that should be attributed to each Regulatory Year of DPCR5; and,
- (b) the proportion of the HVP Post-threshold Amount that should be attributed to each Regulatory Year of DPCR5,

for the purpose of that calculation, having regard to the timing profile of actual expenditure reported by the licensee.

~~15.205~~15.206 Where the Authority determines that the licensee's HVP Efficient Qualifying Expenditure meets the requirements set out in paragraph ~~15.201~~15.200 and ~~15.202~~15.201, the Authority will inform the licensee of its Preliminary View in accordance with paragraph 15.11.

### **Reopener upon licensee application**

~~15.206~~15.207 The licensee may apply for a re-opener during an application window that runs from 1 October 2016 to 31 October 2016.

~~15.207~~15.208 The licensee's application under paragraph ~~15.207~~15.206 must be prepared in line with the requirements set out in Annex E: Performance Assessment Submissions.

~~15.208~~15.209 If a re-opener application is received during the application window set out in paragraph ~~15.207~~15.206, the Authority will carry out a review of HVP Actual Incurred Expenditure relating to the licensee's DPCR5 HVP expenditure allowance as specified in the HVP Re-opener Legacy Assessment Methodology in Annex C1.

~~15.209~~15.210 – In addition, the Authority will check that the requirements set out in the HVP Re-opener Legacy Assessment Methodology have been met and that the application:

- (a) is based on information about HVP costs that was not available when the licensee's DPCR5 Revenue Allowances were derived;
- (b) relates to HVP costs incurred by the licensee during the DPCR5 Period;
- (c) relates to HVP costs that cannot be recovered under any other provision of the licence;
- (d) does not include costs included in a DPCR5 Load Related Re-opener application or any other expenditure allowance review application by the licensee; and,
- (e) ~~is relates to costs that are~~ deemed consistent with the definition of efficiency as provided in paragraph 1.11 of Annex C1.

~~15.210~~15.211 In assessing the application, the Authority will check that:

- (a) the licensee's total DPCR5 HVP Efficient Qualifying Expenditure is sufficiently higher than its Aggregate Baseline Expenditure Allowances for there to be a HVP Post-threshold Amount (see paragraph ~~15.201~~15.200); and,
- (b) the materiality test set out in paragraph ~~15.202~~15.201 is passed.

~~15.211~~15.212 In making any decision to use increased expenditure allowance amounts to calculate an adjustment, the Authority will decide:

- (a) the proportion of the Aggregate Baseline Expenditure Allowance that should be attributed to each Regulatory Year of DPCR5; and,
- (b) the proportion of the HVP Post-threshold Amount that should be attributed to each Regulatory Year of DPCR5,

for the purpose of that calculation, having regard to the timing profile of actual expenditure reported by the licensee.

~~15.212~~15.213 The Authority will reach a Preliminary View on whether to confirm, reject or amend the proposed changes to the licensee's expenditure allowance amounts for the purpose of determining a HVP Re-opener adjustment.

~~15.213~~15.214 The Authority will inform the licensee of its Preliminary View in accordance with paragraph 15.11.

~~15.214~~15.215 If the licensee does not apply for a re-opener during the application window that runs from 1 October 2016 to 31 October 2016, then the change to the licensee's expenditure allowance amounts under this provision (a re-opener upon the licensee's application), for the purposes of calculating the HVP Re-opener adjustment for the licensee, will be zero.

### **Adjustment for double-counting**

~~15.215~~15.216 Where the Authority determines under paragraph ~~15.193~~15.192 that a HVP Network Outputs Gap has arisen and under paragraph ~~15.206~~ ~~15.205~~ that reduced expenditure allowance amounts should be used to calculate a HVP Re-opener adjustment for the licensee (as provided under paragraph ~~15.206~~15.205), the Authority will carry out steps 1 to 5 below to calculate a Revised HVP Re-opener Value for the licensee, to ensure that there is no double-counting between a HVP Re-opener adjustment and a HVP failure to deliver outputs adjustment.

#### *Step 1*

~~15.216~~15.217 The Authority will subtract the value of the HVP Network Outputs Gap for all DPCR5 HVPs for the licensee as determined in paragraph 1.24 of Annex C2 and expressed as a positive value from the Aggregate Baseline Expenditure Allowance for the licensee to calculate the post double-count HVP re-opener allowance.

#### *Step 2*

~~15.217~~15.218 The value obtained at Step 1 will be multiplied by 20% to calculate the post double-count adjustment threshold for the licensee.

#### *Step 3*

~~15.218~~15.219 The value obtained at Step 2 will be subtracted from the value obtained at Step 1 to obtain the new HVP Post-threshold Amount.

#### *Step 4*

~~15.219~~15.220 The Authority will subtract the value obtained at Step 3 from the HVP Efficient Qualifying Expenditure amount determined in Annex C1 to obtain the Revised HVP Re-opener Value for the licensee, subject to Step 5.

## Step 5

~~15.220~~15.221 If the value obtained at Step 4 is positive, it will be substituted by zero.

### Calculation of DPCR5 High Value Projects Re-opener adjustment

~~15.221~~15.222 If the Authority decides that revised expenditure allowance amounts should be used to calculate a DPCR5 High Value Projects Re-opener adjustment following:

- (a) a re-opener upon Authority review where no HVP Network Outputs Gap has arisen under paragraph ~~15.193~~15.193~~15.192~~ (see paragraphs ~~15.2030~~ to ~~15.206~~15.205); or
- (b) a re-opener upon Authority review where a HVP Network Outputs Gap has been determined under paragraph ~~15.193~~15.192 (see steps 4 or 5 above); or
- (c) a re-opener upon licensee application (see paragraphs ~~15.207~~15.207~~15.206~~ to ~~15.215~~15.215~~15.214~~),

then the following steps set out below will be carried out to calculate the HVP Re-opener adjustment value:

- (i) The re-opener value, given as:
  - (a) The HVP Post-threshold Amount for a re-opener upon Authority review where no HVP Network Outputs Gap has arisen as determined under paragraph ~~15.205~~15.204, expressed as a negative value; or,
  - (b) the Revised HVP Re-opener Value determined under ~~15.220~~15.219 above for a re-opener upon Authority review where a HVP -Network Outputs Gap has been determined, expressed as a negative value; or,
  - (c) The HVP Post-threshold Amount for a re-opener upon licensee application as determined under paragraph ~~15.212~~15.211, expressed as a positive value,

will be expressed as positive values and obtained and stated in 2012/13 prices.

- (ii) In making an adjustment for the re-opener value specified in ~~Step 4~~paragraph 15.222(i) the Authority will decide the proportion of the adjustment that should be attributed to each Regulatory Year of DPCR5, for the purpose of that calculation, having regard to the timing profile of actual expenditure reported by the licensee.
- (iii) The value obtained under step (ii) will be multiplied by 15% to calculate DPCR5 Fast Money amounts for the DPCR5 High Value Projects Re-opener adjustment for each Regulatory Year in DPCR5.
- (iv) The value obtained at step (ii) will be multiplied by 85% to calculate an amount for each Regulatory Year in DPCR5 that would have been

added to the licensee's RAV if the values calculated at step (ii) had been taken into account.

- (v) The value calculated at step (iv) will be used to calculate:
  - (a) an amount of depreciation (being annual values calculated as the applicable value divided by 20); and
  - (b) an amount of return, at WACC for DPCR5 (applied to the NNRRB),for each Regulatory Year in DPCR5 on the basis of attributable, notional RAV balance impacts.
- (vi) The values obtained at steps (iii) and (v) will be summed to give a total value for each Regulatory Year of DPCR5.
- (vii) DPCR5 Time Value of Money adjustments will be applied to the values calculated under step (vi) to put them on a common 2015/16 time value basis and the values will then be totalled.
- (viii) Any provisional DPCR5 High Value Projects Re-opener adjustment that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (vi).

~~15.222~~15.223 The value obtained at step (viii) in paragraph ~~15.222~~15.221 is the DPCR5 High Value Projects Re-opener adjustment for the licensee.

~~15.223~~15.224 The DPCR5 High Value Projects Re-opener adjustment does not involve an adjustment to the licensee's RAV additions. However, the capitalised portions of any changes in expenditure allowance amounts (see step (iv) in paragraph ~~15.222~~15.221) are used in the calculation of DPCR5 RAV Rolling Incentive adjustments for the licensee (see chapter 16).

#### **Determination of DPCR5 High Value Projects Re-opener adjustment value for inclusion in the OLREV value**

~~15.224~~15.225 No revision to the DPCR5 High Value Projects Re-opener adjustment value for inclusion in the OLREV value for the licensee will be determined by 30 November 2016 for the purpose of determining the value of OLREV by 30 November 2016.

~~15.225~~15.226 The Authority will use any revised expenditure allowance amounts resulting from a re-opener upon the Authority's review or upon the licensee's application to determine the High Value Projects adjustment value for inclusion in the OLREV value for the licensee by 30 November 2017 for the purpose of determining the value of OLREV by 30 November 2017.

~~15.226~~15.227 No further revisions to the DPCR5 High Value Projects Re-opener adjustment value for the licensee will be determined after 30 November 2017 for the purpose of determining a revised value of OLREV, but this is without any prejudice to any requirement for the licensee to restate the values referred to in paragraph 15.222 for any other purpose.

## x) DPCR5 Enhanced Physical Site Security and Black Start - adjustment resulting from revised allowance levels

### *References:*

- i. Chapter 2 of reference document 1 specified at the start of this chapter
- ii. Reference document 5 specified at the start of this chapter
- iii. Chapter 7 of reference document 6 and Appendix 6 in reference document 8 specified at the start of this chapter

### **Overview**

~~15.227~~15.228 This subsection sets out the methodology for determining the DPCR5 Enhanced Physical Site Security and Black Start adjustment to allowed revenue for the licensee, using a two stage process:

- (i) determining efficient expenditure levels; and
- (ii) calculating the allowed revenue adjustment.

~~15.228~~15.229 The term DPCR5 Enhanced Physical Site Security and Black Start adjustment means the provision for determining the licensee's efficient expenditure on:

- (a) Enhanced Physical Site Security; and
- (b) Black Start capability (including emergency batteries),

for DPCR5, described in this subsection and set out in paragraphs 7.37 to 7.40 in chapter 7 of reference document 6 and appendix 6 in reference document 7 and calculating any associated adjustment to the licensee's allowed revenue for RIIO-ED1.

### *Materiality test*

~~15.229~~15.230 The DPCR5 Enhanced Physical Site Security and Black Start adjustment is subject to a materiality test set at one percent of the licensee's DPCR5 Revenue Allowance for Regulatory Year 2010/11. This value will be restated in 2012/13 prices for the purposes of this methodology.

### **Logging up of expenditure**

~~15.230~~15.231 No baseline expenditure allowances were included in the calculation of the licensee's DPCR5 Revenue Allowances. The licensee was required to report its expenditure levels on Enhanced Physical Site Security and Black Start capability annually during DPCR5 under relevant Regulatory Instructions and Guidance. In this way, the costs were 'logged up' to be considered by the Authority with regard to an adjustment to the licensee's allowed revenues for RIIO-ED1.

### *Review of logged up expenditure by the Authority*

~~15.231~~15.232 The licensee is due to report its logged up expenditure on Enhanced Physical Site Security and Black Start capability for DPCR5 by 31 July 2015, with supporting information to show that:

- its expenditure was pursuant to:
  - mandatory requirements;
  - or, with respect to Black Start capability,
  - relevant engineering technical recommendations;
- it followed any official guidance relating to measures being fit for purpose and value for money;
- costs were efficiently incurred, for example by demonstrating that competitive tendering was used in procurement; and
- the risks, costs and benefits associated with alternative solutions were considered, where permissible.

~~15.232~~15.233 The licensee may also include any other information it considers should be taken into account by the Authority.

~~15.233~~15.234 Having received the licensee's submission, the Authority will check:

- that all the information required under relevant Regulatory Instructions and Guidance has been included by the licensee; and
- that reported costs were incurred by the licensee on Enhanced Physical Site Security and Black Start capability during DPCR5 and that they cannot be recovered under any other provision of the licence.

~~15.234~~15.235 In considering the licensee's submission, the Authority will also review the annual cost reporting submissions made by the licensee during DPCR5 and the outcome of any enquiries raised in relation to those submissions.

~~15.235~~15.236 If the Authority requires any further information to make its decision in relation to the licensee's expenditure levels it will, by 31 January 2016, ask the licensee to submit it, allowing the licensee a reasonable amount of time for the purpose.

~~15.236~~15.237 If, having completed the review referred to in paragraphs ~~15.234~~15.233 to ~~15.236~~15.235, the Authority is satisfied that the licensee's reported expenditure on Enhanced Physical Site Security and Black Start capability has been efficient then it will, subject to the materiality test referred to in paragraph ~~15.230~~15.229 use the reported expenditure values to calculate a DPCR5 Enhanced Physical Site Security and Black Start adjustment for the licensee under paragraph ~~15.239~~15.238.

~~15.237~~15.238 If, having completed the review referred to in paragraphs ~~15.234~~15.233 to ~~15.236~~15.235, the Authority decides that the licensee's reported expenditure on Enhanced Physical Site Security and Black Start capability should be curtailed for the purpose of calculating a DPCR5 Enhanced Physical Site Security and Black Start adjustment, it will give the licensee at least 28 days' notice of its decision and take into account any representations made by the licensee during that period, before using the reduced values to calculate an adjustment under paragraph ~~15.239~~15.238.

### **Calculation of DPCR5 Enhanced Physical Site Security and Black Start - adjustment**

~~15.238~~15.239The following steps will be carried out to apply the materiality test referred to in paragraph ~~15.230~~15.229:

*Materiality test*

- (i) The licensee's efficient expenditure amount for each Regulatory Year in DPCR5 will be obtained. The values will be restated in 2012/13 prices.
- (ii) The values obtained at step (i) will be totalled, and the total will be multiplied by the DPCR5 IQI Incentive Rate for the licensee.
- (iii) The materiality test value will be calculated as one percent of the DPCR5 Revenue Allowance for the licensee for Regulatory Year 2010/11, restated in 2012/13 prices.

~~15.239~~15.240If the value calculated under step (ii) in paragraph ~~15.239~~15.238 is less than the materiality value calculated under step (iii), then the calculated value of the DPCR5 Enhanced Physical Site Security and Black Start adjustment for the licensee will be zero and the steps set out in paragraph ~~15.241~~15.240 below will not be carried out.

~~15.240~~15.241If the value calculated under step (ii) in paragraph ~~15.239~~15.238 is greater than the materiality test value calculated under step (iii), then the steps set out below will be carried out to calculate the DPCR5 Enhanced Physical Site Security and Black Start adjustment value for the licensee:

- (i) The values obtained at step (i) in paragraph ~~15.239~~15.238 will be multiplied by 15% to calculate DPCR5 Fast Money amounts for Enhanced Physical Site Security and Black Start capability costs for each Regulatory Year in DPCR5.
- (ii) The values obtained at step (i) in paragraph ~~15.239~~15.238 will be multiplied by 85% to calculate an amount for each Regulatory Year in DPCR5 that would have been added to the licensee's RAV if the values calculated under that step had been taken into account.
- (iii) The values calculated at step (ii) will be used to calculate:
  - (a) an amount of depreciation (being annual values calculated as the applicable value divided by 20);  
and
  - (b) an amount of return, at WACC for DPCR5 (applied to the NNRRB),  
for each Regulatory Year in DPCR5 on the basis of attributable, notional RAV balance impacts.
- (iv) The values obtained at steps (i) and (iii) will be summed to give a total value for each Regulatory Year of DPCR5.
- (v) DPCR5 Time Value of Money adjustments will be applied to the values calculated under step (iv) to put them on a common 2015/16 time value basis and the values will then be totalled.

~~15.241~~15.242Any provisional DPCR5 Enhanced Physical Site Security and Black Start –adjustment that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (v) in

paragraph ~~15.241~~~~15.240~~ or, as applicable, the value of zero referred to in paragraph ~~15.240~~~~15.239~~.

~~15.242~~~~15.243~~The value obtained under paragraph ~~15.242~~~~15.241~~ is the DPCR5 Enhanced Physical Site Security and Black Start adjustment for the licensee.

~~15.243~~~~15.244~~The DPCR5 Enhanced Physical Site Security and Black Start adjustment does not involve an adjustment to the licensee's RAV additions. However, the capitalised portions of any changes in expenditure allowance amounts (see step (ii) in paragraph ~~15.241~~~~15.240~~) are used in the calculation of DPCR5 RAV Rolling Incentive adjustments for the licensee (see chapter 16).

### **Determination of the DPCR5 Enhanced Physical Site Security and Black Start adjustment value**

~~15.244~~~~15.245~~The Authority will determine the DPCR5 Enhanced Physical Site Security and Black Start adjustment value for the licensee by 30 November 2016 for the purpose of determining the value of OLREV by 30 November 2016.

~~15.245~~~~15.246~~Subject to paragraphs ~~15.247~~~~15.246~~ and ~~15.248~~~~15.247~~, the Authority will determine a revised DPCR5 Enhanced Physical Site Security and Black Start adjustment value for the licensee if, with respect to the values referred to in paragraph ~~15.232~~~~15.231~~:

- (a) the Authority apprised the licensee, by 30 November 2016, of any provisionality it had attached to those values with regard to a possible restatement requirement (see also paragraph 1.17 in chapter 1); or
- (b) the licensee is required, under any provision of the licence to restate any of those values.

~~15.246~~~~15.247~~A revised DPCR5 Enhanced Physical Site Security and Black Start adjustment value for the licensee may be determined by the Authority by 30 November 2017 for the purpose of determining the value of OLREV by 30 November 2017.

~~15.247~~~~15.248~~No further revisions to the DPCR5 Enhanced Physical Site Security and Black Start adjustment value for the licensee will be determined after 30 November 2017 for the purpose of determining a revised value of OLREV, but this is without prejudice to any requirement for the licensee to restate the values referred to in paragraph ~~15.232~~~~15.231~~ for any other purpose.

### **xi) DPCR5 Shetland adjustment**

#### *References:*

- i. Reference document 15 specified at the start of this chapter.

#### **Overview**

~~15.248~~~~15.249~~This subsection only applies to SSEH. It sets out the methodology for determining:

- (a) a DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process adjustment; and
- (b) a DPCR5 NINES Project allowances adjustment, for SSEH.

~~15.249~~15.250 The two adjustments set out in paragraph ~~15.249~~15.248 together constitute the DPCR5 Shetland adjustment for SSEH.

~~15.250~~15.251 The terms Shetland Integrated Plan and Shetland Competitive Process have the meanings given in the Authority's open letter entitled "Ofgem's determination of Scottish Hydro Electric Power Distribution plc's (SHEPD) submission required under Charge Restriction Condition (CRC) 18A" dated 22 April 2014 (see reference document 15 specified at the start of this chapter).

~~15.251~~15.252 The term NINES Project means the trial for innovative options to manage the supply and demand of electricity on Shetland that SSEH was required to propose under Special Condition CRC 18A of its licence in the form it was in on 31 March 2015.

~~15.252~~15.253 It should be noted that the adjustment set out in this subsection does not cover:

- (a) costs relating to energy provision on Shetland that were categorised as pass-through costs for DPCR5; and
- (b) any costs relating to energy provision on Shetland (including Shetland Competitive Process costs) incurred during the Price Control Period.

### **DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process adjustment**

~~15.253~~15.254 The basis for funding DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process costs (ie costs incurred by SSEH during DPCR5) was set out in reference document 15 specified at the start of this chapter.

~~15.254~~15.255 DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process costs are considered under two headings:

- (a) costs invoiced to SSEH under the terms of contracts with unrelated parties; and
- (b) costs incurred directly by SSEH or recharged to it by an Affiliate or a Related Undertaking of SSEH where the arrangements were made on an arms length basis and on normal commercial terms.

~~15.255~~15.256 An amount of £1.58m (in 2012/13 prices) in respect of DPCR5 Shetland Integrated Plan and DPCR5 Competitive Process costs was taken into account in the calculation of Opening Base Revenue Allowances for SSEH.

*Application by SSEH for reimbursement of additional DPCR5 Shetland Integrated Plan and DPCR5 Competitive Process costs*

~~15.256~~15.257 Subject to paragraph ~~15.258~~15.257, it is open to SSEH to apply for additional costs to be reimbursed under the DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process adjustment. Any such application must be

made by 31 December 2015 and must include the information set out in paragraph ~~15.260~~~~15.259~~.

*DPCR5 Shetland Integrated Plan costs*

~~15.257~~~~15.258~~ With respect to DPCR5 Shetland Integrated Plan costs, SSEH may only apply for the reimbursement of costs incurred directly by it, or recharged or invoiced to it by one of its Affiliates or Related Undertakings (see paragraph ~~15.255~~~~15.254~~(b)).

*DPCR5 Shetland Competitive Process costs*

~~15.258~~~~15.259~~ With respect to DPCR5 Shetland Competitive Process costs, SSEH may apply for the reimbursement of:

- (a) costs incurred directly by it, or recharged or invoiced to it by one of its Affiliates or Related Undertakings, where the arrangements were made on an arms length basis and on normal commercial terms; and
- (b) costs invoiced to it under the terms of contracts with unrelated parties.

*Information requirements*

~~15.259~~~~15.260~~ The information referred to in paragraph ~~15.257~~~~15.256~~ that SSEH must include in any application for reimbursement of additional costs is:

- (a) a breakdown of the costs by the Regulatory Years in DPCR5 in which they were incurred;
- (b) a narrative statement describing the activities giving rise to the costs, setting out, in particular:
  - why the activities were necessary; and
  - evidence that costs were efficiently incurred.
- (c) information on the amount of time worked by staff employed by SSEH (or its Affiliates or Related Undertakings) on development of the Shetland Integrated Plan and Competitive Process during DPCR;
- (d) information on the costs of the time worked referred to in subparagraph (b) with reference to staff grades and charging rates;
- (e) information on the amounts recharged or invoiced to SSEH by Affiliates or Related Undertakings and evidence that arrangements were made on an arms length basis and on normal commercial terms;
- (f) a description of relevant contractual arrangements between SSEH and Affiliates or Related Undertakings; and
- (g) any other matters that the licensee considers are pertinent to its application.

~~15.260~~~~15.261~~ The information referred to in subparagraphs (c), (d), (e) and (f) of paragraph ~~15.260~~~~15.259~~ must be derived from management information such as time sheets and management accounts used by the licensee, and which are available for submission under paragraph ~~15.263~~~~15.262~~ below if necessary.

~~15.261~~15.262 Any application under paragraph ~~15.257~~15.256 must be in respect of costs, stated in 2012/13 prices, that cannot be recovered under any other provisions of the licence.

*Review and determination by the Authority*

~~15.262~~15.263 Having made an initial review of the information referred to in paragraph ~~15.260~~15.259, the Authority will ask the licensee to submit any additional information or clarifications it requires and will allow the licensee a reasonable amount of time to provide any such information.

~~15.263~~15.264 The Authority will complete a review of SSEH's application by 31 July 2016 and, having done so, will consult the licensee on its provisional determination of revised amounts of costs that should be reimbursed, giving the licensee at least 28 days in which to respond.

~~15.264~~15.265 The Authority will consider any representations made by SSEH in response to the consultation referred to in paragraph ~~15.264~~15.263 and, having done so, will by 31 October 2016 determine either:

- (a) that no additional costs should be reimbursed under the DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process adjustment, in which case the value of the adjustment will be zero; or
- (b) that an amount of additional costs should be reimbursed under the DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process adjustment.

~~15.265~~15.266 If the Authority determines that an amount of additional costs should be reimbursed then it will, by 31 October 2016, determine the DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process adjustment for SSEH to be a value derived as:

- the amount of additional costs that it has determined should be reimbursed, with DPCR5 Time Value of Money adjustments to put them on a common 2015/16 time value basis;  
less
- the amount, in respect of DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process adjustments, that was provisionally included in the calculation of Opening Base Revenue Allowances for SSEH.

~~15.266~~15.267 Subject to paragraph ~~15.265~~15.264(a), the value obtained under paragraph ~~15.266~~15.265 is the DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process adjustment value for SSEH.

~~15.267~~15.268 The DPCR5 Shetland Integrated Plan and DPCR5 Shetland Competitive Process adjustment does not involve an adjustment to the licensee's RAV additions.

**DPCR5 NINES Project allowances adjustment**

~~15.268~~15.269 In a letter dated 25 November 2011, addressed to SSEH, the Authority determined that SSEH should be given a total funding amount for the NINES project of £15.33m in 2011/12 prices.

~~15.269~~15.270The Authority also determined that the following amounts (in 2011/12 prices) should be recovered by SSEH as value of the term UNC under Special Condition CRC 4 (Restriction of Distribution Charges: calculation of the Allowed Pass-Through Items) of its licence in the form it was in on 31 March 2015:

- £3.96m in Regulatory Year 2012/13;
- £1.05m in Regulatory Year 2013/14; and
- £1.06m in Regulatory Year 2014/15.

~~15.270~~15.271 There is therefore a residual amount of £9.24m (in 2011/12 prices) to be recovered from the total funding amount referred to in paragraph ~~15.269~~15.268. This amount, restated in 2012/13 prices is £9.53m

~~15.271~~15.272 The Authority will, by 31 October 2015, determine the DPCR5 NINES Project allowances adjustment for SSEH to be a value derived as £9.53m minus the amount, in respect of the DPCR5 NINES Project allowances adjustment, that was provisionally included in the calculation of Opening Base Revenue Allowances for SSEH.

~~15.272~~15.273 The terms of funding for the NINES project did not provide for any additions to SSEH's RAV balance and the DPCR5 NINES Project allowances adjustment does not involve an adjustment under the DPCR5 RAV Rolling Incentive.

~~15.273~~15.274 It should be noted that the DPCR5 NINES Project allowances adjustment is separate from, and does not interact with, the provision relating to the cost of integrating solutions from the NINES project set out in paragraph 7.1(d) in section 7 of chapter 7 of this handbook.

### **Determination of the DPCR5 Shetland adjustment value**

~~15.274~~15.275 The Authority will, by 30 November 2015, determine the DPCR5 Shetland adjustment value to be £6.96m (in 2012/13 prices) representing the DPCR5 NINES Project allowances adjustment provided for in paragraphs ~~15.269~~15.268 to ~~15.274~~15.273, for the purpose of determining the value of OLREV by 30 November 2015.

~~15.275~~15.276 The Authority will, by 30 November 2016, determine the DPCR5 Shetland adjustment value to be the value determined under paragraph ~~15.275~~15.274 plus the value determined under paragraph ~~15.267~~15.266 for the purpose of determining the value of OLREV by 30 November 2016.

~~15.276~~15.277 No further revisions to the DPCR5 Shetland adjustment value for the licensee will be determined after 30 November 2016 for the purpose of determining a revised value of OLREV.

### **xii) DPCR5 Flood Prevention adjustment ~~resulting from revised allowance levels~~**

#### *References:*

- i. Chapter 7 of reference document 6 specified at the start of this chapter.

## Overview

~~15.277~~15.278 This subsection only applies to SSEH. It sets out the methodology for determining the DPCR5 Flood Prevention adjustment for SSEH.

~~15.278~~15.279 This subsection sets out how we will determine the DPCR5 Flood Prevention adjustment to allowed revenue for SSEH using a two stage process:

- (i) determining revised expenditure allowance amounts; and,
- (ii) calculating the allowed revenue adjustment.

~~15.279~~15.280 The term DPCR5 Flood Prevention adjustment means the provision for reviewing SSEH's expenditure allowances for flood prevention works over DPCR5, for the purpose of making any necessary adjustment to SSEH's revenue allowances. The provision is explained in this subsection and in chapter 7 of reference document 6.

### *Background to adjustment*

~~15.280~~15.281 Unlike other licensees, SSEH was not given any baseline expenditure allowances 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, subject to the two stipulations set out below.

### *First stipulation on expenditure allowance*

~~15.281~~15.282 The first stipulation referred to in paragraph ~~15.281~~15.280 is that there is a cap of £2.3 million, in 2007/08 prices, on allowed expenditure relating to the protection of substations against flooding during the DPCR5 period. The capped amount is £2.7m in 2012/13 prices.

### *Second stipulation on expenditure allowance*

~~15.282~~15.283 The second stipulation referred to in paragraph ~~15.281~~15.280 relates to an outturn position in which SSEH's expenditure represents a cost 'per risk reduced' that is above the 'upper quartile £ per risk reduced' (as each of those expressions is used in chapter 7 of reference document 6). If such an outturn position arises, the Authority will calculate the excess cost per risk reduced as a percentage value.

~~15.283~~15.284 The amount of SSEH's actual expenditure included in the expenditure allowance amount will be reduced by the same percentage as any percentage established under paragraph ~~15.283~~15.282.

### *Determination of revised expenditure allowance amount*

~~15.284~~15.285 The Authority will, by 31 December 2016, provisionally determine the expenditure allowances for SSEH for flood prevention works in DPCR5 by carrying out steps (i) to (viii) below.

- (i) The amount of SSEH's expenditure relating to the protection of substations against flooding for each Regulatory Year in DPCR5 will be established from its regulatory reporting submissions and restated in 2012/13 prices.

(ii) The amounts obtained under step (i) will be totalled. ~~The lower of the total derived under step (ii) and the cap amount of £2.7m will be used in future steps as the revised total.~~

~~(iii)~~ (iv) The 'upper quartile £ per risk reduced' will be obtained and restated in 2012/13 prices.

~~(iv)~~ (v) SSEH's '£ per risk reduced value achieved' will be calculated using the revised total determined in step (iii).

~~(v)~~ (vi) If SSEH's '£ per risk reduced value achieved' is higher than the upper quartile £ per risk calculated at step (iv), then the Authority will determine the decimal percentage value of any excess cost per risk reduced as:

$$dpv = 1 - \frac{\text{value of the upper quartile £ per risk}}{\text{SSEH's '£ per risk reduced value achieved'}}$$

If SSEH's '£ per risk reduced value achieved' is lower than the restated value of the upper quartile £ per risk, then the value of dpv will be zero.

~~(vii)~~ (viii) The decimal percentage value obtained under step (vi) will be multiplied by the revised total amount calculated at step (iii) and the resulting value will be deducted from the total calculated in step (ii) ~~that revised total amount~~ to give a recalculated amount.

(vii) The lower of the recalculated amount at step (ii) and the capped amount of £2.7m in 2012/13 prices will be used to give a revised total.

(viii) The revised total amount recalculated at step (vii) will be attributed to each Regulatory Year in DPCR5 in the same proportions as the amounts of expenditure referred to in step (i) above to the total referred to in step (ii) above to give the provisional expenditure allowance amount for each Regulatory Year in DPCR5 in 2012/13 prices.

~~15.285~~ 15.286 The Authority will, wherever applicable, carry out steps (i) to (viii) in paragraph ~~15.285~~ 15.284 in a way which is fully consistent with the approach it used to set baseline expenditure allowances for flood prevention works in DPCR5 for other licensees.

~~15.286~~ 15.287 Having completed the provisional determination of expenditure allowance amounts under paragraph ~~15.285~~ 15.284, the Authority will initiate a consultation with SSEH and will allow at least 28 days for the submission of any information that SSEH considers should be taken into account. Having taken into account any information submitted by SSEH, the Authority will, by 31 March 2017, determine the expenditure allowance amount for SSEH for each Regulatory Year in DPCR5.

### Calculation of DPCR5 Flood Prevention adjustment

~~15.287~~ 15.288 The following steps will be carried out to calculate the DPCR5 Flood Prevention adjustment value:

(i) The expenditure allowance amounts determined under paragraph ~~15.287~~ 15.286 will be multiplied by 15% to calculate DPCR5 Fast

Money amounts for the DPCR5 Flood Prevention adjustment for each Regulatory Year in DPCR5.

- (ii) The expenditure allowance amounts determined under paragraph ~~15.287~~~~15.286~~ will be multiplied by 85% to calculate an amount for each Regulatory Year in DPCR5 that would have been added to SSEH's RAV if those amounts had been taken into account.
- (iii) The values calculated at step (ii) above will be used to calculate:
  - (a) an amount of depreciation (being annual values calculated as the applicable value divided by 20); and
  - (b) an amount of return, at WACC for DPCR5 (applied to the NNRRB),for each Regulatory Year in DPCR5 on the basis of attributable, notional RAV balance impacts.
- (iv) The values obtained at steps (i) and (iii) above will be summed to give a total value for each Regulatory Year of DPCR5.
- (vi) DPCR5 Time Value of Money adjustments will be applied to the values calculated under step (iv) above to put them on a common 2015/16 time value basis and the values will then be totalled.

~~15.288~~~~15.289~~ The value obtained at step (vi) in paragraph ~~15.288~~~~15.287~~ is the DPCR5 Flood Prevention adjustment for SSEH.

~~15.289~~~~15.290~~ The DPCR5 Flood Prevention adjustment does not involve an adjustment to the licensee's RAV additions. However, the capitalised portions of any changes in expenditure allowance amounts (see step (ii) in paragraph ~~15.288~~~~15.287~~) are used in the calculation of DPCR5 RAV Rolling Incentive adjustments for the licensee (see chapter 16).

#### **Determination of the DPCR5 Flood Prevention adjustment value**

~~15.290~~~~15.291~~ The Authority will determine the DPCR5 Flood Prevention adjustment value for SSEH by 30 November 2017 for the purpose of determining the value of OLREV by 30 November 2017.

~~15.291~~~~15.292~~ No further revisions to the DPCR5 Flood Prevention adjustment value for SSEH will be determined after 30 November 2017 for the purpose of determining a revised value of OLREV, but this is without any prejudice to any requirement for SSEH to restate the values referred to in paragraph ~~15.288~~~~15.287~~(i) for any other purpose.

#### **xiii) Determination of the OLREV value for the licensee**

~~15.292~~~~15.293~~ This subsection sets out the methodology by which the Authority will determine the value of OLREV for the licensee and subsequently direct any revisions to that value under section 4 of this chapter, and in accordance with Part B of CRC 3A.

~~15.293~~~~15.294~~ The Authority will determine the value of OLREV for the licensee by 30 November in each Regulatory Year from 2015/16 to 2018/19, by summing the most

recently determined values for each of the ~~ten~~twelve adjustments set out in Table 1 in CRC3A.

~~15.294~~15.295 Timings for the determination of each adjustment are set out in the respective subsections of this section.

~~15.295~~15.296 The OLREV value is only contained in the column for Regulatory Year 2015/16 in the PCFM Variable Values Table for the licensee. The opening value of OLREV for the licensee, as at 1 April 2015, will be zero (see also paragraph 13.7 in chapter 13). Functionality within the PCFM means that the change to the licensee's revenue allowance, represented by the OLREV value, is spread across recalculated base revenue figures for the whole Price Control Period with Time Value of Money Adjustments.

~~15.296~~15.297 Determinations of the OLREV value for the licensee will be in 2012/13 prices.

### **Section 3 – Determination of revisions to the PCFM Variable Values for legacy adjustments to DPCR5 RAV Additions (OLRAV values)**

#### *References:*

- i. Chapter 1 of reference document 1 specified at the start of this chapter
- ii. Reference document 5 specified at the start of this chapter
- iii. Chapter 2 of reference document 9 specified at the start of this chapter

~~15.297~~15.298 This section sets out the methodology by which the Authority will determine revised OLRAV values for the licensee in accordance with Part C of CRC 3A, for direction under section 4.

~~15.298~~15.299 OLRAV values are only contained in the columns for Regulatory Years 2013/14 and 2014/15 in the PCFM Variable Values Table for the licensee. The opening OLRAV values for the licensee, as at 1 April 2015, will be zero (see also paragraph 13.7 in chapter 13).

#### *Calculation of revised OLRAV values*

~~15.299~~15.300 At the outset of RIIO-ED1, the Authority derived estimated values for RAV additions relating to Regulatory Years 2013/14 and 2014/15 in accordance with the applicable DPCR5 Cost, Volume and Revenue Reporting Regulatory Instructions and Guidance (see reference document 4).

~~15.300~~15.301 By 31 October 2015, the Authority will derive finalised RAV additions values for the licensee for Regulatory Years 2013/14 and 2014/15 by:

- (a) obtaining the RAV additions value for:
  - (i) Regulatory Year 2013/14; and
  - (ii) Regulatory Year 2014/15,

for the licensee displayed at the top of worksheet C4 (RAV) due to be submitted by the licensee by 31 July 2015 in accordance with the version of the Electricity Distribution Price Control Cost and Revenue Reporting - Regulatory Instructions and Guidance that were valid for reporting of 2014/15 actual costs and restating them in 2012/13 prices;

- (b) adding to the values obtained at subparagraph (a), any adjustment due in respect of refunded connection charges to distributed generators for the Regulatory Year concerned, in 2012/13 prices, to the extent that such addition is not already included in the value at subparagraph (a); and
- (c) applying:
  - (i) any adjustment relating to DPCR5 ongoing pension expenditure referred to in paragraphs ~~15.27~~~~15.26~~ and ~~15.28~~~~15.27~~;
  - (ii) any adjustment relating to DPCR5 Pension Protection Fund Levy expenditure referred to in paragraph ~~15.33~~~~15.32~~; and
  - (iii) any adjustment due in respect of the true up of forecast costs to actual costs for ongoing pension costs in Regulatory Year 2009/10<sup>2</sup>,in each case in 2012/13 prices.

#### *Derivation of revised OLRAV values*

~~15.301~~~~15.302~~A revised OLRAV value for the licensee will be derived by deducting the estimated RAV additions for Regulatory Years 2013/14 and 2014/15 referred to in paragraph ~~15.300~~~~15.299~~ (restated in 2012/13 prices) from the finalised RAV additions derived under paragraph ~~15.301~~~~15.300~~.

#### **Determination of the OLRAV value**

~~15.302~~~~15.303~~The values referred to in paragraph ~~15.301~~~~15.300~~, are due to be reported by the licensee under applicable Regulatory Instructions and Guidance by 31 July 2015. The Authority will complete a review of the reported values by 31 October 2015 and, subject to paragraph ~~15.304~~~~15.303~~, will use the values to determine a revised OLRAV value for the licensee by 30 November 2015.

~~15.303~~~~15.304~~Subject to paragraphs ~~15.305~~~~15.304~~ and ~~15.306~~~~15.305~~, the Authority will determine a revised OLRAV value for the licensee if, with respect to the values referred to in paragraph ~~15.301~~~~15.300~~:

- (a) the Authority apprised the licensee, by 31 October 2015, of any provisionality it had attached to those values with regard to a possible restatement requirement (see also paragraph 1.17 in chapter 1); or
- (b) the licensee is required, under any provision of the licence to restate any of those values.

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<sup>2</sup> This value will be unchanged from that used to derive the estimated RAV additions referred to in paragraph ~~15.300~~~~15.299~~

~~15.304~~15.305A revised OLRAV value for the licensee may be determined by the Authority:

- (a) by 30 November 2016; and
- (b) by 30 November 2017.

~~15.305~~15.306No further revisions to the OLRAV value for the licensee will be determined after 30 November 2017, but this is without prejudice to any requirement for the licensee to restate the values referred to in paragraph ~~15.301~~15.300 for any other purpose.

#### **Section 4 – Direction of revisions to the OLREV value and to OLRAV values**

~~15.306~~15.307 Paragraph 3A.34 of CRC 3A requires the Authority to give the licensee at least 14 days' notice setting out any proposed revisions to the OLREV value and to OLRAV values that it has determined, before directing the revisions. This means that the Authority will give notice to the licensee of any revisions that it has determined by 15 November in each Regulatory Year t-1. The Authority is required to have due regard to any representations made by the licensee and to give its reasons for any decisions in relation to them.

~~15.307~~15.308 Having complied with the notice requirements, the Authority will direct any required revisions to:

- the OLREV value by 30 November in each Regulatory Year from 2015/16 to 2018/19; and
- The OLRAV value by 30 November in each Regulatory Year from 2015/16 to 2017/18.

##### *Delay in direction of revised PCFM Variable Values*

~~15.308~~15.309 If, for any reason, the Authority does not give a required direction of a revision to the OLREV value or to OLRAV values by 30 November in a particular Regulatory Year, CRC 3A requires that the value or values should be directed by the Authority as soon as is reasonably practicable, to facilitate the notification and direction of the value of the term  $MOD_t$  under CRC 4B (Annual Iteration Process for the PCFM).

# 16. Legacy DPCR5 RAV Rolling Incentive adjustments - financial methodologies

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## Reference documents

1. [\[DPCR5\] Electricity Distribution Price Control Review Final Proposals – Financial Methodologies](https://www.ofgem.gov.uk/publications-and-updates/electricity-distribution-price-control-review-final-proposals-%E2%80%93-financial-methodologies)  
<https://www.ofgem.gov.uk/publications-and-updates/electricity-distribution-price-control-review-final-proposals-%E2%80%93-financial-methodologies>
2. [\[DPCR5\] Electricity Distribution Price Control Review Final Proposals – Incentives and Obligations](https://www.ofgem.gov.uk/ofgem-publications/46748/fp2incentives-and-obligations-final.pdf)  
<https://www.ofgem.gov.uk/ofgem-publications/46748/fp2incentives-and-obligations-final.pdf>
3. [\[DPCR5\] Electricity Distribution Price Control Review Final Proposals – Allowed Revenue - Cost assessment](https://www.ofgem.gov.uk/publications-and-updates/electricity-distribution-price-control-review-final-proposals-allowed-revenue-cost-assessment)  
<https://www.ofgem.gov.uk/publications-and-updates/electricity-distribution-price-control-review-final-proposals-allowed-revenue-cost-assessment>
4. [Electricity Distribution Price Control Network Asset Data and Performance Reporting – Network Outputs and Quality of Service Regulatory Instructions and Guidance: Version 3](https://www.ofgem.gov.uk/publications-and-updates/direction-issued-pursuant-condition-49.6-standard-conditions-electricity-distribution-licence-modifying-all-electricity-distribution-licences-granted-or-treated-granted-under-section-61c-electricity-act-1989)  
<https://www.ofgem.gov.uk/publications-and-updates/direction-issued-pursuant-condition-49.6-standard-conditions-electricity-distribution-licence-modifying-all-electricity-distribution-licences-granted-or-treated-granted-under-section-61c-electricity-act-1989>
5. Electricity Distribution Price Control Review Final Proposals - Allowed revenue - Cost assessment appendix  
<https://www.ofgem.gov.uk/ofgem-publications/46749/fp3cost-assesment-network-investmentappendix.pdf>

## Section 1 - Overview

16.1 This chapter contains the methodologies for determining legacy adjustments associated with the DPCR5 RAV Rolling Incentive mechanism set out in Table 2 in CRC3A (Legacy price control adjustments) and revisions to the associated PCFM Variable Value (the RIREV value) for the licensee.

16.2 The methodologies referred to in paragraph 16.1 take into account any provisional adjustments that were included in the determination of the licensee's Opening Base Revenue Allowances.

## Timings for reviews of adjustments

16.3 This subsection presents the timelines relating to the Authority’s assessment of whether to make financial adjustments to the licensee’s allowances relating to the following methodologies:

- DPCR5 High Value Projects adjustments - failure to deliver outputs adjustment (chapter 16 section 2(ii)); and,
- DPCR5 NOMs revenue adjustment (chapter 16 section 2(iii)).

16.4 Table 16.1 outlines the timetable for the assessment and subsequent notification of any adjustment.

**Table 16.1: Timetable for assessment and notification**

The Authority to carry out Initial High Level Analysis	By 31 July 2016
The licensee to provide Performance Assessment Submission	By 31 October 2016
The Authority to carry out Performance Assessment	Between 31 October 2016 and 28 February 2017
The Authority to provide its Preliminary View to the licensee	By 28 February 2017
<u>The</u> Authority to initiate a formal two month consultation	By 31 May 2017
<u>The</u> Authority to decide whether adjustment should be included in the calculation of a revised RIREV value for the licensee	By 30 September 2017
<u>The</u> Authority to provide 28 days’ notice of its decision	By 30 September 2017
The Authority to re-calculate the NOMs Network Outputs Gap for the purpose of re-determining a DPCR5 NOMs revenue adjustment for the licensee in the event of the restatement of any information	<u>By</u> 30 September 2018
The Authority to provide 28 days’ notice of its decision following the restatement of any information	After 30 September 2018

16.5 The Authority will undertake an Initial High Level Analysis as specified in the relevant sections for each of the methodologies listed in paragraph 16.3, to determine the requirements for the Performance Assessment Submission (Annex E).

16.6 The information requested by the Authority for submission in the Performance Assessment Submission will be proportionate to the results of the Initial High Level Analysis and will include any outstanding information required to address issues identified by the Authority through its Initial High Level Analysis.

16.7 The Authority will inform the licensee of the results of its Initial High Level Analysis by 31 July 2016.

16.8 If requested, the licensee will, by 31 October 2016, submit to the Authority a Performance Assessment Submission as specified in the relevant section for each of the methodologies listed in paragraph 16.3.

16.9 After 31 October 2016, the Authority will commence a Performance Assessment with respect to the licensee in accordance with each of the methodologies listed in paragraph 16.3.

16.10 The Authority may request additional relevant information from the licensee to inform its Performance Assessment under paragraph 16.9, allowing a reasonable amount of time for the licensee to respond.

16.11 Where the Authority proposes to make an adjustment for the licensee under any of the methodologies listed in paragraph 16.3 it will, by 28 February 2017, inform the licensee of its Preliminary View for each of the methodologies listed in paragraph 16.3, and allow the licensee at least 28 days in which to provide comments before initiating a consultation under paragraph 16.13.

16.12 The Authority's Preliminary View will include the Authority's proposed adjustment to the licensee's revenue under the relevant methodology listed in paragraph 16.3, and details of the reasoning behind the proposed adjustment.

16.13 Having considered any comments received from the licensee, the Authority will, by 31 May 2017, initiate a formal two month consultation. The Authority will allow at least two months after the publication of its consultation for the submission of any information that respondents consider should be taken into account in relation to its view.

~~16.13~~16.14 Further to consultation responses raised under paragraph 16.13, the licensee may, within a reasonable time period, submit any additional information to the Authority ahead of its decision under paragraph 16.15.

~~16.14~~16.15 Where applicable, having considered any information received in response to its consultation as set out in paragraph 16.13 and any additional information submitted by the licensee under paragraph **Error! Reference source not found.**~~16.12~~, the Authority will, by 30 September 2017, decide whether any adjustment to the licensee's allowances under the methodologies specified in paragraph 16.3, should be included in the calculation of a revised RIREV value for the licensee, as specified in the relevant sections of the methodologies noted in paragraph 15.3.

~~16.15~~16.16 By 30 September 2017, the Authority will give the licensee at least 28 days' notice of its decision and will take into account any representations made by the licensee.

~~16.16~~16.17 Where the Authority has specified in its Preliminary View that it considers that the licensee has not provided sufficiently robust and consistent data, it may re-calculate the NOMs Network Outputs Gap for the licensee in line with the process set out in paragraph ~~16.65~~16.64 to paragraph ~~16.69~~16.68

### **Overview of the DPCR5 RAV Rolling Incentive**

~~16.17~~16.18 Paragraphs ~~16.20~~16.19 to ~~16.27~~16.26 below provide a high level description of the DPCR5 RAV Rolling Incentive. The detailed and definitive provisions, including a worked example, are set out in chapter 2 of reference document 1. References in CRC 3A and in this handbook to the DPCR5 RAV Rolling Incentive mean the RAV Rolling Incentive Mechanism described in this section.

~~16.18~~16.19 The RAV Rolling Incentive was the main expenditure incentive mechanism in the DPCR5 Price Control. It has been superseded by the Totex Incentive Mechanism in the RIIO-ED1 Price Control (see chapter 6).

~~16.19~~16.20 Total expenditure allowances were set for the licensee at the outset of DPCR5 for costs covered by the DPCR5 Equalised Incentive.

~~16.20~~16.21 An incentive strength rate was also set for the licensee at the outset of the price control period as a result of analysis of the licensee's expenditure proposals compared to Ofgem's view of expenditure requirements. An incentive strength rate of, for example, 45% would mean that the licensee would retain 45 percent of any underspend (versus its expenditure allowances) but bear 45% of any overspend. This can be viewed as the 'intended effect'. The effective incentive strength rates ('IQI Incentive Rates') for the licensee were set out in Appendix 1 of Special Condition CRC 18 (Arrangements for the recovery of uncertain costs) of the licence in the form it was in on 31 March 2015.

~~16.21~~16.22 The DPCR5 RAV Rolling Incentive only operated directly on the Slow Money component of costs covered by the DPCR5 Equalised Incentive. Accordingly, the incentive strength percentage used in calculations was adjusted downwards in calculations to achieve the overall intended effect. For example, an incentive strength rate of 45% is adjusted to 35% for use in DPCR5 RAV Rolling Incentive calculations.

~~16.22~~16.23 After the end of the DPCR5 price control period, a full set of expenditure allowances and actual expenditure figures will be available. Calculations can therefore be made of:

- (i) the income due under the intended effect referred to above; and
- (ii) the actual revenue effects that the licensee can be considered to have experienced during DPCR5.

~~16.23~~16.24 The expenditure allowances referred to in paragraph ~~16.23~~16.22 include any revisions applied in accordance with the adjustment methodologies set out in subsections (v), ~~and subsections~~ (vii) to (x) and (xii) in section 2 of chapter 15.

~~16.24~~16.25 The calculations referred to in paragraph ~~16.23~~16.22 are carried out in constant 2012/13 prices and incorporate DPCR5 Time Value of Money Adjustments so that the intended and actual outcomes can be compared on a common 2015/16 time value basis.

~~16.25~~16.26 Depending on the timing of any over/under-spend by the licensee during the five years of DPCR5, the values referred to at subparagraphs ~~16.23~~16.22 (i) and (ii) may be different. A key feature of the DPCR5 RAV Rolling Incentive was that the intended effect should be achieved whatever the timing profile of under/over-expenditure. Consequently, if the figures at ~~16.23~~16.22 (i) and (ii) are found to be different, a true-up adjustment is applied, which might be a positive or negative value in both over and under-spend scenarios. If the values match, then no further adjustment is due.

~~16.26~~16.27 Under the terms of the DPCR5 price control, the Slow Money component of all efficient expenditure covered by the DPCR5 Equalised Incentive in the DPCR5 period is included in the RAV balance brought forward at the start of the RIIO-ED1 Price Control Period. Accordingly, the full incentive effect of the DPCR5 RAV Rolling Incentive will have been achieved with respect to the DPCR5 price control period once any provisional/legacy adjustments in respect of a difference of the type referred to in paragraph ~~16.26~~16.25 have been applied.

### **Scheme specific variations**

~~16.27~~16.28 There are two items that are subject to particular treatment under the wider RAV Rolling Incentive.

#### *Customer contribution levels for DPCR5 Rising and Lateral Mains*

~~16.28~~16.29 In setting the licensee's DPCR5 expenditure allowances for work on Rising and Lateral Mains, the Authority used an assumption that the licensee would receive no contributions from customers.

~~16.29~~16.30 The adjustment relating to the level of customer contributions is based on the premise that, all other things being equal, a higher level of contributions will represent a saving that should be shared between the licensee and consumers. A special incentive strength rate of ten percent applies, meaning that the licensee retains ten percent of any increase in customer contribution levels with 90 percent being recouped for customers.

~~16.30~~16.31 This adjustment only applies to SP Distribution plc and SP Manweb plc -see subsection (iv) in section 2 of this chapter.

#### *DPCR5 Workforce Renewal*

~~16.31~~16.32 The licensee's expenditure allowances for DPCR5 Workforce Renewal, that were included in the calculation of its DPCR5 Revenue Allowances, were subject to a "use it or lose it" mechanism.

~~16.32~~16.33 Any overspend in respect of DPCR5 Workforce Renewal is subject to the normal incentive strength rate for the licensee referred to in paragraph ~~16.21~~16.20. However, any underspend is subject to a zero percent incentive strength rate, meaning that 100% of any underspend is recouped for customers - see subsection (v) in section 2 of this chapter.

## Adjustments in respect of failure to deliver outputs

~~16.33~~16.34 The Authority's final proposals for the DPCR5 Price Control also provided for adjustments to be made to the licensee's revenue allowances in certain circumstances in the event of a gap between the adjusted outputs the licensee was expected to achieve and the outputs it actually achieved - see subsections (ii) and (iii) in section 2 of this chapter.

## Section 2 – Determination of revisions to the PCFM Variable Value for legacy adjustments associated with the DPCR5 RAV Rolling Incentive mechanism (the RIREV value)

~~16.34~~16.35 This section sets out the methodologies for determining the adjustment values that comprise the PCFM Variable Value for legacy adjustments associated with the DPCR5 RAV Rolling Incentive mechanism.

~~16.35~~16.36 The adjustment values referred to in paragraph ~~16.35~~16.34 are set out in Table 2 in CRC3A which is reproduced below. The methodologies in subsections (i) to (v) of this section set out the key features and principles of the individual adjustment mechanisms but they do not attempt to reproduce all of the detailed criteria contained in relevant DPCR5 Price Control decisions. Therefore, reference is made to the Authority's previous price control decisions where appropriate.

~~16.36~~16.37 Table 2 in CRC3A is reproduced below.

**Table 16.2 - Table 2 in CRC3A - Adjustments comprising the RIREV value**

<b>Adjustment</b>	<b>Section of chapter 16 of the ED1 Price Control Financial Handbook containing methodology</b>
Adjustment for items subject to the DPCR5 IQI Incentive Rates	Section 2 (i)
DPCR5 High Value Projects - failure to deliver outputs adjustment	Section 2 (ii)
DPCR5 Network Output Measures - revenue adjustment resulting from a failure to deliver outputs	Section 2 (iii)
DPCR5 Rising and Lateral Mains – adjustment relating to the level of customer contributions.	Section 2 (iv)
DPCR5 Workforce Renewal - adjustment resulting from overspend or underspend against allowances	Section 2 (v)

## i) Adjustment for items subject to DPCR5 IQI Incentive Rate

### References:

- i. Chapter 2 of reference document 1 specified at the start of this chapter
- ii. Chapter 19 and appendix 7 of reference document 2 specified at the start of this chapter
- iii. Reference document 4 specified at the start of this chapter

~~16.37~~16.38 This subsection sets out the methodology for determining adjustments to the licensee's allowed revenue for RIIO-ED1 in respect of items subject to DPCR5 IQI Incentive Rate.

### Calculation of adjustment for items subject to DPCR5 IQI Incentive Rate

~~16.38~~16.39 The following steps will be carried out to calculate the adjustment for items subject to DPCR5 IQI Incentive Rate:

*Calculation of intended incentive effect (see paragraph ~~16.23~~16.22(i))*

- (i) The licensee's actual DPCR5 Slow Money expenditure will be obtained for each Regulatory Year in DPCR5 in 2012/13 prices (see paragraph ~~16.41~~16.40).
- (ii) The licensee's adjusted total expenditure allowance for DPCR5 Slow Money expenditure will be obtained for each Regulatory Year in DPCR5 in 2012/13 prices (see paragraph ~~16.42~~16.41).
- (iii) The value obtained at step (ii) will be deducted from the value obtained at step (i) to calculate an over or (under) spend value for each Regulatory Year in DPCR5.
- (iv) The values calculated at step (iii) will be multiplied by the Adjusted DPCR5 IQI Incentive Rate for the licensee for the Regulatory Year concerned.
- (v) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (iv) to put them on a common 2015/16 time value basis and the values will then be totalled to give the intended incentive effect amount.

*Calculation of incentive gain or loss that the licensee can be considered to have experienced during DPCR5 (see paragraph ~~16.23~~16.22(ii))*

- (vi) The values obtained at step (iii) will be used to calculate a notional value attributable to:
  - (a) an amount of depreciation (being annual values calculated as the applicable value divided by 20);  
and

- (b) return, at the WACC for DPCR5 (applied to the NNRRB),  
in respect of the licensee's under or over spend for each Regulatory Year in DPCR5.
- (vii) The values calculated at steps (vi)(a) and (b) will be summed for each Regulatory Year in DPCR5.
- (viii) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (vii) to put them on a common 2015/16 time value basis and the values will then be totaled.

*Calculation of adjustment for items subject to DPCR5 IQI Incentive Rate*

- (ix) The value calculated at step (v) will be deducted from the value calculated at step (viii).
- (x) Any provisional adjustment for items subject to DPCR5 IQI Incentive Rates that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (ix).

~~16.39~~16.40 The value obtained at step (x) in paragraph ~~16.39~~16.38 is the adjustment for items subject to the DPCR5 IQI Incentive Rates for the licensee for the licensee.

**Derivation of values used in calculation of adjustment for items subject to DPCR5 IQI Incentive Rate**

*Total actual DPCR5 Slow Money expenditure for each Regulatory Year in DPCR5*

~~16.40~~16.41 The Authority will derive the licensee's total actual DPCR5 Slow Money expenditure for each Regulatory Year in DPCR5 as:

- the RAV additions value for the licensee for the Regulatory Year concerned shown at the head of worksheet C4 (RAV) due to be submitted by the licensee by 31 July 2015 in accordance with the applicable DPCR5 Cost, Volume and Revenue Reporting Regulatory Instructions and Guidance (see reference document 4), restated in 2012/13 prices;

less

- the consolidated amount of actual expenditure within the consolidated expenditure allowance for DPCR5 Undergrounding and Worst Served Customer Improvements for each Regulatory Year in DPCR5 obtained at step (ix) in paragraph ~~15.117~~15.116 in 2012/13 prices
- the DPCR5 Slow Money component of DPCR5 ongoing pension expenditure;
- the DPCR5 Slow Money component of DPCR5 Pension Protection Fund Levy expenditure;
- the DPCR5 Slow Money component of DPCR5 Workforce Renewal expenditure;
- the amount of customer contributions received for Rising and Lateral Mains (SP Distribution plc and SP Manweb plc only).

*Adjusted total capex allowance for each Regulatory Year in DPCR5*

~~16.41~~16.42 The Authority will derive the licensee’s adjusted total capex allowance for each Regulatory Year in DPCR5 by taking the opening capex allowance set against the licensee’s name in Table 16.3 below for the year concerned and adding to it ~~the~~to each of the adjustment values set out in paragraphs ~~16.42~~ 16.43 to ~~16.50~~16.49~~16.48~~, in each case for the same Regulatory Year and stated in 2012/13 prices.

**Table 16.3 – Opening capex allowances (£m in 2012/13 prices)**

Licensee <sup>3</sup>	Regulatory Year				
	2010/11	2011/12	2012/13	2013/14	2014/15
ENWL	170.51	190.08	191.57	163.20	168.25
NPgN	119.65	120.64	127.08	131.44	127.48
NpgY	164.81	167.41	164.04	166.84	173.07
WMID	189.35	194.97	206.51	210.18	213.53
EMID	191.38	199.74	220.16	216.16	215.44
SWALES	79.03	83.43	88.30	88.60	89.59
SWEST	113.76	126.38	131.64	135.13	136.09
LPN	139.77	150.50	162.62	174.39	187.41
SPN	139.41	153.25	168.28	184.17	201.07
EPN	216.19	228.96	243.40	257.25	271.77
SPD	127.67	135.42	138.40	146.65	142.49
SPMW	173.57	167.83	179.62	172.89	174.58
SSEH	88.94	85.85	85.50	84.57	88.67
SSES	227.74	230.35	236.21	232.26	223.89

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<sup>3</sup> Acronyms refer to the Electricity Distribution Network Operators as set out in paragraph 1A. 7 of CRC 1A.

~~16.42~~16.43 The first of the adjustment values referred to in paragraph ~~16.42~~16.41 is the change to the licensee's expenditure allowance amount determined under subsection vii) of section 2 in chapter 15 for the purpose of determining the DPCR5 Load Related Re-opener adjustment value for the licensee (~~taking into account~~ and the value of any double-counting between the Load Related Re-opener adjustment and a NOMs revenue adjustment~~;~~) multiplied by 85 percent.

~~16.43~~16.44 The second of the adjustment values referred to in paragraph ~~16.42~~16.41 is the change to the licensee's expenditure allowance amount determined under subsection viii) of section 2 in chapter 15 for the purpose of determining the DPCR5 High Volume Connections Re-opener adjustment value for the licensee, multiplied by 85 percent.

~~16.44~~16.45 The third of the adjustment values referred to in paragraph ~~16.42~~16.41 is the change to the licensee's expenditure allowance amount determined under subsection ix) of section 2 in chapter 15 for the purpose of determining the DPCR5 High Value Projects adjustment value for the licensee ~~and~~ (~~taking into account~~ the value of any double-counting between the HVP Re-opener adjustment and a HVP failure to deliver outputs adjustment~~;~~) multiplied by 85 percent.

~~16.45~~16.46 The fourth of the adjustment values referred to in paragraph ~~16.42~~16.41 is:

- (a) zero if the materiality test referred to in subsection x) of section 2 in chapter 15 is not passed;  
or, if that materiality test is passed,
- (b) the amount of expenditure on Enhanced Physical Site Security and Black Start capability used to calculate a DPCR5 Enhanced Physical Site Security and Black Start adjustment for the licensee under the provisions of subsection x) of section 2 in chapter 15, multiplied by 85 percent.

~~16.46~~16.47 The fifth of the adjustment values referred to in paragraph ~~16.42~~16.41 is:

- (a) zero if the materiality test referred to in subsection v) of section 2 in chapter 15 is not passed;  
or, if that materiality test is passed,
- (b) the amount of expenditure on Incremental Administration Costs and Permitting Condition Costs used in the calculation of a DPCR5 Traffic Management Act Permit Costs adjustment for the licensee under the provisions of subsection v) of section 2 in chapter 15, multiplied by 85 percent.

~~16.47~~16.48 The sixth of the adjustment values referred to in paragraph ~~16.42~~16.41 is the change to the licensee's expenditure allowance amount determined under subsection xi) of section 2 in chapter 15 for the purpose of determining the DPCR5 Shetland Integrated Plan and Competitive Process adjustment value for the licensee, multiplied by 85 percent. (~~SSEH~~ only).

~~16.48~~16.49 The seventh of the adjustment values referred to in paragraph ~~16.42~~16.41 is the change to the licensee's expenditure allowance amount determined under the Rising and Lateral mains reopener, referred to in chapter 2 of reference document 1 and chapter 7 of reference document 7, that was taken into account in the calculation of the licensee's Opening Base revenue Allowances, multiplied by 85 percent. This paragraph only applies to SP Distribution plc and SP Manweb plc.

~~16.49~~16.50 The eighth of the adjustment values referred to in paragraph ~~16.42~~16.41 is the change to the licensee's expenditure allowance amount determined under subsection xii) of section 2 in chapter 15 for the purpose of determining the DPCR5 Flood Prevention adjustment value for the licensee, multiplied by 85 percent (SSEH only).

### **Determination of adjustment for items subject to DPCR5 IQI Incentive Rate**

~~16.50~~16.51 The latest date by which any of the values used in the calculation of the adjustment for items subject to DPCR5 IQI Incentive Rates can be revised is 30 Nov 2018.

~~16.51~~16.52 The Authority will determine a provisionally revised value for the adjustment for items subject to DPCR5 IQI Incentive Rates for the licensee by 30 November 2015 for the purpose of determining the value of RIREV by 30 November 2015.

~~16.52~~16.53 The Authority will also determine:

- (a) a revised value for the adjustment for items subject to DPCR5 IQI Incentive Rates for the licensee by 30 November 2016 for the purpose of determining the value of RIREV by 30 November 2016;
- (b) a revised value for the adjustment for items subject to DPCR5 IQI Incentive Rates for the licensee by 30 November 2017 for the purpose of determining the value of RIREV by 30 November 2017; and
- (c) a revised value for the adjustment for items subject to DPCR5 IQI Incentive Rates for the licensee by 30 November 2018 for the purpose of determining the value of RIREV by 30 November 2018.

~~16.53~~16.54 A revised value for the adjustment for items subject to DPCR5 IQI Incentive Rates may also be determined by the Authority by 30 November 2019 for the purpose of determining the value of RIREV by 30 November 2019, if that is necessary to take account of:

- (a) any requirement for the licensee to restate the values referred to in paragraph ~~16.41~~16.40; or
- (b) a revision to any of the adjustment values referred to in paragraphs ~~16.43~~ ~~16.42~~ to ~~16.50~~16.47.

~~16.54~~16.55 No further revisions to the value for the adjustment for items subject to DPCR5 IQI Incentive Rates for the licensee will be determined after 30 November 2019 for the purpose of determining a revised value of RIREV, but this is without

prejudice to any requirement for the licensee to restate values referred to in this subsection for any other purpose.

## **ii) DPCR5 High Value Projects - failure to deliver outputs adjustment**

~~16.55~~16.56 This subsection sets out the methodology for determining adjustments to the licensee's allowed revenue for RIIO-ED1 in respect of a failure to deliver outputs relating to DPCR5 High Value Projects (HVP).

~~16.56~~16.57 The term DPCR5 ~~High Value Project~~HVP means a project identified as such in this subsection, in subsection ix) of section 2 in chapter 15, or in reference documents 1, 2, 3 and 4.

### **Determination of the DPCR5 High Value Projects - failure to deliver outputs adjustment**

~~16.57~~16.58 The DPCR5 High Value Projects - failure to deliver outputs adjustment value is derived in accordance with chapter 15 and Annex C2.

~~16.58~~16.59 No revised DPCR5 High Value Projects - failure to deliver outputs adjustment value for the licensee will be determined by the Authority:

- (a) by 30 November 2015 for the purpose of determining the value of RIREV by 30 November 2015; or
- (b) by 30 November 2016 for the purpose of determining the value of RIREV by 30 November 2016.

~~16.59~~16.60 If, under the methodology set out in subsection ix) of section 2 in chapter 15, the Authority decides that a DPCR5 High Value Projects - failure to deliver outputs adjustment should be included in the calculation of a revised RIREV value for the licensee, then the Authority will determine a revised DPCR5 High Value Projects - failure to deliver outputs adjustment value for the licensee by 30 ~~November~~September 2017 for the purpose of determining the value of RIREV by 30 November 2017.

~~16.60~~16.61 No further revisions to the DPCR5 High Value Projects - failure to deliver outputs adjustment value for the licensee will be determined after 30 November 2017 for the purpose of determining a revised value of RIREV.

## **iii) DPCR5 NOMs revenue adjustment**

~~16.61~~16.62 This subsection sets out the methodology for determining adjustments to the licensee's allowed revenue for the RIIO-ED1 period in respect of a failure to deliver outputs relating to Network Output Measures.

~~16.62~~16.63 The Authority's methodology for assessing a failure to deliver outputs in respect of DPCR5 NOMs is set out in Annex A1 - DPCR5 NOMs Failure to Deliver Outputs Methodology.

~~16.63~~16.64 Subject to paragraph ~~16.65~~16.64, if under the Methodology set out in Annex A1, the Authority determines that a NOMs Network Outputs Gap has arisen, the Authority will apply DPCR5 Time Value of Money Adjustments to the values obtained in paragraph ~~1.76~~1.75 of Annex A1, expressed as negative values, to put them on a common 2015/16 time value basis and then total the values for the whole of DPCR5.

### **Re-determining a NOMs revenue adjustment following a restatement of information**

~~16.64~~16.65 The Authority may specify in its Preliminary View that it considers that the licensee has not provided sufficiently robust and consistent data and requires the licensee to restate any information relevant to the Authority's Performance Assessment relating to the licensee's NOMs.

~~16.65~~16.66 The licensee may resubmit any restated information used in the Authority's NOMs Performance Assessment to the Authority within three months of receiving the Authority's Preliminary View under paragraph ~~16.65~~16.64.

~~16.66~~16.67 Where the licensee has not resubmitted information under paragraph ~~16.66~~16.65, or the Authority does not consider that information submitted by the licensee under paragraph ~~16.66~~16.65 is sufficiently robust and consistent, the Authority will, as set out in Annex A1, re-calculate the value of the NOMs Network Outputs Gap for the purpose of re-determining a DPCR5 NOMs revenue adjustment for the licensee, as specified in the DPCR5 NOMs Failure to Deliver Outputs Methodology.

~~16.67~~16.68 Where applicable, after re-calculating the value of the NOMs Network Outputs Gap in paragraph ~~16.67~~16.66, the Authority will consult with the licensee for at least 28 days on its Preliminary View, and take into account any representations made by the licensee during that period.

~~16.68~~16.69 Where applicable, having carried out a consultation under paragraph ~~16.68~~16.67, the Authority will re-determine the DPCR5 NOMs revenue adjustment for the licensee, based on ~~the any~~ restated information submitted by the licensee and in line with paragraph ~~16.73~~16.72.

### **Determination of the DPCR5 NOMs revenue adjustment**

~~16.69~~16.70 No revised DPCR5 NOMs revenue adjustment value for the licensee will be determined by the Authority by 30 November 2015 for the purpose of determining the value of RIREV by 30 November 2015.

~~16.70~~16.71 No revised DPCR5 NOMs revenue adjustment value for the licensee will be determined by the Authority by 30 November 2016 for the purpose of determining the value of RIREV by 30 November 2016.

~~16.71~~16.72 If, under the methodology set out in this subsection, the Authority decides that a DPCR5 NOMs revenue adjustment should be included in the calculation of a revised RIREV value for the licensee, then the Authority will determine a revised DPCR5 NOMs revenue adjustment value for the licensee by 30 November 2017 for the purpose of determining the value of RIREV by 30 November 2017.

~~16.72~~16.73 If under paragraph ~~16.68~~16.67, the Authority re-determines the value of the NOMs Network Outputs Gap used in the calculation of a DPCR5 NOMs revenue

adjustment for the licensee and determines that this should be included in the calculation of a revised RIREV value for the licensee, then the Authority will determine a revised DPCR5 NOMs revenue adjustment value for the licensee by 30 November 2018 for the purpose of determining the value of RIREV by 30 November 2018.

~~16.73~~16.74 Subject to paragraph ~~16.73~~16.72, no further revisions to the DPCR5 NOMs revenue adjustment value for the licensee will be determined after 30 November 201~~8~~7 for the purpose of determining a revised value of RIREV.

#### **(iv) DPCR5 Rising and Lateral Mains - adjustment relating to the level of customer contributions**

##### *References:*

- i. Chapters 2 of reference document 1 specified at the start of this chapter
- ii Chapter 7 and Appendix 6 of reference document 3 specified at the start of this chapter
- iii. Reference document 5 specified at the start of this chapter.

~~16.74~~16.75 This subsection sets out the methodology for determining the adjustment to the licensee's allowed revenue for RIIO-ED1 relating to the level of customer contributions for DPCR5 Rising and Lateral Mains. It only applies to SP Distribution plc and SP Manweb plc and only applies directly to the portion of contribution amounts attributable to DPCR5 Slow Money expenditure.

~~16.75~~16.76 The term DPCR5 Rising and Lateral Mains means the mains that carry electricity to individual dwellings within larger premises connected to a public electricity network (for example individual flats within a block of flats), in the context of this subsection and chapter 2 of reference document 1 and chapter 7 of reference document 3.

#### **Calculation of DPCR5 Rising and Lateral Mains adjustment relating to the level of customer contributions**

~~16.76~~16.77 In setting the licensee's DPCR5 expenditure allowances for work on Rising and Lateral Mains, the Authority used an assumption that the licensee would receive no contributions from customers. The actual amount of customer contributions for Rising and Lateral Mains received by the licensee for each Regulatory Year in DPCR5 are due to be reported by the licensee by 31 July 2015 under applicable Regulatory Instructions and Guidance.

~~16.77~~16.78 The Authority will review the reported values and will use them to calculate the DPCR5 Rising and Lateral Mains adjustment relating to the level of customer contributions value for the licensee.

~~16.78~~16.79 The following steps are carried out to calculate the DPCR5 Rising and Lateral Mains adjustment relating to the level of customer contributions:

- (i) The actual amount of customer contributions for Rising and Lateral Mains will be obtained in 2012/13 prices and expressed as a negative value for each Regulatory Year in DPCR5.
- (ii) The values obtained at step (i) will be multiplied by 85 percent.

*Calculation of intended incentive effect*

- (iii) The values obtained at step (i) for each Regulatory Year of DPCR5 will be multiplied by the RLM Adjusted Incentive Rate for the licensee.
- (iv) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (iii) to put them on a common 2015/16 time value basis and the values will then be totaled to give the intended incentive effect amount, where a positive value represents an amount that is due to be recouped for consumers.

*Calculation of revenue effect that the licensee can be considered to have experienced during DPCR5*

- (v) The values obtained at step (ii) are used to calculate a notional value attributable to:
  - (a) an amount of depreciation (being annual values calculated as the applicable value divided by 20); and
  - (b) return, at the WACC for DPCR5 (applied to the NNRRB),
 in respect of the customer contributions for each Regulatory Year in DPCR5.
- (vi) The values calculated at steps (v)(a) and (b) will be summed for each Regulatory Year in DPCR5.
- (vii) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (vi) to put them on a common 2015/16 time value basis and the values will then be totalled to give the revenue effect that the licensee can be considered to have experienced, where a negative value represents a benefit enjoyed by the licensee.

*Calculation of DPCR5 Rising and Lateral Mains - adjustment relating to the level of customer contributions*

- (viii) The value calculated at step (iv) will be deducted from the value calculated at step (vii).
- (ix) Any provisional adjustment for the DPCR5 Rising and Lateral Mains adjustment relating to the level of customer contributions that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (viii).

16.7916.80 The value obtained at step (ix) in paragraph 16.7916.78 is the DPCR5 Rising and Lateral Mains adjustment relating to the level of customer contributions for the licensee.

## **Determination of the DPCR5 Rising and Lateral Mains - adjustment relating to the level of customer contributions**

~~16.80~~16.81 The Authority will determine a revised DPCR5 Rising and Lateral Mains adjustment relating to the level of customer contributions value for the licensee for the licensee by 30 November 2015.

~~16.81~~16.82 Subject to paragraphs ~~16.83~~16.82 and ~~16.84~~16.83, the Authority will determine a revised DPCR5 Rising and Lateral Mains adjustment relating to the level of customer contributions value for the licensee if, with respect to the values referred to in paragraph ~~16.80~~16.70:

- (a) the Authority apprised the licensee, by 31 October 2015, of any provisionality it had attached to those values with regard to a possible restatement requirement (see also paragraph 1.17 in chapter 1); or
- (b) the licensee is required, under any provision of the licence to restate any of those values.

~~16.82~~16.83 A revised DPCR5 Rising and Lateral Mains adjustment relating to the level of customer contributions value for the licensee may be determined by the Authority:

- (a) by 30 November 2016 for the purpose of determining the value of RIREV by 30 November 2016; and
- (b) by 30 November 2017 for the purpose of determining the value of RIREV by 30 November 2017.

~~16.83~~16.84 No further revisions to the DPCR5 Rising and Lateral Mains adjustment relating to the level of customer contributions value for the licensee will be determined after 30 November 2017 for the purpose of determining a revised value of RIREV, but this is without prejudice to any requirement for the licensee to restate the values referred to in paragraph ~~16.80~~16.79 for any other purpose under any provision of the licence.

## **(v) DPCR5 Workforce Renewal - adjustment resulting from overspend or underspend against allowance**

### *References:*

- i. Chapters 2 and 4 of reference document 3 specified at the start of this chapter

~~16.84~~16.85 This subsection sets out the methodology for determining the adjustment to the licensee's allowed revenue for RIIO-ED1 relating to any overspend or underspend against its expenditure allowances for DPCR5 Workforce Renewal. The adjustment relates only to the capitalised portions of expenditure allowances and actual expenditure amounts.

~~16.85~~16.86 The term DPCR5 Workforce Renewal means the replacement of staff in the circumstances, and for the reasons, set out in chapters 2 and 4 of reference document 3 specified at the start of this chapter and further clarified in RIGs. The costs associated with DPCR5 Workforce Renewal include relevant employee costs and costs for associated activities such as recruitment and training.

~~16.86~~16.87 The licensee's expenditure allowances for DPCR5 Workforce Renewal are set out against its name in Table 16.4 below.

**Table 16.4 - Opening expenditure allowances for DPCR5 Workforce Renewal (£m in 2012/13 prices)**

Licensee <sup>4</sup>	Regulatory Year				
	2010/11	2011/12	2012/13	2013/14	2014/15
ENWL	5.69	5.87	5.77	5.35	4.69
NPgN	0.78	1.59	2.16	2.46	2.46
NpgY	1.27	2.52	3.54	3.96	3.96
WMID	2.84	3.64	3.95	4.18	4.00
EMID	2.86	3.66	3.98	4.21	4.03
SWALES	3.44	4.16	3.46	2.46	1.46
SWEST	4.92	5.95	4.94	3.52	2.09
LPN	3.53	3.53	2.76	3.31	3.53
SPN	4.53	4.19	3.86	3.75	3.86
EPN	6.32	6.65	5.54	5.65	5.98
SPD	1.03	1.34	4.33	4.44	4.61
SPMW	1.31	1.64	5.30	5.18	5.27
SSEH	1.58	1.58	1.58	1.58	1.58

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<sup>4</sup> Acronyms refer to the Electricity Distribution Network Operators as set out in paragraph 1A. 7 of CRC 1A.

SSES	3.04	3.04	3.04	3.04	3.04
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~~16.87~~16.88 The licensee's actual expenditure amounts for DPCR5 Workforce Renewal are due to be reported by the licensee by 31 July 2015 under applicable Regulatory Instructions and Guidance.

~~16.88~~16.89 The Authority will review the reported values and will use them to calculate the DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance for the licensee.

**Calculation of DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance**

~~16.89~~16.90 The following steps will be carried out to calculate the DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance:

- (i) The licensee's overall opening expenditure allowance will be obtained for each Regulatory Year in DPCR5 in 2012/13 prices from Table 16.4 above and will be multiplied by 85 percent to calculate the DPCR5 Slow Money element.
- (ii) The licensee's actual expenditure amount for each Regulatory Year in DPCR5 will be obtained from the licensee's submissions under relevant Regulatory Instructions and Guidance and will be restated in 2012/13 prices and will then be multiplied by 85 percent to calculate the DPCR5 Slow Money element.
- (iii) The values calculated at step (i) will be deducted from the values calculated at step (ii) to calculate an over or underspend value relating to DPCR5 Slow Money expenditure for each Regulatory Year in DPCR5 in 2012/13 prices.
- (iv) The values calculated at step (iii) will be totalled to calculate an overall over or underspend value relating to DPCR5 Slow Money expenditure for DPCR5 in 2012/13 prices.
- (v) If the value calculated at step (iv) is a positive value (an overall overspend), then steps (vii) to (xiii) will be carried out and steps (xiv) to (xxi) below will not apply.
- (vi) If the value calculated at step (iv) is a negative value (an overall underspend), then steps (xiv) to (xviii) below will be carried out and steps (vii) to (xiii) below will not apply.

Calculation of adjustment in event of overall overspend

*Calculation of intended incentive effect*

- (vii) The values calculated at step (iii) will be multiplied by the Adjusted DPCR5 IQI Incentive Rates for the licensee.
- (viii) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (vii) to put them on a common

2015/16 time value basis and the values will then be totalled to give the intended incentive effect amount.

*Calculation of incentive loss experienced by the licensee during DPCR5*

- (ix) The values calculated at step (iii) will be used to calculate a notional value attributable to:
  - (a) an amount of depreciation (being annual values calculated as the applicable value divided by 20);  
and
  - (b) return, at the WACC for DPCR5 (applied to the NNRRB),in respect of the licensee's overspend for each Regulatory Year in DPCR5.
- (x) The values calculated at steps (ix)(a) and (b) will be summed for each Regulatory Year in DPCR5.
- (xi) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (x) to put them on a common 2015/16 time value basis and the values will then be totalled.

*Calculation of DPCR5 Workforce Renewal adjustment*

- (xii) The value calculated at step (viii) will be deducted from the value calculated at step (xi).
- (xiii) Any provisional adjustment for the DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (xii).

Calculation of adjustment in event of overall underspend

*Calculation of incentive gain experienced by the licensee during DPCR5*

- (xiv) The values calculated at step (iii) will be split into:
  - (a) DPCR5 Slow Money amounts (being 85 percent); and
  - (b) DPCR5 Fast Money amounts (being 15 percent).
- (xv) The values calculated at step (xiv)(a) will be used to calculate a notional value attributable to:
  - (a) an amount of depreciation (being annual values calculated as the applicable value divided by 20);  
and
  - (b) return, at the WACC for DPCR5 (applied to the NNRRB),in respect of the licensee's underspend for each Regulatory Year in DPCR5.

- (xvi) The values calculated at steps (xiv)(b) and (xv)(a) and (b) will be summed for each Regulatory Year in DPCR5.
- (xvii) DPCR5 Time Value of Money Adjustments will be applied to the values calculated at step (xvi) to put them on a common 2015/16 time value basis and the values will then be totalled.
- (xviii) Any provisional adjustment for the DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance that was included in the calculation of the licensee's Opening Base Revenue Allowances will be deducted from the value calculated at step (xvii).

~~16.90~~16.91 The value obtained at:

- (a) step (xiii) in paragraph 16.90; or, as applicable,
- (b) step (xviii) (which can only be a negative value) in paragraph ~~16.90~~16.89,

is the DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance for the licensee in 2012/13 prices.

#### **Determination of the DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance**

~~16.91~~16.92 The Authority will determine a revised DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance value for the licensee by 30 November 2015.

~~16.92~~16.93 Subject to paragraphs ~~16.94~~16.93 and ~~16.95~~16.94, the Authority will determine a revised DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance value for the licensee if, with respect to the values referred to in paragraph ~~16.88~~16.87:

- (a) the Authority apprised the licensee, by 31 October 2015, of any provisionality it had attached to those values with regard to a possible restatement requirement (see also paragraph 1.17 in chapter 1); or
- (b) the licensee is required, under any provision of the licence to restate any of those values.

~~16.93~~16.94 A revised DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance value for the licensee may be determined by the Authority:

- (a) by 30 November 2016 for the purpose of determining the value of RIREV by 30 November 2016; and
- (b) by 30 November 2017 for the purpose of determining the value of RIREV by 30 November 2017.

~~16.94~~16.95 No further revisions to the DPCR5 Workforce Renewal adjustment resulting from overspend or underspend against allowance value for the licensee will be determined after 30 November 2017 for the purpose of determining a revised

value of RIREV, but this is without prejudice to any requirement for the licensee to restate the values referred to in paragraph ~~16.88~~~~16.87~~ for any other purpose under any provision of the licence.

### **Section 3 – Determination of revisions to the PCFM Variable Value for legacy adjustments associated with the DPCR5 RAV Rolling Incentive mechanism (the RIREV value)**

~~16.95~~~~16.96~~ This section sets out the methodology by which the Authority will determine the value of RIREV for the licensee for the purpose of directing any revisions to that value under section 4, and in accordance with Part D of CRC 3A.

~~16.96~~~~16.97~~ The Authority will determine the value of RIREV for the licensee by 30 November in each Regulatory Year from 2015/16 to 2021/22, by summing the most recently determined values for each of the five adjustments set out in Table 2 in CRC3A.

~~16.97~~~~16.98~~ Timings for the determination of each adjustment are set out in the respective subsections of this section.

~~16.98~~~~16.99~~ The RIREV value is only contained in the column for Regulatory Year 2015/16 in the PCFM Variable Values Table for the licensee. The opening value of RIREV for the licensee, as at 1 April 2015, will be zero (see also paragraph 13.7 in chapter 13). Functionality within the PCFM means that the change to the licensee's revenue allowance, represented by the RIREV value, is spread across recalculated base revenue figures for the whole Price Control Period with appropriate Time Value of Money Adjustments.

~~16.99~~~~16.100~~ Determinations of the RIREV value for the licensee will be in 2012/13 prices.

### **Section 4 – Direction of revisions to the RIREV value**

~~16.100~~~~16.101~~ Paragraph 3A.34 of CRC 3A requires the Authority to give the licensee at least 14 days' notice setting out any proposed revision to the RIREV value that it has determined, before directing the revision. This means that the Authority will give notice to the licensee of any revision that it has determined by 15 November in each Regulatory Year t-1. The Authority is required to have due regard to any representations made by the licensee and to give its reasons for any decisions in relation to them.

~~16.101~~~~16.102~~ Having complied with the notice requirements, the Authority will direct any required revision to the RIREV value by 30 November in each Regulatory Year t-1.

#### *Delay in direction of revised RIREV Value*

~~16.102~~~~16.103~~ If, for any reason, the Authority does not give a required direction of a revision to the RIREV value by 30 November in any Regulatory Year t-1, CRC 3A requires that the value should be directed by the Authority as soon as is reasonably practicable, to facilitate the notification and direction of the value of the term  $MOD_t$  under CRC 4B (Annual Iteration Process for the PCFM).

# Annex A1: DPCR5 NOMs Failure to Deliver Outputs Methodology

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## Overview

1.1 The DPCR5 NOMs (Network Outputs Measures) Failure to Deliver Outputs Methodology sets out the way in which the Authority will determine:

- (i) whether the licensee has delivered Qualitatively Equivalent Network Outputs or an outputs gap has arisen; and,
- (ii) the value of the NOMs Network Outputs Gap, if any.

1.2 As part of its DPCR5 settlement the licensee committed to delivering an agreed (or equivalent) package of output measures comprising:

- Health Indices (HIs);
- Load Indices (LIs); and,
- Fault Rates.

1.3 The Agreed Network Outputs for the licensee are specified in the Authority's decision document published on 7 December 2009 (reference document 2- in section 16 of this Handbook). They are deemed to have been accepted by the licensee by virtue of the Authority's modification, with the licensee's consent, of the Charge Restriction Conditions of the electricity distribution licence effective from 1 April 2010 for the licensee, with expenditure allowances that were assumed to be consistent with these.

1.4 Adjusted Network Outputs may need to be defined to account for Material Changes during the DPCR5 period. Where no Material Changes have arisen or where the Authority judges that no rebasing is required, Adjusted Network Outputs will be the same as Agreed Network Outputs.

1.5 The Authority will carry out the following steps separately for each of the three components of the package of output measures set out in paragraph 1.2:

- Step 1: Initial High Level Analysis (see paragraph 1.8 to paragraph 1.12)
- Step 2: Performance Assessment (see paragraph 1.13)
- Step 3: ~~Determinatio~~Assessment~~n~~ of whether ~~an outputs-NOMs Network Outputs\_g~~Gap has arisen ~~for each~~in respect of ~~each of~~ the output measures in paragraph 1.2 above (see paragraph 1.14 to paragraph 1.15)

1.6 After carrying out steps 1 to 3 in paragraph ~~1.41.51.51.4~~ for each of the three components of the Agreed Network Outputs, the Authority will carry out the following steps:

- Step 4: Determination of whether a package of Qualitatively Equivalent Network Outputs has been delivered or a NOMs Network Outputs Gap has arisen (see paragraph 1.16 to paragraph 1.19)
- Step 5: Determination of the value of the NOMs Network Outputs Gap where a NOMs Network Outputs Gap has arisen (see paragraph 1.20)

1.7 Any determination by the Authority of whether a NOMs Network Outputs Gap has arisen will exclude the impact of any Interventions carried out by the licensee as part of a DPCR5 High Value Project (HVP), ~~where these projects were not included in the relevant NOMs Agreed Network Outputs.~~

### **Step 1 – Initial High Level Analysis**

1.8 The Authority will undertake an Initial High Level Analysis of the licensee's delivery of Agreed Network Outputs, based on information submitted by the licensee.

1.9 The Authority will provide the licensee with guidance on the additional information to be submitted by the licensee in its Performance Assessment Submission as specified in Annex E, in line with the timings specified in paragraph 16.4.

1.10 The Authority will only request a Performance Assessment Submission where it identifies gaps in its existing information or where specific questions have arisen as a result of its Initial High Level Analysis. The information requested by the Authority will be proportionate to the results of the Initial High Level Analysis and will include requests for any outstanding information required to address issues identified.

1.11 Where, following the Initial High Level Analysis, the Authority considers that the licensee is not required to submit additional information as part of its Performance Assessment Submission, the Authority will inform the licensee of the outcome of its analysis and clarify whether it considers that:

- (i) no NOMs Network Outputs Gap has arisen; or,
- (ii) a Performance Assessment may be required to determine whether a NOMs Network Outputs Gap has arisen.

1.12 Where the Authority concludes under paragraph 1.11(i) that no NOMs Network Outputs Gap has arisen it will inform the licensee in line with paragraph 16.7 and consult with [the licensee](#) on its Preliminary View in line with paragraph 16.11 of chapter 16.

### **Step 2 – Performance Assessment**

1.13 In accordance with paragraph 16.9, the Authority will undertake a Performance Assessment to assess whether the licensee has delivered its Adjusted Network Outputs or whether a NOMs Network Outputs Gap has arisen, in respect of each of the NOMs components, ~~which and~~ will comprise two steps:

- determining the Authority's view of the Adjusted Network Outputs (Step 2A); and,

- assessing delivery against the Authority's view of Adjusted Network Outputs (Step 2B).

### **Step 3 - Assessment of whether an outputs gap has arisen**

1.14 Following its assessment under Step 2, paragraph 1.13, the Authority will assess, with respect to each category of NOMs, whether the licensee has delivered an equivalent level of outputs to that funded by customers during the DPCR5 period or whether an outputs gap has arisen.

1.15 The details of the Authority's Performance Assessment relating to each component of the NOMs is set out in the following sections:

- (i) HIs - paragraph 1.21 to paragraph 1.34;
- (ii) LIs - paragraph 1.35 to paragraph 1.49; and,
- (iii) Fault Rates - paragraph 1.50 to paragraph 1.61.

### *Step 4 - Determination of whether Qualitatively Equivalent Network Outputs have been delivered or a NOMs Network Outputs Gap has arisen*

1.16 Having carried out a Performance Assessment under Step 3, the Authority will determine whether overall, ~~as specified in Step 4:~~

- (i) the licensee has delivered a package of Qualitatively Equivalent Network Outputs; or,
- (ii) the licensee has not delivered a package of Qualitatively Equivalent Network Outputs and a NOMs Network Outputs Gap has arisen.

1.17 Where the Authority determines that the licensee has delivered Qualitatively Equivalent Network Outputs, there will be no DPCR5 NOMs revenue adjustment for the licensee and the Authority will notify the licensee and consult on its Preliminary View in line with paragraph 16.11 and with paragraph 16.13 of chapter 16.

1.18 Where the Authority considers that a NOMs Network Outputs Gap has arisen, the Authority will, subject to paragraph 1.19, proceed to determine the value of the NOMs Network Outputs Gap as specified in Step 5.

1.19 Where the Authority considers that the licensee has not delivered a package of Qualitatively Equivalent Network Outputs and a NOMs Network Outputs Gap has arisen but considers that the licensee has provided sufficient justification and evidence for its performance, the Authority will determine that there is no DPCR5 NOMs revenue adjustment for the licensee and will notify the licensee and consult on its Preliminary View in line with paragraph 16.11 and with paragraph 16.13.

### **Step 5 - Determination of the value of the NOMs Network Outputs Gap**

1.20 Where the Authority determines in paragraph 1.18 that a NOMs Network Outputs Gap has arisen, the Authority will quantify the value of the outputs gap for

each individual NOMs component to obtain the total NOMs Network Outputs Gap, as specified in paragraph 1.72 to paragraph ~~1.76-1.71~~.

## **Health Indices (HIs) - Authority assessment**

1.21 The Authority will determine that the licensee has delivered the HI component of its Adjusted Network Outputs if:

- (i) the licensee's HI Risk Points Reduction is equal to or greater than 95% of licensee's HI Target Delta; or,
- (ii) if the condition set out in paragraph 1.21(i) is not met, the information submitted by the licensee justifies the licensee's programme of work during the DPCR5 period.

### **Step 1 - HI Initial High Level Analysis**

1.22 The Authority will undertake an Initial High Level Analysis in relation to the HI component of the licensee's NOMs which will comprise:

- (i) a quantitative assessment of the licensee's HI component of the Delivered Network Outputs compared to the Agreed Network Outputs, prior to any adjustments for Material Changes, using the HI Risk Points Methodology as specified in Annex A2, Section 1.
- (ii) a high level analysis of Material Changes, to understand the potential impact upon the HI Risk Points Reduction compared to the HI Target Delta at the end of DPCR5 period; and,
- (iii) a qualitative review of any supporting information submitted by the licensee associated with the DPCR5 period.

1.23 The analysis referred to under paragraph 1.22 will draw on a range of sources of evidence which may include, but not be limited to:

- (i) the licensee's submitted Network Outputs Reporting Workbook;
- (ii) the licensee's HI Tracking Sheet;
- (iii) the HI Risk Points Methodology developed during the DPCR5 period and described in Annex A2, Section 1; and,
- (iv) any other relevant information submitted by the licensee.

1.24 The Authority will determine whether:

- (i) the result from paragraph 1.22 meets the test set out in paragraph 1.21; or,
- (ii) the licensee is required to submit additional information as part of its Performance Assessment Submission.

1.25 The Authority will inform the licensee of the result of its Initial High Level Analysis in line with paragraph 1.9 to paragraph 1.12 of this annex.

## **Step 2 - Performance Assessment - HIs**

1.26 The Authority may undertake a Performance Assessment of the HI component of the licensee's NOMs which will comprise:

- (i) a review of the licensee's Agreed Network Outputs;
- (ii) a review of the licensee's Adjusted Network Outputs, where these have been submitted by the licensee as part of its Performance Assessment Submission;
- (iii) a review of any supporting evidence and justification provided by the licensee for not rebasing the HI component of its Agreed Network Outputs;
- (iv) a quantitative assessment of the licensee's HI Risk Points Reduction compared against the HI Target Delta, using the HI Risk Points Methodology as specified in Annex A2, Section 1; or,
- (v) a qualitative assessment of the licensee's submitted information.

1.27 The HI Performance Assessment will draw on a range of sources of evidence, which may include, but not be limited to, the Authority's Initial High Level Analysis, the licensee's Performance Assessment Submission and information submitted by the licensee.

### Step 2A - Authority view of the HI component of the Adjusted Network Outputs

1.28 The Authority will determine its view of the HI component of the Adjusted Network Outputs for the licensee, taking into account information submitted by the licensee, including any proposal by the licensee for the HI component of its Adjusted Network Outputs.

1.29 Where the Authority decides that the licensee has not provided sufficient supporting evidence to justify that the HI component of its Agreed Network Outputs does not require rebasing for Material Changes, the Authority will rebase the HI component of the licensee's Agreed Network Outputs, based on information

submitted by the licensee, to determine its view of the HI component of the licensee's Adjusted Network Outputs.

1.30 The Authority will carry out any rebasing under ~~paragraph~~ paragraph 1.29 in line with the principles set out in the paragraph 2.6 of Annex E. Where not determined otherwise, the HI component of the Adjusted Network Outputs will equal the HI component of the Agreed Network Outputs.

#### Step 2B - Assessment of delivery of Adjusted Network Outputs

1.31 The Authority will carry out a quantitative analysis and qualitative analysis to determine whether the licensee has delivered the HI component of Adjusted Network Outputs, as determined by the Authority in Step 2A.

#### Quantitative Analysis

1.32 The Authority's quantitative analysis is the assessment of the HI Risk Points Reduction achieved by the licensee through its Delivered Network Outputs against the licensee's HI Target Delta, using the HI Risk Points Methodology outlined in Annex A2.

#### Qualitative analysis

1.33 The Authority's qualitative element of the Performance Assessment will consider the information provided by the licensee having regard to the extent to which:

- (i) the licensee is able to demonstrate that the programme of work for the HI component of the NOMs, delivered during the DPCR5 period was equivalent to the programme of work for the HI component of the Agreed Network Outputs;
- (ii) the licensee is able to demonstrate that its asset management decisions represented effective stewardship in the interest of consumers; ~~and~~
- (iii) any significant ~~HI band~~ variations by the DNO to the volume of assets in HI bands for particular asset categories ~~and overall~~ are adequately explained by the licensee;
- (iv) the deterioration of an asset type is significantly beyond what was forecast at DPCR5;
- (v) the licensee is able to explain any discrepancies between the Network Outputs Reporting Workbook and its DPCR5 RIGs Submissions; and,

- (vi) the licensee is able to provide ~~clear~~ justification and explanation of any issues raised by the Authority following its Initial High Level Analysis.

### **Step 3 – Assessment of whether an outputs gap has arisen for the HI component of the NOMs**

1.34 The Authority will assess whether:

- (i) the result of its Performance Assessment obtained under paragraphs 1.32 and ~~1.331.31~~ meets the test set out in paragraph 1.21 and no outputs gap has arisen for the HI component of the NOMs; or,
- (ii) the result of its Performance Assessment obtained under paragraphs ~~s~~ 1.32 and ~~1.331.31~~ does not meet the test set out in paragraph 1.21 and ~~no-an~~ outputs gap has arisen for the HI component of the NOMs.

### **Load Indices (LIs) - Authority assessment**

1.35 The Authority will determine that the licensee has delivered the LI component of its Adjusted Network Outputs if:

- (i) the licensee's outturn LI Band Profiles provide an equivalent or lower level of network risk than the LI Band Profile target; and,
- (ii) the licensee's LI Risk Points at the end of DPCR5 period are equal to or less than 105% of the licensee's LI component of the Agreed Network Outputs or LI component of the Adjusted Network Outputs, where relevant; or,
- (iii) if either of the conditions set out in paragraphs 1.35(i) and 1.35(ii) are not met, the information provided by the licensee as part of its Performance Assessment Submission demonstrates the licensee's programme of work undertaken during the DPCR5 period was in the interest of customers and confirms that the LI component of the licensee's Qualitatively Equivalent Network Outputs has been met.

### **Step 1 - LI Initial High Level Analysis**

1.36 The Authority will undertake an Initial High Level Analysis to assess the licensee's delivery of the Agreed Network Outputs. This Initial High Level Analysis will include, but is not limited to:

- (i) a comparison of the LI Band Profiles in the Agreed Network Outputs with Intervention, compared to the actual LI Band Profiles at the end of DPCR5;

- (ii) a quantitative assessment using the LI Risk Points Methodology described in Annex A2, section 2;
- (iii) a high level analysis of Material Changes, to ascertain the potential impact upon the LI Risk Points at the end of the DPCR5 period; and,
- (iv) a qualitative review of any supporting information submitted by the licensee.

1.37 The analysis referred to under paragraph 1.36 will draw on a range of sources of evidence, which may include, but not be limited to:

- (i) the licensee's submitted Network Outputs Reporting Workbook;
- (ii) the LI Risk Points Methodology developed during the DPCR5 period and described in Annex A2, section 2; and,
- (iii) any other relevant information submitted by the licensee.

1.38 The Authority will determine whether:

- (i) the results from paragraph 1.36 meets the tests set out in paragraph 1.35; or,
- (ii) the licensee is required to submit additional information as part of its Performance Assessment Submission.

1.39 The Authority will inform the licensee of the result of its Initial High Level Analysis in line with paragraph 1.9 to paragraph 1.12 of this annex.

## **Step 2 - Performance Assessment**

1.40 The Authority may undertake a Performance Assessment ~~to determine if the licensee has delivered~~ of the LI component ~~of its Qualitatively Equivalent Network Outputs of the licensee's NOMs~~. The LI component of the Performance Assessment will comprise:

- (i) a review of the licensee's Agreed Network Outputs;
- (ii) a review of the licensee's Adjusted Network Outputs, where these have been submitted by the licensee as part of its Performance Assessment Submission;
- (iii) a review of any supporting evidence and justification provided by the licensee for not rebasing the LI component of its Agreed Network Outputs;

- (iv) a quantitative assessment based on the LI Band Profile and the LI Risk Points Methodology outlined in Annex A2; and,
- (v) a qualitative assessment of the licensee's submitted information.

1.41 Material Changes for the purposes of determining the LI component of the licensee's Adjusted Network Outputs exclude any changes in demand experienced during the DPCR5 period.

1.42 The Authority's assessment will draw on a range of sources of evidence, which may include, but not be limited to the Authority's Initial High Level Analysis, the licensee's Performance Assessment Submission and information submitted by the licensee.

#### Step 2A – Authority view of the LI component of the Adjusted Network Outputs

1.43 The Authority will determine its view of the LI component of the Adjusted Network Outputs for the licensee, taking into account information submitted by the licensee, including any proposal by the licensee for the LI component of its Adjusted Network Outputs.

1.44 Where the Authority decides that the licensee has not provided sufficient supporting evidence to justify that the LI component of its Agreed Network Outputs does not require rebasing for Material Changes, the Authority will rebase the LI component of the licensee's Agreed Network Outputs, based on information submitted by the licensee, to determine its view of the LI component of the licensee's Adjusted Network Outputs.

1.45 The Authority will carry out any rebasing under paragraph 1.44 in line with the principles set out in the paragraph 2.6–3.5 of Annex E. Where not determined otherwise, the LI component of the Adjusted Network Outputs will equal the LI component of the Agreed Network Outputs.

#### Step 2B - Assessment of delivery of Adjusted Network Outputs

1.46 The Authority will carry out a quantitative analysis and qualitative analysis to determine whether the licensee has delivered the LI component of Adjusted Network Outputs, as determined by the Authority in Step 2A.

##### Quantitative analysis

1.47 The Authority will perform a quantitative analysis of the information provided by the licensee, to assess the licensee's performance in the DPCR5 period against both its LI Agreed Network Outputs and its LI Adjusted Network Outputs using the LI Risk Points Methodology as defined in Annex A2, section 2.

##### Qualitative analysis

1.48 The Authority's qualitative element of the Performance Assessment will consider the information provided by the licensee having regard to the extent to which:

- (i) the licensee is able to demonstrate that the LI Risk Points delivered are equivalent to the programme of work for the LI component of the Agreed Network Outputs;
- (ii) the licensee is able to justify and explain the impact of the licensee's reinforcement decisions; the licensee is able to demonstrate that its asset management decisions represented effective stewardship in justify that these are in the best interest of consumers; and,
- (iii) the licensee is able to provide justification and explanation of any issues that were raised in the Authority's Initial High Level Analysis.

### **Step 3 – Assessment of whether an outputs gap has arisen for the LI component of the NOMs**

1.49 The Authority will assess whether:

- (i) the result of its Performance Assessment obtained under paragraphs 1.47 and 1.48 meets the test set out in paragraph 1.35 and there is no outputs gap for the LI component of the NOMs; or,
- (ii) the result of its Performance Assessment obtained under paragraphs 1.47 and 1.48 does not meet the test set out in paragraph 1.35 and an outputs gap has arisen for the LI component of the NOMs.

### **Fault Rates - Authority assessment**

1.50 The Authority will determine that the licensee has delivered the Fault Rate component of its Adjusted Network Outputs if:

- (i) the licensee's Fault Rate is less than or equal to 110% of licensee's forecast Fault Rate (determined using the Fault Rate Points Methodology as set out in Annex A2); or,
- (ii) if the condition set out in paragraph 1.50(i) is not met, the information provided by the licensee justifies the licensee's programme of work associated withduring the DPCR5 period.

### **Step 1 - Fault Rates Initial High Level Analysis**

1.51 The Authority will undertake an Initial High Level Analysis of the Fault Rate component of the licensee's NOMs which will comprise:

- (i) a quantitative assessment using the Fault Rate Points Methodology described in Annex A2, section 3 to compare the licensee's average Fault Rates during the DPCR5 period against its forecast Fault Rates for the DPCR5 period (for those assets not covered by the HI component of the NOMs);
- (ii) a high level analysis of Material Changes, to ascertain the potential impact upon the delivered Fault Rate Points at the end of the DPCR5 period;
- (iii) an analysis of the extent to which exceptional events impacted upon Fault Rates during the DPCR5 period; and,
- (iv) a qualitative review of any supporting information submitted by the licensee during the DPCR5 period.

1.52 The analysis referred to under paragraph 1.51 will draw on a range of sources of evidence which may include, but not be limited to:

- (i) the licensee's submitted Network Outputs Reporting Workbook;
- (ii) the Fault Rates Points Methodology described in Annex A2, section 3; and,
- (iii) any other relevant information submitted by the licensee associated with the DPCR5 period.

1.53 The Authority will determine whether:

- (i) the result from paragraph 1.51 meets the test set out in paragraph 1.50; or,
- (ii) the licensee is required to submit additional information as part of its Performance Assessment Submission.

1.54 The Authority will inform the licensee of the result of its Initial High Level Analysis in line with paragraph 1.9 to paragraph 1.12 of this annex.

## **Step 2 - Performance Assessment – Fault Rates**

1.55 The Authority may undertake a Performance Assessment of the Fault Rate component of the NOMs which will comprise:

- (i) a quantitative assessment based on the Fault Rates Points Methodology outlined in Annex A2, section 3; and,
- (ii) a qualitative assessment of the licensee's submitted information.

1.56 The Authority's assessment will draw on a range of sources of evidence, which will include, but not be limited to the licensee's Performance Assessment Submission and other sources of information submitted by the licensee.

### Step 2A - Authority view of the Fault Rates component of the Adjusted Network Outputs

1.57 The Authority will determine its view of the Fault Rate component of the Adjusted Network Outputs for the licensee, taking into account information submitted by the licensee, including any proposal by the licensee for the Fault Rate component of its Adjusted Network Outputs. Where not determined otherwise, the Fault Rate component of the Adjusted Network Outputs will equal the Fault Rate component of the Agreed Network Outputs.

#### Step 2B – Assessment of the delivery of Adjusted Network Outputs

##### Quantitative analysis

1.58 The Authority will carry out a quantitative analysis and qualitative analysis to determine whether the licensee has delivered the Fault Rate component of its Adjusted Network Outputs.

##### Quantitative analysis

1.59 The Authority’s quantitative analysis is the assessment of average Fault Rate over the DPCR5 period compared to the average forecast Fault Rate (for those assets not covered by the HI component of the NOMs), using the Fault Rate Points Methodology specified in Annex A2.

##### Qualitative analysis

1.60 The Authority’s qualitative element of the Performance Assessment will consider the information provided by the licensee having regard to the following:

- (i) whether the licensee is able to demonstrate that the performance in the Fault Rate component of the NOMs, delivered during the DPCR5 period, was ~~qualitatively~~ equivalent to the Fault Rate component of the ~~Agreed-Adjusted~~ Network Outputs;
- (ii) any explanations~~;~~ provided by the licensee for Fault Rate Asset Categories where the DPCR5 out-turn Fault Rate exceeds the forecast Fault Rates~~s~~;
- (iii) the extent to which exceptional events/external factors impacted upon Fault Rates during the DPCR5 period;
- (iv) factors that are beyond the control of the licensee, taking account of changes in the constituent fault causes;
- (v) evidence demonstrating that the licensee’s stewardship of its assets, in respect of Fault Rates, has been in the interest of consumers; and,

- (vi) the licensee is able to provide clear justification and explanation of any issues raised by the Authority following its Initial High Level Analysis.

### **Step 3 – Assessment of whether a network outputs gap has arisen for the Fault Rate component of the NOMs**

1.61 The Authority will assess whether:

- (i) the result from paragraphs ~~1.591.58~~ and 1.60 meets the test set out in paragraph 1.50 and there is no NOMs Network Outputs Gap for the Fault Rates component of the NOMs; or,
- (ii) the result from paragraphs ~~1.591.58~~ and 1.60 does not meet the test set out in paragraph 1.50 and a NOMs Network Outputs Gap has arisen for the Fault Rates component of the NOMs.

### **All NOMs components**

*Step 4: Determining whether Qualitatively Equivalent Network Outputs have been delivered or a NOMs Network Outputs Gap has arisen*

1.62 Having carried out the analysis specified under paragraphs 1.8 and 1.13~~;~~ where the Authority determines that the licensee has delivered:

- the HI component of its Adjusted Network Outputs;
- the LI component of its Adjusted Network Outputs; and,
- the Fault Rate component of its Adjusted Network Outputs,

the Authority will determine that the licensee has delivered Qualitatively Equivalent Network Outputs and there will be no DPCR5 NOMs revenue adjustment for the licensee. The Authority will notify the licensee and consult on its Preliminary View in line with paragraph 16.11 and with paragraph 16.13.

1.63 Where the Authority determines that the licensee has not delivered its Adjusted Network Outputs in one or more NOMs component, the Authority will assess the licensee's aggregate performance across all three NOMs components to determine whether the licensee has delivered Qualitatively Equivalent Network Outputs.

1.64 In assessing the licensee's aggregate performance across all three NOMs components, the Authority will consider whether the licensee has delivered a package of outputs which is in the interest of consumers, recognising the level of risk or change in level of risk funded in the price control and the need to take efficient asset management decisions within the price control period.

1.65 If under paragraph 1.64, the Authority determines that, in aggregate, the licensee has delivered Qualitatively Equivalent Network Outputs, there will be no

DPCR5 NOMs revenue adjustment for the licensee, and the Authority will consult on its Preliminary View in line with paragraph 16.12.

1.66 Where the Authority determines that, in aggregate, the licensee has not delivered Qualitatively Equivalent Network Outputs, the Authority will proceed to quantify the value of the NOMs Network Outputs Gap using one or more of the approaches set out in paragraphs 1.68 to 1.71 below, subject to paragraph 1.67.

1.67 Where the Authority determines that, in aggregate, the licensee has not delivered Qualitatively Equivalent Network Outputs but considers that the licensee has provided sufficient justification and evidence for its performance, the Authority will determine that no NOMs Network Outputs Gap has arisen and that there will be no DPCR5 NOMs revenue adjustment for the licensee, and the Authority will consult on its Preliminary View in line with paragraph 16.12.

## **Step 5 - Determining the value of the NOMs Network Outputs Gap**

### HI component of NOMs Network Outputs Gap

1.68 Where the Authority determines that a network outputs gap exists in respect to the HI component of the NOMs, the Authority will calculate the monetary value of the HI component of the NOMs Network Outputs Gap using the following steps:

- (i) for each HI Asset Category, the Authority will divide the HI Risk Points associated with the network outputs gap (whether positive or negative) by the DPCR5 survey unit cost ~~DPCR5 allowed unit cost~~ (as specified in Annex A2 – see unit costs A) and by 99 (to reflect the weighting associated with the replacement of an HI5 asset) to translate the HI Risk Points into a volume of work. This is based on the assumption that the work delivering the HI movements is asset replacement;
- (ii) for each HI Asset Category, the volume of work, from step (i), is multiplied by the licensee's DPCR5 outturn unit cost (as specified in Annex A2 – see unit cost C) to convert the volume into monetary values in £. The resulting values are summed across all of the HI Asset Categories;
- (iii) for each HI Asset Category, the volume of work, from step (i), is multiplied by the licensee's DPCR5 allowed unit costs (as specified in Annex A2 – see unit cost B) to convert the volume into monetary values in £. The resulting values are summed across all of the HI Asset Categories;
- (iv) the higher of the two values from step (ii) and (iii) is selected as the total monetary gap for HI outputs;
- (v) the value derived in step (iv) is multiplied by the equation below:  
$$(0.95 - (\text{HI Risk Points Reduction} / \text{HI Target Delta})) / (1 - (\text{HI Risk Points Reduction} / \text{HI Target Delta}))$$
- (vi) the Authority will multiply the DPCR5 Network Outputs Incentive Rate by the result from step (v) to calculate the final total monetary value of the HI component of the NOMs Network Outputs Gap.

### LI component of NOMs Network Outputs Gap

1.69 Where the Authority determines that a network outputs gap exists in respect to the LI component of the NOMs, the Authority will calculate the monetary value of the LI component of the NOMs Network Outputs Gap using the following steps:

- (i) calculate the difference between the forecast LI Risk Points at the end of the DPCR5 period with and without Intervention, based on the Agreed Network Outputs excluding High Value Projects;
- (ii) divide the LI portion of the DPCR5 Allowances, excluding High Value Projects, for EHV and 132kV General Reinforcement by the difference between the forecast LI Risk Points at the end of the DPCR5 period with and without Intervention, calculated in step (i) to calculate the monetary value of a LI Risk Point; and
- (iii) multiply the LI Risk Point gap (the difference between the LI Risk Points forecast with Intervention ~~as at 31 March 2015~~<sup>in 2015</sup>, and the LI Risk Points delivered ~~as at 31 March 2015~~<sup>in 2015</sup>) by the monetary value of a LI Risk Point calculated in step (ii) to calculate a total monetary gap for LI outputs;
- (iv) the value derived in step (iii) is multiplied by the equation below:  
$$\frac{((\text{LI Risk Points} / \text{LI Agreed Network Outputs}) - 1.05)}{((\text{LI Risk Points} / \text{LI Agreed Network Outputs}) - 1)}$$
- (v) the Authority will multiply the DPCR5 Network Outputs Incentive Rate by the value derived in step (iv) to calculate a total monetary value of the LI component of the NOMs Network Outputs Gap.

### Fault Rates component of NOMs Network Outputs Gap

1.70 Where the Authority determines that a network outputs gap exists in respect to the Fault Rate component of the NOMs, the Authority will calculate the monetary value of the Fault Rate component of the NOMs Network Outputs Gap using the following steps:

- (i) for each Fault Rate Asset Category (excluding those covered by HIs) the Authority will calculate the difference between the actual DPCR5 performance (expressed as the number of faults as specified in paragraph 1.17 of Annex A2, Section 3) and the forecast DPCR5 Performance (expressed as the number of faults as specified in paragraph 1.15 of Annex A2, Section 3);
- (ii) for each Fault Rate asset category, the number of faults, from step (i), is multiplied by the equivalent asset replacement volume assumed to be required to avoid a fault as specified in Annex ~~A2~~<sup>A2</sup> paragraph ~~1.203-8~~<sup>1.203-8</sup>;

- (iii) The equivalent asset replacement volumes derived in step (ii) are multiplied by the licensee's DPCR5 outturn unit cost (as specified in Annex A2 – see unit costs C) to convert them into monetary values in £ and summed across all Fault Rate asset categories;
- (iv) The equivalent asset replacement volumes derived in step (ii) are multiplied by the licensee's DPCR5 allowed unit costs (as specified in Annex A2 - see unit costs BA) to convert them into monetary values in £ and summed across all Fault Rate asset categories;
- (v) The higher of the two values between (iii) and (iv) is selected as the total monetary gap for Fault Rates;
- (vi) the value derived in step (v) is multiplied by the equation below:  

$$\left( \frac{\text{Fault Rate Points}}{\text{Forecast Fault Rate Points}} - 1.1 \right) / \left( \frac{\text{Fault Rate Points}}{\text{Forecast Fault Rate Points}} - 1 \right)$$
- (vii) the Authority will multiply the DPCR5 Network Outputs Incentive Rate by the value derived in step (vi) to calculate the monetary value of the Fault Rate component of the NOMs Network Outputs Gap.

1.71 The Authority's determination of the monetary value of the Fault Rate component of the NOMs Network Outputs Gap, as calculated according to the methodology specified in paragraph 1.70, will not exceed the value of the difference between the allowed asset replacement volumes and the delivered asset replacement volumes (for asset replacement categories related to the Fault Rate component of the NOMs and not covered by the HI), using allowed costs as inferred by the reference to values being, as set out in DPCR5.

#### NOMs Network Outputs Gap

1.72 The Authority will sum the value of the outputs gaps for each individual component of the NOMs to obtain the maximum total value of the NOMs Network Outputs Gap.

1.73 If the Authority determines that there is a NOMs Network Outputs Gap, the DPCR5 NOMs revenue adjustment, in accordance with Chapter 16, will not exceed the allowances for related areas for the DPCR5 period. figure-calculated-in-paragraph 1.72.

1.74 If the Authority determines that there is a NOMs Network Outputs Gap, the Authority will use the value of the NOM's Network Outputs Gap determined in paragraphs 1.68, 1.69 and 1.70, taking into consideration the information derived from the analysis carried out as part of the Performance Assessment, to determine a DPCR5 NOMs revenue adjustment for the licensee in accordance with Chapter 16.

1.75 In the event that a licensee may experience a DPCR5 NOMs revenue adjustment and a DPCR5 HVP failure to deliver outputs adjustment, where a failure to deliver HVP outputs contributes to both adjustments, the Authority will ensure that that no double counting arises by reducing the value of the DPCR5 NOMs Outputs Gap to the extent that is justified by the potential double counting.

1.76 In making any decision to make an adjustment to the licensee's allowed revenues for RIIO-ED1 in respect of a DPCR5 NOMs revenue adjustment, the Authority will decide the proportion of the NOMs Network Outputs Gap, in each category, that should be attributed to each Regulatory Year in DPCR5 for the purpose of that calculation, having regard to the timing profile of the licensee's DPCR5 asset replacement allowance.

# Annex A2: NOMs Risk Points Methodologies

## Section 1: HI Risk Points Methodology

1.1 This section outlines the HI Risk Points Methodology the Authority will use in calculating the number of HI Risk Points for the assessments specified under paragraph 1.22(i) and 1.26(i~~vi~~) of Annex A1. The Authority's assessment will follow two stages.

### Stage 1 – Calculate Risk Points for HI Target Delta (in relation to Agreed Network Outputs and Adjusted Network Outputs)

1.2 The Authority will calculate the number of HI Risk Points that the licensee was expected to deliver by the end of the DPCR5 period in each HI Asset Category and overall, using either the DPCR5 Agreed Network Outputs or the Adjusted Network Outputs, as appropriate. The calculation involves the following steps:

(i) Calculation of risk points for assets covered by the Health Indices in the fifth year of DPCR5 if there was no investment for Interventions:

(i) (a) the Authority will obtain the number of assets in each HI band for each HI asset category representing the Health Index in the fifth year of DPCR5 where there is no investment for Interventions;

(ii)(b) for each HI asset category, the Authority will multiply the number of assets associated with the licensee's HI component of the Agreed Network Outputs or Adjusted Network Outputs for in each HI Band by the HI Band Weighting (as defined in Table 1);

(iii)(c) the results from step (b)(i), will then be summed by the Authority to determine the total for each HI Asset Category;

(iv)(d) the Authority will multiply the result from step (c) (ii) by the DPCR5 Allowed Survey Unit Cost (A)s for that HI Asset Category to determine the total HI Risk Points for that HI Asset Category;

(v)(e) steps (b)-(d) (i)-(iii) are repeated for each HI Asset Category; and,

(vi)(f) the Authority will sum the results from step (d) across all HI Asset Categories to determine the HI Target Delta across all HI Asset Categories total number of HI risk points associated tHealth IndexHI in the fifth year of DPCR5 if there was no investment for Interventions.

(ii) Calculation of risk points for assets covered by the Health Indices in fifth year of DPCR5 with investment for Interventions:

- (a) the Authority will obtain the number of assets in each HI band for each HI asset category representing the Health Index in the fifth year of DPCR5 where there was investment for Interventions;
- (b) for each HI asset category, the Authority will multiply the number of assets in each HI Band by the HI Band Weighting (as defined in Table 1);
- (c) the results from step (b), will then be summed by the Authority to determine the total for each HI Asset Category;
- (d) the Authority will multiply the result from step (c) by the DPCR5 Allowed Unit Costs for that HI Asset Category to determine the total HI Risk Points for that HI Asset Category;
- (e) steps (b)-(d) are repeated for each HI Asset Category; and,
- (f) the Authority will sum the results from step (d) across all HI Asset Categories to determine the total number of HI risk points in the fifth year of DPCR5 if there were no investment for Interventions.

(iii) Calculation of HI Risk Points Delta:

- (a) the Authority will calculate the difference between the risk points calculated in (i) and subtract those calculated in step (ii).

## **Stage 2 – Determine Delivered Network Outputs for HI Component of the NOMs**

1.3 Using the licensee’s Network Outputs Reporting Workbooks and the HI Tracking Sheets, the Authority will determine the HI Risk Points Reduction that was delivered through asset replacement and refurbishment Interventions during the DPCR5 period. The calculation involves the following steps:

- (i) for each HI Asset Category, the Authority will multiply the ~~number of HI movements in each HI band by the HI band weightings volume of assets in each HI band, representing the HI movements caused by asset replacement and refurbishment, by the HI band weightings in Table 1.~~ The Authority will then sum the results to determine the total for each HI Asset Category;
- (ii) the Authority will then multiply the result from step (i) by the DPCR5 Survey unit cost (A) in paragraph 1.65 below for that HI Asset Category to generate the total HI Risk Points delivered in each category; and
- (iii) the Authority will sum the results for all HI Asset Categories from step (ii) to determine the total HI Risk Points delivered by the licensee.

## HI Band Weightings

1.4 HI Band Weightings are multiplication factors applied to the asset volumes in each HI Band. The HI Band Weightings are the same for each HI category and are set out in Table 1 below.

**Table 1 – HI Band Weightings**

	HI1	HI2	HI3	HI4	HI5
HI Band Weightings	1	10	30	70	100

## Unit costs

1.5 Three separate derivations of unit costs are referred to in the quantitative assessment set out in Annex A1 and to determine Delivered Network Outputs for HI Component in Annex A2, these are stated below as (A), (B) and (C).

1.6 Where unit costs are available at a level that is more disaggregated than the HI Asset Category level, these are combined to give a single HI Asset Category weighted by the relative volumes. For each case, the source of unweighted unit costs and volumes are stated below:

Weightings for each case are calculated as described in (A)

**(A) Ofgem DPCR5 Survey unit cost** – this is a weighted asset replacement unit cost per licensee for a given HI asset category. Unweighted unit costs are taken for all licensees from a unit cost survey for DPCR5 (undertaken by Parsons Brinkerhoff consultancy at the start as part of the DPCR5 Price Control review) and volumes are taken from the licensee's FBPQ submissions (volumes of asset disposals).

The purpose of the weighting is to account for HI Asset Categories that are an amalgamation of two or more asset unit cost categories. The weighted unit cost for a HI Asset Category is calculated by:

$$\frac{((\text{category A volumes} * \text{unit costs for category A}) + (\text{category B volumes} * \text{unit costs for category B}))}{(\text{category A volumes} + \text{category B volumes})}$$

**(B) DPCR5 allowed unit costs** – this is the 'lower of' the Authority's allowed modelled asset replacement unit cost and the licensee's Forecast Business Plan Questionnaire (FBPQ) unit costs; weighted for a given HI Asset Category, using the licensee's FBPQ submission.

The purpose of the weighting is to account for HI Asset Categories that are an amalgamation of two or more asset unit cost categories. The weighted unit cost for a HI Asset Category is calculated by:

$$\frac{((\text{category a volumes} * \text{unit costs for category a}) + (\text{category b volumes} * \text{unit costs for category b}))}{(\text{category a volumes} + \text{category b volumes})}$$

**(C) Licensee's DPCR5 outturn unit costs** – this is the licensee's actual average unit cost incurred during DPCR5, weighted per licensee for a given HI Asset Category. Unweighted unit costs and actual volumes of additions are taken from the licensee's DPCR5 RIGs Submissions in accordance with DPCR5 Cost and Revenue Reporting RIGs.

## Section 2: LI Risk Points Methodology

1.7 This section outlines the LI Risk Points Methodology the Authority will use in calculating the number of LI Risk Points for the assessments specified under paragraph 1.36(ii) and 1.40(iy) of Annex A1. The Authority's assessment will follow three stages.

### Stage 1 – Determine Adjusted Network Outputs for LI component of the NOMs

1.8 The Authority will calculate the number of LI Risk Points that is equal to the LI component of the Adjusted Network Outputs, by the end of the DPCR5 period, using the Adjusted Network Outputs.

1.9 This calculation at paragraph 1.8 involves the following steps:

- (i) for each Demand Group, the Authority will multiply the number of connected customers for that Demand Group by the appropriate LI Band Weightings (as defined in [Table 2 below](#)) to calculate the LI Risk Points for that Demand Group; and
- (ii) the Authority will sum the LI Risk Points across Demand Groups to derive the overall LI Risk Points.

### Stage 2 – Determine Delivered Network Outputs for LI component of the NOMs

1.10 Using the licensee's submitted Network Outputs Reporting Workbook for Regulatory Year 2014/15, the Authority will determine the actual LI Risk Points at the end of the DPCR5 period.

1.11 The calculation at paragraph 1.10 involves the following steps:

- (i) for each Demand Group, the Authority will multiply the number of connected customers for that Demand Group by the appropriate LI Band Weightings (as ~~in Table 2 defined below~~) to calculate the LI Risk Points for that Demand Group; and,
- (ii) the Authority will then sum the LI Risk Points across Demand Groups to derive the overall LI Risk Points.

### LI Band Weightings

1.12 The baseline LI Band Weightings for the Authority's quantitative assessment are set out in Table 2. The licensee can propose alternative weightings as part of the Performance Assessment Submission.

**Table 2 – LI Band Weightings**

	LI1	LI2	LI3	LI4	LI5
Baseline weighting	1	1	1	20	100

### Section 3: Fault Rate Points Methodology

1.13 This section outlines the Fault Rate Points Methodology the Authority will use in calculating the number of Fault Rate Points for the assessments specified under paragraph 1.51(i) and 1.55(i) of Annex A1. The Authority's assessment will follow two stages.

#### Stage 1 – Calculation of forecast Fault Rate Points

1.14 The Authority will calculate the number of Fault Rate Points that the licensee was forecast to deliver, both with and without exceptional events, by the end of the DPCR5 period in each Fault Rate Asset Category (excluding those assets already covered by HIs) and overall, using the Agreed Network Outputs.

1.15 The Authority's calculation will involve the following steps:

- (i) for each Fault Rate Asset Category (excluding those covered by HI) the Authority will multiply the average volume of assets during the DPCR5 period for each Fault Rate Asset Category by the average forecast Fault Rate (per 100km or 1000 units) for the DPCR5 period. This will provide

the DPCR5 forecast volume number of faults; ~~∴ The Authority will then sum across all Fault Rate asset categories;~~

- (ii) the Authority will multiply the result from step (i) by the licensee outturn DPCR5 unit cost of an individual fault (see unit cost **DB**) in paragraph 1.19 below, to provide weighting by the relative costs associated with a fault; and,
- (iii) the Authority will sum the results of step (ii) to determine the total Fault Rate Points across all Fault Rate Asset Categories.

## Stage 2 – Calculation of DPCR5 delivered Fault Rate Points

1.16 The Authority will calculate the number of Fault Rate Points that the licensee delivered by the end of the DPCR5 period in each Fault Rate Asset Category (excluding those assets already covered by HIs, both with and without exceptional events).

1.17 The Authority's calculation will involve the following steps:

- (i) for each Fault Rate Asset Category (excluding those covered by HI), the Authority will multiply the average actual DPCR5 volume of assets in each Fault Rate Asset Category by the average DPCR5 actual Fault Rate (per 100km or 1000 units). This will provide the DPCR5 delivered number of faults;
- (ii) the Authority will then multiply the result from step (i) by the licensee outturn DPCR5 unit cost of an individual fault (see unit cost **D**) in paragraph 1.19 below, to provide weighting by the relative costs associated with a fault; and,
- (iii) the Authority will sum the results of step (ii) to determine the total Fault Rate Points across all Fault Rate Asset Categories.

## Unit costs

1.18 One derivation of unit costs is referred to in the quantitative assessment set out above, and is stated as **(D)** in paragraph 1.19 below.

1.19 Where unit costs are available at a level that is more disaggregated than a Fault Rate Asset Category, these are combined into a single Fault Rate Asset Category weighted by the relative volume of faults. For each case, the source of unweighted unit costs and volumes are stated below:

- (D) DPCR5 unit cost of an individual fault** – this is the licensee's weighted actual unit cost for individual damage incidents requiring asset repair. Unweighted unit costs and actual volumes of faults are taken from the licensee's DPCR5 RIGs Submissions (CV15 unplanned incidents on power system voltage equipment – damage incidents requiring asset repair) in accordance with DPCR5 Cost and Revenue Reporting RIGs.

## Asset replacement volume

1.20 Where the Authority determines that a monetised value for the Fault Rate component of the NOMs Network Outputs Gap is required, the Authority will calculate the difference between the values determined in paragraphs 1.14 and 1.16 and multiply that value by the asset replacement volume assumed to be required to avoid a fault for that Fault Rate Asset Category. The assumed asset replacement volume required to avoid a fault is shown in the table below:

<b>Fault Rate Asset Category</b>	<b>Asset replacement volume assumed to be required to avoid a fault</b>
LV Main OHL	0.03km
LV Main (UG non-Consac)	0.03km
LV Main (UG Consac)	0.03km
LV Switchgear	1
LV Service OHL	1
LV Service (UG)	1
HV OHL	0.04km
HV UG Cable	0.04km
HV Switchgear (PM) – CBs	1
HV Transformer (PM)	1
EHV OHL Fittings and Conductors	0.1km
EHV UG Cable	0.1km
132kV UG Cable	0.1km
132kV UG Cable (Non pressurised)	0.1km
132kV UG Cable (Pressurised)	0.1km
Submarine Cables	0.5km

# Annex B: Load Related Re-opener Legacy Assessment Methodology

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## Overview

1.1. This Load Related Re-opener Legacy Assessment Methodology sets out how the Authority will assess the licensee's DPCR5 Load Related Actual Incurred Expenditure to determine the Load Related Efficient Qualifying Expenditure for the licensee.

1.2. The Authority will carry out the following steps to determine the licensee's Load Related Efficient Qualifying Expenditure:

- Step 1: Initial High Level Analysis
- Step 2: Performance Assessment
- Step 3: Determination of Load Related Efficient Actual Expenditure
- Step 4: Determination of Load Related Efficient Re-opener Expenditure
- Step 5: Determination of Load Related Efficient Qualifying Expenditure

## Step 1 – Initial High Level Analysis

1.3. The Authority will carry out an Initial High Level Analysis to assess the licensee's ~~DPCR5~~-Load Related Actual Incurred Expenditure.

1.4. This Initial High Level Analysis will include, but not be limited to, a comparison of the Load Related Actual Incurred Expenditure with the baseline expenditure allowances for General Reinforcement and low volume high cost (LVHC) connections for DPCR5.

1.5. This analysis will draw on a range of sources, including but not limited to:

- i. the submitted Network Outputs Workbooks of the licensee;
- ii. other DPCR5 RIGs Submissions; and,
- iii. any other relevant information related to DPCR5.

1.6. The Authority will inform the licensee of the results of the Initial High Level Analysis and will provide guidance on the minimum information and type of evidence required to be submitted by the licensee as part of its Performance Assessment Submission in line with the timings specified in paragraph 15.7 of Chapter 15.

1.7. The Authority will only request a Performance Assessment Submission where it identifies gaps in its existing information or where specific questions have arisen as a result of its Initial High Level Analysis.

1.8. The information requested by the Authority will be proportionate to the results of the Initial High Level Analysis and will include any outstanding information required to address issues identified by the Authority through its Initial High Level Analysis.

## **Step 2 – Performance Assessment**

1.9. The licensee will be required to submit a Performance Assessment Submission relating to the DPCR5 Load Related Re-opener, as specified in Annex E, ~~unless otherwise~~ notified by the Authority, as specified in paragraph 15.8.

1.10. The Authority will conduct a detailed Performance Assessment as outlined in Step 3 to Step 5 below to determine the Load Related Efficient Qualifying Expenditure for the licensee, to be used in the calculation of a Load Related Re-opener adjustment, as specified in paragraph 15.9.

~~1.10-1.11.~~ The Authority may request additional information in line with Annex E.

## **Step 3 – Determination of Load Related Efficient Actual Expenditure**

~~1.11-1.12.~~ The Authority will determine what it considers to be Load Related Efficient Actual Expenditure for the DPCR5 period based on an ex post assessment of the efficiency of the licensee’s Load Related Actual Incurred Expenditure.

~~1.12-1.13.~~ In undertaking its assessment of the licensee’s ~~DPCR5~~ Load Related Actual Incurred Expenditure, the Authority will interpret efficiency to mean investment decision making by a licensee that:

- i. took into account all the information that could reasonably have been expected to be available to the licensee at the time of making the decision; and,
- ii. resulted in expenditure during the DPCR5 period that would reasonably, at the time of making the investment decision, be expected to be required to meet the changing and uncertain needs and requirements of the licensee’s electricity distribution system.

~~1.13-1.14.~~ Subject to paragraph ~~1.13-1.12~~, the Authority’s view of Load Related Efficient Actual Expenditure will be equal to the licensee’s Load Related Actual Incurred Expenditure, unless the Authority identifies:

- schemes, programmes or items of ~~DPCR5~~ Load Related Actual Incurred Expenditure which are deemed by the Authority not to be efficient; or,

- customer contributions over the DPCR5 period that did not cover the actual customer funded proportion of LVHC connection cost, where the licensee has not provided a supporting explanation which is adequate in the Authority's view.

~~1.14.1.15.~~ The Authority will determine Load Related Efficient Actual Expenditure in the case where:

- schemes, programmes or items of ~~DPCR5~~–Load Related Actual Incurred Expenditure are deemed to not be efficient, in which case the Authority will propose a deduction to the actual cost incurred by the licensee for the scheme or item of work from the licensee's Load Related Actual Incurred Expenditure; ~~and/or~~,
- the licensee cannot justify the under recovery of customer contribution for LVHC connections in which case the Authority will also remove the level of unjustified under-recovery.

~~1.15.1.16.~~ The Authority will decide which schemes, programmes of work or items of ~~DPCR5~~–Load Related Actual Incurred Expenditure have not been efficient based on:

- the extent to which the justification that is provided by the licensee for incurring the ~~DPCR5~~–Load Related Actual Incurred Expenditure is ~~deemed~~ consistent with the definition of efficiency as provided in paragraph ~~1.131.12~~ above;
- the quality of the evidence that the licensee has provided to justify the item, scheme or programmes of work for ~~DPCR5~~–Load Related Actual Incurred Expenditure based on the information that would have been available to it at the time of the investment decision, including any further supplementary information that the licensee provides in response to the Authority's Initial High Level Analysis in Step 1; and,
- analysis that the Authority has carried out on the efficiency of the licensee's ~~DPCR5~~–Load Related Actual Incurred Expenditure, consistent with the definition of efficiency as provided in paragraph ~~1.131.12~~ above.

~~1.16.1.17.~~ The Authority will ~~have regard to observe~~ the following principles in carrying out its ex post efficiency assessment of the licensee's Load Related Actual Incurred Expenditure:

- the Authority will not propose any adjustments relating to unit costs; and,
- the Authority will only base its assessment of the efficiency of the licensee's ~~DPCR5~~–Load Related Actual Incurred Expenditure in the context of the information that the licensee had available, or should reasonably have had available, at the time of making its investment decisions.

~~1.17.1.18.~~ The evidence and analysis that the Authority will take into account in its ex post assessment of the efficiency of the licensee's Load Related Actual Incurred Expenditure will therefore include, but will not be limited to, the following:

- i. the information provided by the licensee in its Performance Assessment Submission as well as any other relevant information pertaining to DPCR5 also submitted to Ofgem;
- ii. the Authority's assessment of whether the information and evidence provided by the licensee is consistent with the definition of efficiency as provided in paragraph ~~1.131.12~~ of this annex; and,
- iii. the Authority's own analysis of efficiency.

#### Assessing LVHC connections

~~1.18.1.19.~~ To assess LVHC connections, the Authority will review whether there has been any under-recovery in costs to be recovered from connection customers and the justification for this.

~~1.19.1.20.~~ Where there is insufficient justification of such an under-recovery, the Authority will make an adjustment to actual LVHC expenditure.

#### Assessing General Reinforcement

##### *Primary substations, circuit and voltage reinforcement*

~~1.20.1.21.~~ The Authority, based on the results of its Initial High Level Analysis, will review the selected Primary Schemes (33kV and above, including n-2 reinforcement) and the provided narrative, and make ~~qualitative~~ adjustments to actual expenditure where appropriate, considering:

- i. the needs case with reference to LIs, change in demand or other justification provided by the licensee;
- ii. efficiency as defined in paragraph ~~1.131.12~~; and,
- iii. other options considered by the licensee.

##### *Assessing Secondary reinforcement*

~~1.21.1.22.~~ For assessing the licensee's actual expenditure on secondary reinforcement, the Authority's assessment will include a review of evidence that the licensee's decision making process could be expected to lead to efficient expenditure, including specific examples of schemes submitted in its Performance Assessment Submission or items of ~~DPCR5~~-Load Related Actual Incurred Expenditure to show how the decision making processes and procedures of the licensee were used and executed in practice.

~~1.22.1.23.~~ The Authority will review information provided by the licensee. This will include the key drivers and investment decision making processes that led to

expenditure on secondary system reinforcements. As part of its review, the Authority will consider expenditure changes and volumes involved, e.g. HV/LV plants, OHL, HV/LV cable circuits.

#### **Step 4 – Determination of Load Related Efficient Re-opener Expenditure**

~~1.23-1.24.~~ The Authority's view of Load Related Efficient Re-opener Expenditure will be equal to Load Related Efficient Actual Expenditure, unless the licensee can provide evidence that it achieved efficiencies in Load Related Expenditure LRE due to Innovative Solutions which were undertaken by the licensee to address an identified need during the DPCR5 period and which resulted in Avoided Reinforcement Expenditure.

~~1.24-1.25.~~ The licensee may provide evidence as part of its Performance Assessment Submission to the Authority of Avoided Reinforcement Expenditure that justifies its proposed adjustments to Load Related Efficient Actual Expenditure due to Innovative Solutions that it adopted.

~~1.25-1.26.~~ The Authority will consider whether the licensee has implemented Innovative Solutions.

~~1.26-1.27.~~ The evidence that the Authority will take into account in performing its assessment of any efficiencies achieved by the licensee through Innovative Solutions will include, but is not limited to, the following:

- cost-benefit or other financial analysis submitted by the licensee demonstrating the saving that resulted from the solution adopted by the licensee compared to alternative solutions, (including conventional solutions), including ~~detailed~~ information explaining and justifying any assumptions that have been made; and,
- evidence provided by the licensee that the proposed Innovative Solution differs from other conventional solutions that were in widespread use at the beginning of the DPCR5 period by the licensee or other licensees when addressing a need for ~~DPCR5~~-Load Related Actual Incurred Expenditure.

~~1.27-1.28.~~ Where the licensee can provide such evidence, as per paragraph ~~1.27-1.26~~, to obtain the Load Related Efficient Re-opener Expenditure the Authority will add an efficiency adjustment to the Load Related Efficient Actual Expenditure which is calculated as the difference between:

- the Authority's assessment of the expenditure the licensee would have incurred in the absence of Innovative Solutions; and,
- the costs that were incurred by the licensee in delivering the Innovative Solution, regardless of how the Innovative Solution is required to be reported in relevant DPCR5 RIGs Submissions.

#### **Step 5 – Determination of Load Related Efficient Qualifying Expenditure**

~~1.28~~1.29. The Authority will adjust its view of Load Related Efficient Re-opener Expenditure to obtain the Load Related Efficient Qualifying Expenditure for the licensee.

~~1.29~~1.30. The Load Related Efficient Qualifying Expenditure will be equal to the Load Related Efficient Re-opener expenditure, adjusted to the level that it would have taken had the licensee experienced the Real Price Effects forecast in the DPCR5 Final Proposals.

~~1.30~~1.31. The Authority will determine the proportion of the adjustment that should be attributed to each Regulatory Year of DPCR5, for the purpose of that calculation, having regard to the timing profile of actual expenditure reported by the licensee.

~~1.31~~1.32. To give effect to this adjustment, the Load Related Efficient Re-opener Expenditure values for the licensee, on an annual basis, will be multiplied by the corresponding values set out in ~~€~~Table 1 below.

**Table 1 - RPE adjustment ratios**

	2010/11	2011/12	2012/13	2013/14	2014/15
Load related	1.033	1.042	1.081	1.119	1.147

~~1.32~~1.33. The sum of the resulting values will equal the Load Related Efficient Qualifying Expenditure for the licensee.

# Annex C1: HVP Re-opener Legacy Assessment Methodology

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## Overview

1.1 This HVP Re-opener Legacy Assessment Methodology sets out how the Authority will assess HVP costs to determine the HVP Efficient Qualifying Expenditure for the licensee.

1.2 The Authority will carry out the following steps to determine the licensee's HVP Efficient Qualifying Expenditure:

- Step 1: Initial High Level Analysis
- Step 2: Performance Assessment
- Step 3: Determine HVP Efficient Actual Expenditure
- Step 4: Adjustment for delayed or deferred projects
- Step 5: Determine HVP Efficient Re-opener Expenditure
- Step 6: Determine HVP Efficient Qualifying Expenditure

### Step 1: Initial High Level Analysis

1.3 The Authority will carry out an Initial High Level Analysis of the licensee's expenditure allowances relating to DPCR5 HVPs to determine the requirements ~~of for~~ the licensee's Performance Assessment Submission (~~S~~see Annex E), using information submitted by the licensee.

1.4 The Authority will provide the licensee with guidance on the additional information to be submitted by the licensee in its Performance Assessment Submission in line with the timings specified in 15.7 ~~of Chapter 15~~.

1.5 The Authority will only request a Performance Assessment Submission where it identifies gaps in its existing information or where specific questions have arisen as a result of its Initial High Level Analysis. The information requested by the Authority will be proportionate to the results of the Initial High Level Analysis and will include any outstanding information required to address issues identified.

1.6 Where an Initial High Level Analysis indicates that there was no DPCR5 HVP allowance for the licensee, the licensee will not be required to submit a Performance Assessment Submission and there will be no HVP Re-opener adjustment for the licensee.

### Step 2: Performance Assessment

1.7 The licensee will be required to submit a Performance Assessment Submission as specified in Annex E, having regard to paragraph 1.4, unless otherwise notified by the Authority under paragraph 1.6.

1.8 The Authority will commence a detailed Performance Assessment as outlined in Step 3 to Step 6 below to determine the HVP Efficient Qualifying Expenditure for the licensee, to be used in the calculation of a HVP Re-opener adjustment, as specified in paragraph 15.9 of chapter 15.

1.9 The Authority may request additional information in line with Annex E.

### **Step 3 – Determine HVP Efficient Actual Expenditure**

1.10 The Authority will carry out an assessment of the efficiency of the licensee's HVP Actual Incurred Expenditure to determine the HVP Efficient Actual Expenditure.

1.11 In undertaking its assessment of HVP Actual Incurred Expenditure, the Authority will interpret efficiency to mean investment decision making by the licensee that:

- ~~that~~ took into account all relevant information that could reasonably have been expected to be available to the licensee at the time of making the decision; and,
- resulted in expenditure on HVP during the DPCR5 period that would reasonably, at the time of making the investment decision, be required to meet the changing and uncertain needs and requirements of the licensee's electricity distribution system.

1.12 The licensee's HVP Efficient Actual Expenditure will be equal to the licensee's HVP Actual Incurred Expenditure, unless the Authority determines as a result of the efficiency assessment that a proportion of the licensee's HVP Actual Incurred Expenditure was not efficient.

1.13 Where the Authority has identified that a proportion of the licensee's HVP Actual Incurred Expenditure was not efficient, it will deduct its value from the licensee's HVP Actual Incurred Expenditure to obtain the HVP Efficient Actual Expenditure for the licensee.

1.14 In deciding whether a proportion of the licensee's HVP Actual Incurred Expenditure was not efficient, the Authority will take into account:

- the extent to which the justification that is provided by the licensee for its HVP Actual Incurred Expenditure is consistent with the definition of efficiency as provided in paragraph 1.11; and,
- the quality of supporting evidence provided by the licensee to justify its HVP Actual Incurred Expenditure, based on the information available to it at the time of the investment decision.

1.15 The Authority will have regard to the following principles in carrying out its assessment of the licensee's HVP Actual Incurred Expenditure:

- the Authority will not ~~make~~ ~~propose~~ any adjustments relating to unit costs; and,
- the Authority will only base its assessment of the efficiency of the licensee's HVP in the context of the information that the licensee had available, or should reasonably have had available, at the time of making its investment decisions.

1.16 The evidence and analysis that the Authority will take into account in its assessment of the efficiency of the licensee's HVP Actual Incurred Expenditure will include, but will not be limited to, the following:

- evidence that the licensee had appropriate decision making processes and procedures in place and that these were applied by the licensee to decisions relating to its HVP Actual Incurred Expenditure;
- evidence of the technical and economic (where applicable) need case for the investment and expenditure being incurred, or any relevant obligations;
- information on the drivers of HVP expenditure at the time the expenditure decision was made; and,
- where appropriate, consideration of alternative options for delivering the outputs/work required.

#### **Step 4 - Adjustment for delayed or deferred projects**

1.17 The Authority may make an adjustment to the licensee's HVP Efficient Actual Expenditure obtained at Step 3 to account for projects delayed or deferred into another price control period.

1.18 In deciding whether or not to make an adjustment under paragraph 1.17, the Authority will consider:

- (a) the cost of the project as a whole, including whether equivalent or ongoing works have or have not been funded as part of the licensee's RIIO-ED1 settlement;
- (b) evidence that the licensee had appropriate decision making processes and procedures in place and that these were applied by the licensee to the decision to delay or defer a project; and,
- (c) whether a HVP Network Outputs Gap has arisen in relation to an individual DPCR5 HVP which has been delayed or deferred following an assessment under paragraph 1.16 of Annex C2.

1.19 Where the Authority decides to make an adjustment under paragraph 1.17, the Authority will add an adjustment for delay or deferral to the HVP Efficient Actual Expenditure based on its analysis carried out under paragraph 1.18.

### **Step 5 – Determine HVP Efficient Re-opener Expenditure**

1.20 The Authority will adjust its view of HVP Efficient Actual Expenditure obtained at Step 3 and adjusted at Step 4 where relevant to obtain the HVP Efficient Re-opener Expenditure for the licensee.

1.21 The HVP Efficient Re-opener Expenditure for the licensee will be equal to the HVP Efficient Actual Expenditure, adjusted at Step 4 where relevant, unless the licensee can provide evidence of efficiencies achieved through Innovative Solutions in the method and scope of work that was undertaken to address an identified need during the DPCR5 period and which resulted in Avoided HVP Expenditure.

1.22 The licensee may provide evidence of efficiencies achieved through Innovative Solutions as well its own view of the HVP Efficient Re-opener Expenditure as part of its Performance Assessment Submission.

1.23 The Authority will consider whether the licensee has implemented Innovative Solutions.

1.24 The evidence that the Authority will take into account in performing its assessment of any efficiencies achieved by the licensee through Innovative Solutions will include, but will not be limited to, the following:

- cost-benefit or other financial analysis submitted by the licensee demonstrating the saving that resulted from the solution adopted by the licensee compared to alternative solutions (including conventional solutions), including information explaining and justifying any assumptions that have been made; and,
- evidence provided by the licensee that the proposed Innovative Solution differs from other conventional solutions that were in widespread use at the beginning of the DPCR5 period by the licensee or other licensees when addressing a need for HVP expenditure.

1.25 The Authority will determine whether to accept or reject the evidence provided by the licensee under paragraph 1.22 of efficiencies achieved through Innovative Solutions.

1.26 Where the Authority rejects the evidence provided by the licensee, or where the licensee provides no evidence, the HVP Efficient Re-opener Expenditure for the licensee will be equal to the HVP Efficient Actual Expenditure, adjusted where appropriate under Step 4, for the licensee.

1.27 Where the licensee can provide such evidence, to determine the HVP Efficient Re-opener Expenditure, the Authority will add an efficiency adjustment to the HVP

Efficient Actual Expenditure, as adjusted where appropriate under Step 4, which is calculated as the difference between:

- the Authority’s assessment of the expenditure the licensee would have incurred in the absence of the Innovative Solution; and,
- the costs that were incurred by the licensee in delivering the Innovative Solution, regardless of how the Innovative Solution is required to be reported in relevant DPCR5 RIGs Submissions.

## Step 6 – Determine HVP Efficient Qualifying Expenditure

1.28 The Authority will determine the HVP Efficient Qualifying Expenditure for the licensee as follows.

1.29 The HVP Efficient Qualifying Expenditure will be equal to HVP Efficient Re-opener expenditure adjusted to the level that it would have taken had the licensee experienced the Real Price Effects forecast in the DPCR5 Final Proposals.

1.30 To give effect to this adjustment, the Authority will determine the proportion of the HVP Efficient Re-opener Expenditure values for the licensee that should be attributed to each Regulatory Year of the DPCR5 period, for the purpose of that calculation, having regard to the timing profile of actual expenditure reported by the licensee and the split between load related and non-load related DPCR5 HVPs.

1.31 For the purpose of the adjustment described in paragraph 1.30, load related DPCR5 HVPs are projects with one of the following primary investment drivers:

- General reinforcement; or,
- Fault level reinforcement.

1.32 For the purpose of the adjustment described in paragraph 1.30, non-load related DPCR5 HVPs are projects with one of the following primary investment drivers:

- Asset replacement;
- Legal and safety; or,
- BT21CN.

1.33 The Authority will multiply the values obtained at paragraph 1.30 by the corresponding values set out in Table 1 below.

**Table 1 - RPE adjustment ratios**

	2010/11	2011/12	2012/13	2013/14	2014/15
Load related	1.033	1.042	1.081	1.119	1.147
Non-load related	1.037	1.054	1.090	1.125	1.150

1.34 The sum of the resulting values will equal the HVP Efficient Qualifying Expenditure for the licensee.

# Annex C2: HVP Network Outputs Review Methodology

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## Overview

1.1 The HVP Network Outputs Review Methodology sets out the way in which the Authority will determine:

- (i) whether a HVP Network Outputs Gap has arisen;
- (ii) where a HVP Network Outputs Gap has arisen, the Total HVP Network Outputs Gap; and,
- (iii) the monetary value of the Total HVP Network Outputs Gap for the licensee.

1.2 The Authority will carry out the following steps to determine whether a HVP Network Outputs Gap has arisen and the value of the HVP Network Outputs Gap:

- Step 1: Initial High Level Analysis
- Step 2: ~~Undertake a~~ Performance Assessment
- Step 3: Determination of whether a HVP Network Outputs Gap has arisen
- Step 4: Determination of the value of the HVP Network Outputs Gap for individual DPCR5 HVPs
- Step 5: Valuation of HVP Network Outputs Gap for the purpose of a double-counting adjustment
- Step 6: Application of the Network Output Incentive Rate to individual DPCR5 HVPs
- Step 7: Determination of the monetary value of the Total HVP Network Outputs Gap for the licensee.

### Step 1: Initial High Level Analysis

1.3 The Authority will carry out an Initial High Level Analysis of the licensee's HVPs to determine the requirements of for the licensee's Performance Assessment Submission (see Annex E), using information submitted by the licensee.

1.4 The Authority will provide the licensee with guidance on the additional information to be submitted by the licensee in its Performance Assessment Submission in line with the timings specified in paragraph 16.7 of chapter 16.

1.5 The Authority will only request a Performance Assessment Submission where it identifies gaps in its existing information or where specific questions have arisen as a result of its Initial High Level Analysis. The information requested by the Authority will be proportionate to the results of the Initial High Level Analysis and will include any outstanding information required to address the issues that were identified.

1.6 Where there was no DPCR5 HVPs allowance for the licensee, the licensee will not be required to submit a Performance Assessment Submission and there will be no HVP failure to deliver outputs adjustment for the licensee.

1.7 Where following an Initial High Level Analysis, the Authority considers that the licensee is not required to submit a Performance Assessment Submission, the Authority will inform the licensee of its decision and clarify whether it considers that:

- (i) no HVP Network Outputs Gap has arisen; or,
- (ii) a full Performance Assessment under Step 2 to Step 7 is required to determine whether a HVP Network Outputs Gap has arisen and the Total HVP Network Outputs Gap for the licensee.

1.8 Where the Authority determines under paragraph 1.7(i) that no HVP Network Outputs Gap has arisen, it will notify the licensee and consult onf its Preliminary View in line with paragraph 16.11 and paragraph 16.13 of chapter 16.

### **Step 2: ~~Undertake a Performance Assessment~~**

1.9 The licensee will be required to submit a Performance Assessment Submission as specified in Annex E, having regard to paragraph 1.4 of this Annex, unless otherwise notified by the Authority, as specified in 16.8.

1.10 The Authority will commence a ~~detailed~~ Performance Assessment as outlined in Step 3 to Step 7 below to determine whether a HVP Network Outputs Gap has arisen, as specified in paragraph 16.9 of chapter 16.

1.11 The Authority may request additional information in line with Annex E.

### **Step 3: Determine whether a HVP Network Outputs Gap has arisen**

1.12 Based on the information submitted by the licensee, the Authority will carry out a Performance Assessment of the licensee's individual DPCR5 HVPs in order to determine whether a HVP Network Outputs Gap has arisen.

1.13 The Authority's Performance Assessment may include but may not be limited to the following for each individual DPCR5 HVP, where relevant:

- i. an analysis of Delivered HVP Network Outputs;
- ii. a comparison of Delivered HVP Network Outputs against Agreed HVP Network Outputs, including where relevant a comparison of actual volumes of work delivered by the licensee against the licensee's forecast volumes of work; and,
- iii. an analysis of whether or not the decision to proceed with a DPCR5 HVP and the timing of the work (including interactions with RIIO-ED1) resulted in an efficient outcome.

1.14 Where the scope of an individual HVP has changed, the Authority will consider whether the change in scope:

- (a) is in the interest of customers; and,
- (b) resulted in an efficient outcome,

in determining whether or not a HVP Network Outputs Gap has arisen.

1.15 Where a DPCR5 HVP was cancelled, the Authority will consider whether the cancellation:

- (a) is in the interest of customers; and,
- (b) resulted in an efficient outcome,

in determining whether or not a HVP Network Outputs Gap has arisen and whether or not [to](#) apply the DPCR5 Network Outputs Incentive Rate under Step 6.

1.16 Where a DPCR5 HVP was delayed or deferred, the Authority will consider whether the delay or deferral:

- (a) is in the interest of customers;
- (b) resulted in an efficient outcome; and,
- (c) is justified by sufficient and robust evidence that the Agreed HVP Network Outputs have been or will be delivered and the extent to which the works are not funded as part of its RIIO-ED1 settlement,

in determining whether or not a HVP Network Outputs Gap has arisen.

1.17 Where following its Performance Assessment the Authority determines that the licensee has delivered its Agreed HVP Network Outputs for an individual DPCR5 HVP, there will be no DPCR5 failure to deliver outputs adjustment relating to that individual project for the licensee. The Authority will notify the licensee and consult on its Preliminary View in line with paragraph 16.11 and paragraph 16.13 of chapter 16.

1.18 Where following its Performance Assessment the Authority determines that the licensee has not delivered its Agreed HVP Network Outputs for an individual DPCR5 HVP, it will quantify the HVP Network Outputs Gap for the licensee in accordance with Step 4.

#### **Step 4: Valuation of the HVP Network Outputs Gap for individual DPCR5 HVPs**

1.19 The Authority will determine the value of the HVP Network Outputs Gap on a project by project basis using the bespoke qualitative assessment methodology set out in paragraph 1.21 to paragraph 1.23 below.

1.20 In determining the value of [any the](#) HVP Network Outputs Gap for the licensee, the Authority will take into account inter alia for each individual DPCR5 HVP:

- (a) the total value of the project;
- (b) the type and volume of assets forecast to be delivered; and,
- (c) the type and volume of assets actually delivered by the licensee.

1.21 Where a project was cancelled, in determining the value of the HVP Network Outputs Gap the Authority will deduct the value of any preliminary works carried out by the licensee from the HVP Network Outputs Gap, where it considers the costs of

the preliminary works carried out during the DPCR5 period have been efficiently incurred, based on the information that was available to the licensee at the time.

1.22 Where a project was delayed or deferred, in determining the value of the HVP Network Outputs Gap the Authority will take into account:

- (a) the costs and allowances of the project as a whole, including whether equivalent or ongoing works have or have not been funded RIIO-ED1 settlement;
- (b) the proportion of HVP Network Outputs which are yet to be delivered for a DPCR5 HVP and are due to be delivered during RIIO-ED1;
- (c) evidence provided by the licensee that the outputs will be or have been delivered during RIIO-ED1;
- (d) the costs of any preliminary works carried out by the licensee during the DPCR5 period and whether these have been efficiently incurred, based on the information that was available to the licensee at the time; and,
- (e) the factors considered at paragraph 1.16.

1.23 Where a project was delayed or deferred for reasons that were beyond the licensee's control or are otherwise adequately justified, in determining the value of the HVP Outputs Gap the Authority will ensure that the overall outcome for the licensee in relation to high value projects, taking into account costs and allowances in both the DPCR5 and RIIO-ED1 periods, is no more penal than the outcome that could reasonably have been expected if the entire project, and all the associated costs, had fallen into the DPCR5 period.

#### **Step 5: Valuation of HVP Network Outputs Gap for the purpose of double-counting adjustment**

1.24 For the purpose of determining the Revised HVP Re-opener Value under paragraph ~~15.216~~~~15.215~~, the Authority will sum the value of the HVP Network Outputs Gap for each individual DPCR5 HVP obtained under Step 4.

1.25 The Authority will calculate the Revised HVP Re-opener Value for the licensee in accordance with paragraphs ~~15.216~~~~15.215~~ to ~~15.221~~~~15.220~~.

#### **Step 6: Application of the DPCR5 Network Output Incentive Rate or DPCR5 IQI Incentive Rate**

1.26 The Authority will apportion each individual HVP Network Outputs Gap, obtained from the HVP Network Outputs Review Methodology, to each Regulatory Year of DPCR5 based on the timing profile of the allowance profile of the relevant DPCR5 HVP.

1.27 Where the Authority has determined that the decision to cancel, delay or defer an individual DPCR5 HVP was:

(a) in the interest of customers; and,

(b) resulted in an efficient outcome,

the Authority will multiply the value of the HVP Network Outputs Gap for that HVP for each Regulatory Year, as apportioned under paragraph 1.26, expressed as a negative value, by the DPCR5 IQI Incentive Rate for the relevant Regulatory Years for the licensee.

1.28 Where the Authority has determined that the decision to cancel, delay or defer an individual DPCR5 HVP was:

(a) not in the interest of customers; or,

(b) did not result in an efficient outcome,

it will multiply the value of the HVP Network Outputs Gap for that HVP for each Regulatory Year, as apportioned under paragraph 1.26, expressed as a negative value, by the DPCR5 Network Outputs Incentive Rate.

**Step 7: Determine Total HVP Network Outputs Gap for the licensee**

1.29 The Authority will sum the values obtained at paragraph 1.27 and paragraph 1.28 for each individual DPCR5 HVP and for each Regulatory Year to obtain the Total HVP Network Outputs Gap for the licensee.

1.30 The Authority will use the Total HVP Network Outputs Gap to determine a revised DPCR5 High Value Projects - failure to deliver outputs adjustment value for the licensee in accordance with Chapter 15 and Chapter 16 of the Handbook.

# Annex D: Traffic Management Permit Costs Legacy Assessment Methodology

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## References:

- i. Chapter 2 of reference document 1 specified at the start of ~~{Chapter 15}~~
- ii. Reference document 5 specified at the start of ~~{Chapter 15}~~
- iii. Chapters 4 and 7 of reference document 6 specified at the start of ~~{Chapter 15}~~
- iv. Reference document 12 specified at the start of ~~{Chapter 15}~~

## Overview

1.1. This Traffic Management Permit Costs Legacy Assessment Methodology sets out the way in which the Authority will determine the efficient costs for the four permitting cost components: Permit Costs, Permitting Conditions Costs, System Set Up Costs and Incremental Administration Costs.

1.2. These efficient costs will be used as input values (marked ▲) in the materiality test referred to in paragraph ~~15.10015.99~~ and, if applicable, to calculate the DPCR5 Traffic Management Act Permit Costs adjustment value set out in paragraphs ~~15.10015.10115.100~~ – ~~15.10315.102~~.

## Scope

1.3. The DPCR5 Traffic Management Permit Costs Legacy Assessment Methodology does not cover the following items:

- i. the cost of permitting penalties;
- ii. any costs remunerable by income from charges levied by the licensee in respect of the provision of Use of System, in accordance with the relevant Charging Statement prepared and published by the licensee under standard condition 14 Charges for Use of System and connection ('any costs outside the price control').

## DPCR5 Reopener

1.4. Only London Power Networks plc triggered the 2012 reopener referred to in paragraph ~~15.9415.93~~, and its allowances for DPCR5 were determined by the Authority on 30 November 2012 and adjusted accordingly, as set out in reference document iv. A licensee that has previously applied for a reopener in an earlier window is not precluded from applying in the reopener window set out in paragraph ~~15.9515.94~~, – provided it meets the necessary materiality threshold as per paragraphs ~~15.10015.99~~ – ~~15.10315.10215.101~~.

## Efficiency

1.5. In undertaking its determination of a licensee's efficient traffic management permitting expenditure (as set out in [15.910\(c\)](#)), the Authority will interpret efficiency to mean:

- investment decision making by a licensee that took into account all information that could reasonably have been expected to be available to the licensee at the time of making the decision; and which
- resulted in expenditure during the DPCR5 period that would reasonably, at the time of making the investment decision, be required to meet an appropriate view of the changing and sometimes uncertain need and requirements of the licensee's electricity distribution system.

1.6. In undertaking its determination, the Authority will look for examples of efficient practices to manage Permitting Conditions, System Set Up and Incremental Administration Costs including, but not limited to:

- improved working with local/highway authorities; and
- more efficient ongoing administrative support processes as the Permitting Schemes become "business as usual".

1.7. Costs of permits (as set out in paragraph [15.9115.90b](#)) are deemed efficient as these are mandatory requirements.

## Stages of the Legacy Assessment

1.8. There are two stages in the assessment process:

1. If the licensee wishes to trigger the DPCR5 traffic management permitting reopener, the licensee submits to the Authority a TMA Permitting Reopener Notice and any additional data as stipulated in the Performance Assessment Submission in Annex E.
2. If the licensee has submitted a TMA Permitting Reopener Notice, the Authority will conduct an efficiency assessment of the reported costs, in order to determine efficient costs for the four permitting cost components. These efficient costs will be used as input values (marked ▲) in the materiality test referred to in paragraph [15.10015.99](#) and, if applicable, to calculate the DPCR5 Traffic Management Act Permit Costs adjustment value set out in paragraphs [15.10115.100](#)– [15.10315.102](#).

### Stage 1 – Trigger the reopener and data request

1.9. The window for the licensee to submit a TMA Permitting Reopener Notice is set out in paragraph [15.9515.94](#).

Input data

1.10. In order to conduct an efficiency assessment of the reported costs, the Authority requires the information listed in the Performance Assessment Submission in Annex E. Where this information is not available in the DPCR5 RIGs Submissions, the licensee should submit this information when submitting the TMA Permitting Reopener Notice.

1.11. Other sources of information that the Authority will use to inform the efficiency assessment include, but are not limited to:

- evidence submitted as part of any 2012 reopener;
- any relevant information in ED1 business plans pertaining to the DPCR5 period; and,
- any other relevant information pertaining to the DPCR5 period also submitted to Ofgem.

1.12. The Authority may request additional information from other licensees and from gas distribution network operators (GDNs) for the purpose of benchmarking efficient costs of the licensee that has submitted a TMA Permitting Reopener Notice. Where this is required, the Authority will provide sufficient time for the other licensees and GDNs to provide the data. The time provided will be proportionate to the scale and complexity of the data request.

## **Stage 2 Cost efficiency assessment**

Data normalisation

1.13. If the licensee has submitted a TMA Permitting Reopener Notice, the Authority will restate the licensee's costs associated with permitting requirements in 2012/13 prices for each Regulatory Year of the DPCR5 period.

1.14. Once restated in 2012/13 prices, the Authority will sum the following sub-categories for each of the four permitting components in order to obtain the total submitted costs per permitting component. These four sub-categories are set out as in accordance with the terminology used in the DPCR5 Cost and Revenue Reporting RIGs:

- Connection project which has an element subject to the apportionment rules;
- Network investment;
- Network operating costs associated with planned and capital work; and,
- Network operating costs associated with unplanned fault work.

1.15. In order to ensure the assessment excludes costs and volumes outside the price control, any costs and volumes associated with connection costs not subject to the apportionment rule are excluded. Accordingly, the fifth sub-category within the DPCR5 Cost and Revenue Reporting RIGs, "Connection project which has no element subject to the apportionment rules" is not included within the assessment. In

addition, any element of Permit Costs recovered through connection charges under sub-category "Connection project which has an element subject to the apportionment rules" is excluded via the following steps:

- i. Calculate the ratio of the sum of DPCR5 gross connection costs subject to the apportionment rules which are Distribution Use of System (DUoS) funded to connection costs subject to the apportionment rules; and,
- ii. Apply this ratio to the reported permitting cost within this sub-category to estimate the proportion which is DUoS funded.

#### Cost Efficiency Assessment

1.16. The Authority will conduct a cost efficiency assessment for the licensee that has submitted a TMA Permitting Reopener Notice based on the data calculated in paragraphs 1.13 – 1.15.

1.17. The Authority will carry out its assessment using a combination of qualitative and quantitative methods, as detailed in paragraphs 1.18 - 1.32 in order to assess cost efficiency for each of the four permitting cost components. The resultant efficient costs are the determined input values to be used as input values (marked ▲) in the materiality test referred to in paragraph ~~15.100-15.99~~ and, if applicable, to calculate the DPCR5 Traffic Management Act Permit Costs adjustment value set out in paragraphs ~~15.100-15.101-15.100- 15.103-15.102~~.

#### Permit volumes

1.18. Providing that volumes are within the cap outlined in paragraph ~~15.92-15.91~~, no further volume adjustment will be made.

#### Permit Costs

1.19. Permit Costs cannot be assessed for efficiency using quantitative or qualitative comparative methods as Permit Costs are set by local/highway authorities and are not within the control of the licensee. Therefore submitted Permit Costs minus any permit income is taken to be the licensee's efficient Permit Costs.

1.20. The licensee's efficient Permit Costs will be used as an input value (marked ▲) in the materiality test referred to in paragraph ~~15.100-15.99~~ and, if applicable, to calculate the DPCR5 Traffic Management Act Permit Costs adjustment value set out in paragraphs ~~15.101-15.100 - 15.103-15.102~~.

#### Permitting Conditions Costs

1.21. The Authority will undertake and consider the results of qualitative analysis to determine the adjustment to be made to the licensee's submitted Permitting Conditions Costs to give the efficient Permitting Conditions Costs.

1.22. The qualitative comparative review will consider:

- the type of conditions imposed on the licensee;
- whether the licensee provides evidence that it has engaged with the relevant local/highway authorities to negotiate the conditions imposed;
- whether the licensee has made any appropriate efficiency savings during the DPCR5 period to meet these conditions at a lower cost;
- how other licensees (ie DNOs and GDNs) have met similar conditions;
- evidence submitted as part of the 2012 reopener if relevant;
- any relevant information in ED1 business plans pertaining to DPCR5; and,
- any relevant information pertaining to DPCR5 also submitted to Ofgem.

1.23. A quantitative benchmarking review cannot be undertaken for Permitting Conditions Costs due to the unique nature and scope of these conditions.

1.24. The licensee's efficient Permitting Conditions Costs will be used as an input value (marked ▲) in the materiality test referred to in paragraph ~~15.100~~~~15.99~~ and, if applicable, to calculate the DPCR5 Traffic Management Act Permit Costs adjustment value set out in paragraphs ~~15.101~~~~15.100~~– ~~15.103~~~~15.102~~.

#### System Set Up Costs

1.25. The Authority will undertake and consider the results of both quantitative and qualitative analysis to determine the adjustment to be made to the licensee's submitted System Set Up Costs to give the efficient System Set Up Costs associated with permitting.

1.26. The qualitative comparative review will consider:

- the licensee's set up arrangements;
- whether alternatives were considered by the licensee;
- whether the licensee has made any appropriate efficiency savings during the DPCR5 period in permitting system set up;
- how other licensees (ie DNOs and GDNs) have set up systems for permitting;
- evidence submitted as part of the 2012 reopener if relevant;
- any relevant information in ED1 business plans pertaining to DPCR5; and,
- any relevant information pertaining to DPCR5 also submitted to Ofgem.

1.27. Quantitative analysis will comprise benchmarking of the licensee's total System Set Up Costs with those of other licensees and GDNs, taking account of relevant differences in the characteristics and activities of those licensees, as

informed by existing data available in DPCR5 RIGs Submissions or any additional information requests from other licensees and GDNs. ~~Costs for licensees without active permit schemes will not be used in quantitative benchmarking. We will not include costs for licensees without active permit schemes in quantitative benchmarking.~~

1.28. The licensee's efficient System Set Up Costs associated with permitting requirements will be used as an input value (marked ▲) in the materiality test referred to in paragraph ~~15.100~~~~15.99~~ and, if applicable, to calculate the DPCR5 Traffic Management Act Permit Costs adjustment value set out in paragraphs ~~15.101~~~~15.100~~ – ~~15.103~~~~15.102~~.

#### Incremental Administration Costs

1.29. The Authority will undertake and consider the results of both quantitative and qualitative analysis to determine the adjustment to be made to the licensee's submitted permit Incremental Administration Costs to give the efficient Incremental Administration Costs associated with permitting.

1.30. The qualitative comparative review will consider:

- the licensee's incremental administration arrangements;
- whether alternatives were considered by the licensee;
- whether the licensee has made any appropriate efficiency savings during the DPCR5 period in permitting incremental administration;
- how other licensees (ie DNOs and GDNs) have administered their Permitting Schemes;
- evidence submitted as part of the 2012 reopener if relevant;
- any relevant information in ED1 business plans pertaining to DPCR5; and,
- any relevant information pertaining to DPCR5 also submitted to Ofgem.

1.31. Quantitative analysis will comprise benchmarking of the licensee's Incremental Administration Costs per permit with those of other licensees and GDNs, taking account of relevant differences in the characteristics and activities of those licensees, as informed by existing data available in DPCR5 RIGs Submissions or any additional information requests from other licensees and GDNs. We will not include costs for licensees without active permit schemes in quantitative benchmarking.

1.32. The licensee's efficient Incremental Administration Costs associated with permitting will be used as an input value (marked ▲) in the materiality test referred to in paragraph ~~15.100~~~~15.99~~ and, if applicable, to calculate the DPCR5 Traffic Management Act Permit Costs adjustment value set out in paragraphs ~~15.100~~~~15.101~~~~15.100~~ – ~~15.103~~~~15.102~~.

# Annex E: Performance Assessment Submission

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## 1 Overview

1.1 Paragraphs ~~1.10 1.10~~ of Annex A1 'DPCR5 NOMs Failure to Deliver Outputs Methodology', 1.7 of Annex B 'Load Related Re-opener Legacy Assessment Methodology', ~~1.5 1.6~~ of Annex C1 'HVP Re-opener Legacy Assessment Methodology', ~~1.5 1.6~~ of Annex C2 'HVP Network Outputs Review Methodology' and 1.10 of Annex D 'Traffic Management Permit Costs Legacy Assessment Methodology' require the licensee to submit supporting information in the form of a Performance Assessment Submission. This information is required in order for the Authority to undertake its Performance Assessment.

1.2 The information that the licensee may be required to provide as part of the Performance Assessment Submission with respect to each of the Network Output Measures (NOMs), the High Value Projects (HVPs), ~~in the~~ DPCR5 Load Related ~~xpenditure (LRE) Re-opener~~ and the Traffic Management Act (TMA) Permit Costs is set out in this annex.

1.3 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 as a result of its Initial High Level Analysis. The information requested by the Authority will be proportionate to the results of the Initial High Level Analysis and will include any outstanding information required to address issues identified.

1.4 Following the Initial High Level Analysis, the Authority will inform each licensee of any specific information required to be submitted by the licensee in its Performance Assessment Submission in relation to NOMs, HVPs, Load Related Expenditure Re-opener LRE and TMA. The information will be requested in accordance with the paragraph numbering outlined in this annex and as per the timetables outlined in paragraphs 15.4 and 16.4.

1.5 In submitting information the licensee may be required to set out how it has ensured the robustness of its data.

## 2 NOMs – Health Indices

### *Asset management approach*

2.1 As stated in paragraph 1.4, the licensee may be required to submit in its Performance Assessment Submission, for the HI Asset Categories, information that includes but may not be limited to:

- (i) a narrative describing the licensee’s overall HI performance during the DPCR5 period, explaining whether the licensee has delivered the Agreed Network Outputs during the DPCR5 period, using a combination of its submitted HI information, the HI Risk Points Methodology and other supporting information;
- (ii) an explanation of the drivers of the licensee’s HI Interventions and the supporting rationale for those Interventions undertaken in the DPCR5 period. i.e. how the licensee has reprioritised work across HI asset categories and justify why the reprioritisation was appropriate;
- (iii) an explanation of how trade-offs between HI Asset Category Interventions and/or other investment areas were or were not taken into account;
- ~~(iv) if the Authority’s Initial High Level Analysis indicates that the licensee has delivered a performance that is lower than the HI Target Delta, the licensee should provide a justification of:
 
  - a) why this was appropriate;
  - b) why it was not practicable to deliver the HI Agreed Network Outputs; and,
  - c) why Interventions or further Interventions had not been undertaken by the licensee to address this;~~
- ~~(v)(iv)~~ how the licensee has traded off between asset replacement and refurbishment work and why, in the licensee’s view, this trade-off was appropriate and provides benefits for consumers;
- ~~(vi)(v)~~ where the licensee has chosen to deliver the majority of Interventions in a particular asset class through refurbishment, a description of the methods used and the justification of how the impact on HI banding has been calculated;
- ~~(vii)(vi)~~ for HI Asset Categories (EHV & 132kV), clarification regarding any Interventions that were associated with DPCR4 but where work and HI risk reduction was undertaken in the DPCR5 period; and,
- ~~(viii)(vii)~~ for HI Asset Categories (EHV & 132kV), any Interventions associated with the DPCR5 period but where work is envisaged to be undertaken during the RIIO-ED1 period and benefits accrued in RIIO-ED1.

2.2 The licensee will take into consideration information from the Authority’s Initial High Level Analysis, as specified in paragraph ~~1.10 1.10~~ of Annex A1, in its Performance Assessment Submission. ~~If the Authority’s Initial High Level Analysis indicates that the licensee has delivered a performance that is lower than the HI Target Delta, the licensee should provide a justification of why this was appropriate, including why further Interventions were not undertaken by the licensee.~~

## HI Material Changes

2.3 The licensee may submit or be required to submit in its Performance Assessment Submission information that includes but may not be limited to:

- (i) an explanation of how Material Changes have impacted upon the HI component of the Agreed Network Outputs and whether or not those impacts mean the Agreed Network Outputs reflect the delivery of equivalent network outputs; and,
- (ii) an explanation of any asset management decisions that were taken in response to the Material Changes, including re-prioritisation of asset management plans, and the subsequent impact upon Intervention volumes including any trade-off decisions.

### *Rebasing HI Target Delta*

2.4 Where the Authority determines ~~under paragraph 1.22 (ii) of Annex A1 in its Initial High Level Analysis~~ that rebasing ~~may be~~ required for the HI component of the Agreed Network Output, due to Material Changes, ~~to~~ the licensee may either:

- (i) provide a set of Adjusted Network Outputs for the HI component of the NOMs. This is achieved by carrying out appropriate rebasing of the HI element of the Agreed Network Outputs to ensure that the new HI Target Delta remains equally challenging compared to the original HI component of the Agreed Network Outputs before the impact of Material Changes; or,
- (ii) provide clear justification as to why rebasing is not required.

2.5 Where the licensee chooses to carry out rebasing this will involve the following steps:

- (i) for each Material Change affecting the licensee's HI score (for a particular HI Asset), the licensee will identify when the Material Change occurred or was identified by the licensee, and when it would have impacted the licensee's delivery of the HI component of its Agreed Network Outputs; and,

~~(ii) the licensee will adjust the HI element of the Agreed Network Outputs taking into account the impact of Material Changes taking into account Material Changes, the licensee will adjust the DPCR5 HI intervention plan (as outlined in the NADPR RIGs submissions).~~

2.6 Where the licensee chooses to carry out appropriate rebasing of the HI Agreed Network Outputs, it must follow the principles below:

- (i) rebasing must reflect the volumes of assets replacement and refurbishment underpinning the Agreed Network Outputs;
- (ii) rebasing can occur in both directions, i.e. adjustments to the HI Target Delta may target assets in either the higher and lower risk HI Bands depending on ~~both~~ the nature of the Material Changes;
- ~~(iii)~~ the Adjusted Network Outputs should remain equally challenging to those set out in DPCR5 Final Proposals.

2.7 Taking into account all this information, the licensee's Performance Assessment Submission should set out and justify the licensee's view as to whether the HI Interventions delivered by the licensee:

- (i) is consistent with the HI component of Agreed Network Outputs and the change in the level of network risk funded through the DPCR5 settlement; and,
- ~~(i)~~(ii) represents an efficient outcome for customers, having regard to the information available to the licensee and the circumstances prevailing at the time the licensee made its asset management decisions.

### **3 NOMs – Load Indices**

#### *Asset management approach*

3.1 As stated in paragraph 1.4, the licensee may be required to provide to the Authority evidence as part of its Performance Assessment Submission to demonstrate:

- (i) whether the licensee has delivered the LI component of Agreed Network Outputs for DPCR5;
- (ii) the nature of all Material Changes which have impacted on the LI component of Agreed Network Outputs. This should include evidence to demonstrate that the Material Change occurred and the impact it had on the LI component of Agreed Network Outputs, or LI Risk Points (if any);
- (iii) the licensee should explain any asset management decisions it has taken in response to the Material Changes including relevant changes to its ~~DPCR5~~-Load Related Actual Incurred Expenditure;
- (iv) if the licensee has delivered a worse LI Band Profile than agreed at DPCR5 or the number of LI Risk Points is greater than forecast, the licensee must provide a justification of:

a) why the licensee considers this was appropriate;

- b) why it was not practicable to deliver the LI component of Agreed Network Outputs;
  - c) why Interventions or further Interventions had not been undertaken to address this;
  - d) why no load related reinforcement occurred at substations rated at LI5 during the DPCR5 period, where investment was planned based on the licensee's Agreed Network Outputs (applicable for substations where no load related reinforcement occurred during the DPCR5 period);
  - e) why no load related reinforcement occurred at substations where investment was not planned based on the licensee's Agreed Network Outputs but the substation ~~was is currently~~ rated at LI5 at 31 March 2015 (applicable for substations where no load related reinforcement occurred during the DPCR5 period); and,
  - f) whether any other non-forecast network reinforcement was required and the impact this had on the LI Band Profile or LI Risk Points;
- (v) how the licensee has reprioritised work across substations and the justification for why the reprioritisation was appropriate;
  - (vi) how the licensee has revised its relevant load related investment plans to take account of changes in demand and consideration of alternative solutions, including cost benefit analysis where appropriate; and,
  - (vii) how the DNO has updated its relevant asset investment plan replacement/refurbishment to take account of changes in demand, consideration of alternative solutions etc, including CBAs where appropriate.

### *LI Material Changes*

3.2 The licensee may submit or be required to submit evidence and explanation of Material Changes relating to substation capacity. The submission may include but not be limited to:

- (i) an explanation of the nature of all substation capacity Material Changes which have impacted on the LI component of the Agreed Network Outputs. This should include evidence to demonstrate changes that have occurred and the impact these have had on outputs as reflected in the LI Band Profile or LI Risk Points set out in the Agreed Network Outputs (if any). It should also include the impact on the LI Band Profile or LI Risk Points for the Delivered Network Outputs; and,

- (ii) an explanation of any investment decisions that were taken in response to the Material Changes including re-prioritisation of plans, and the subsequent impact upon Intervention volumes including any trade-off decisions.

#### *Rebasing LI targets*

3.3 Where the Authority's Initial High Level Analysis indicates that Material Changes may have had a significant impact on the licensee's overall performance in delivering the agreed NOMs, the licensee should either:

- (i) carry out appropriate rebasing of the LI component of Agreed Network Outputs to reflect these changes; or,
- (ii) provide clear justification that such rebasing is not required.

3.4 Where the licensee chooses to follow the path described under paragraph 3.3(i), the licensee should adjust the LI component of the Agreed Network Outputs for Material Changes, by calculating the revised LI Band Profile, taking into account the impact of Material Changes. This will involve the following steps:

- (i) for each Material Change, the licensee will identify the timing when the Material Change occurred or was identified by the licensee; and,
- (ii) the licensee will adjust the LI Band Profile with Intervention at 31 March 2015 for each LI Demand Group to take account of the impact of the Material Changes.

3.5 When carrying out rebasing of LI Band Profiles for the impact of Material Changes, the licensee must observe the following principles:

- (i) the adjustments should take into account only Material Changes in substation capacity; and,
- (ii) rebasing can occur in both directions, i.e. profiling can be done to both higher and lower risk LI Band depending on: (1) the nature of the Material Changes, and (2) the need to ensure that the LI component of the Adjusted Network Outputs remain equally challenging to those set out in DPCR5 Final Proposals.

3.6 Taking into account all this information, the licensee's Performance Assessment Submission should set out and justify the licensee's view as to whether the LI Band Profile delivered by the licensee:

- (i) is consistent with the LI component of Agreed Network Outputs and the change in the level of network risk funded through the DPCR5 settlement; it should include reference to substation's hours at risk and customer numbers and,

- (ii) represents an efficient outcome for customers, having regard to the information available to the licensee and the circumstances prevailing at the time the licensee made its asset management decisions.

#### 4 NOMs - Fault Rates

~~Performance Assessment Submission: a~~Asset management approach

4.1 As stated in paragraph 1.4, for those assets not covered in the Health Indices, the licensee may be required to submit in its Performance Assessment Submission information that includes but may not be limited to:

- (i) the drivers that have caused differences between the actual Fault Rates compared to the licensee's forecasts for the DPCR5 period and historical data. This should cover:
  - a) damage Fault Rates including and excluding exceptional events;
  - b) each Fault Rate Asset Category not already covered by HIs;
  - c) comparison of the five year average actual DPCR5 period Fault Rate with the five year average forecast Fault Rate in the Agreed Network Outputs;
  - d) for Fault Rate Asset Categories requiring further assessment, the impact of any Material Changes shall be assessed where appropriate by disaggregating breaking—the historical Fault Rate performance into its constituent fault causes;
  - e) where actual Fault Rates are higher than forecast, an explanation of the drivers of this performance; and,
  - f) a justification of why its forecast was sensible and an explanation of the volatility assumptions in its Fault Rates forecast.
- (ii) details of any Material Changes in input data, for example significant changes in Fault Rate Asset Category volumes due to data cleansing adjustments or changes in fault categorisation reporting;
- (iii) details of any Material Changes due to external factors that have caused Fault Rates to be higher than forecast, for example flooding or metal theft;
- (iv) if Fault Rates are significantly higher than forecast for a certain Fault Rate Asset Category, the reasons for this variation;
- (v) explanation of the licensee's approach to asset management of the Fault Rate Asset Categories - including the reprioritisation of work across asset categories, trade-offs between Fault Rate Asset Categories and HI Asset Categories and other investment drivers;

- (vi) whether the level of Intervention was appropriate and in the interests of the licensee's customers or whether further Interventions should have been made to mitigate the difference between actual Fault Rates and the forecast Fault Rates; and,
- (vii) any further information that the licensee considers relevant to the Authority's assessment.

## **5 Load Related Expenditure**

5.1 As specified in paragraph 1.7 of Annex B, depending on the findings of the Authority's Initial High Level Analysis, the licensee may be required to provide to the Authority, a Performance Assessment Submission that provides information and analysis of the ~~DPCR5~~-Load Related Actual Incurred Expenditure.

5.2 The extent of narrative and supporting evidence provided to the Authority should be proportionate to the degree to which the actual ~~DPCR5~~-Load Related Actual Incurred Expenditure of the licensee is higher or lower than the relevant materiality thresholds for the re-opener and informed by the Authority's Initial High Level Analysis for ~~DPCR5~~-Load Related Actual Incurred Expenditure.

5.3 The Performance Assessment Submission should explain any data quality issues over the DPCR5 period which have impacted on general load related reinforcement and LVHC connections.

### *LVHC Connections*

5.4 To inform the Authority's analysis of LVHC Connections, the licensee's Performance Assessment Submission may be required to include:

- (i) an explanation of changes in the volume and mix of LVHC connection schemes;
- (ii) information on any trade-off / relationship with General Reinforcement;
- (iii) information on the licensee's performance in collecting customer contributions for connections work; and,
- (iv) information on the number of connections carried out by independent connection providers, where the licensee was required to carry out associated non-contestable work.

### *General Reinforcement - primary (substations, circuit and voltage)*

5.5 To inform the Authority's analysis of primary substations, circuit and voltage reinforcement, the licensee's Performance Assessment Submission may need to provide an overview of General Reinforcement expenditure carried out during the

DPCR5 period. The analysis for primary reinforcement will also include n-2 reinforcement.

5.6 For primary reinforcement, the licensee may be required to provide detailed information only for certain schemes as determined by the Authority after Step 1 of the Load Related Re-opener Legacy Assessment ~~M~~ethodology.

5.7 For schemes that were delayed, deferred or where a new requirement arose, the licensee may be required to provide an explanation of why these changes occurred. This will include where General Reinforcement was impacted by changes to LVHC connection activity.

5.8 On direction ~~by~~-from the Authority following the findings of its Initial High Level Analysis, for the primary reinforcement schemes identified by the Authority for further information where expenditure was incurred, the licensee may be required to provide a description of the technical aspects of the scheme including:

- (i) the original technical solution; and,
- (ii) any changes to the technical solution along with an explanation of the reason for changing the solution.

5.9 Where General Reinforcement schemes are influenced by LVHC connections, the licensee may also be required to provide additional details in its Performance Assessment Submission to explain the relationship between the LVHC connections and the General Reinforcement project.

5.10 In its Performance Assessment Submission the licensee may also be required to provide a justification for the licensee's incurred primary reinforcement and the efficiency of that expenditure. This may include, but not be limited to:

- (i) LIs;
- (ii) the impact of load changes on General Reinforcement expenditure;
- (iii) analysis or data that supports the need for primary reinforcement schemes;
- (iv) relevant financial or cost benefit analysis, undertaken by the licensee at the time decisions on expenditure were made by the licensee; and,
- (v) analysis of options considered.

#### *General Reinforcement - secondary reinforcement*

5.11 The licensee may be required to provide a narrative of its secondary reinforcement expenditure for DPCR5. This narrative should be made with reference

to the allowed expenditure baselines for secondary reinforcement in DPCR5 and should include reference to the drivers that led to the need for the expenditure on secondary reinforcement schemes or changes in expenditure compared to the DPCR5 baselines.

5.12 The licensee may be required to provide sample scheme papers and associated narrative to inform the Authority of the licensee's decision making processes for secondary reinforcement.

#### *Avoided Reinforcement Expenditure*

5.13 For Avoided Reinforcement Expenditure to qualify under Step 4 of the Load Related Re-opener Legacy Assessment methodology, it will be the responsibility of the licensee to demonstrate how it has achieved efficiencies in ~~DPCR5~~-Load Related Actual Incurred Expenditure which are due to innovations in the method and scope of work which was undertaken during the DPCR5 period.

5.14 The licensee's Performance Assessment Submission may be required to include:

- (i) explanation of the Innovative Solutions adopted to address, avoid or defer reinforcement;
- (ii) justification of the need for the reinforcement which the Innovative Solutions are addressing, avoiding or deferring; and,
- (iii) demonstration that the Innovative Solutions are in the interests of consumers and details of alternative solutions.

5.15 Where required to provide information in respect of Innovative Solutions, the licensee ~~should~~ use financial or cost benefit analysis to demonstrate the Innovative Solutions deliver benefits to customers and present evidence of the decision process. This should include evidence that the proposed Innovative Solution differs from other conventional solutions that were in widespread use at the beginning of DPCR5 by the licensee or other licensees when addressing a need for expenditure; and provide an estimate of the licensee's view of the likely cost of conventional investment solution relative to the adopted Innovative Solution.

## **6 High Value Projects**

6.1 As specified in paragraphs ~~1.51-6~~ of Annex C1 and ~~1.5-1-6~~ of Annex C2, depending on the findings of the Authority's Initial High Level Analysis, the licensee may be required to provide to the Authority, a Performance Assessment Submission that provides information and analysis on DPCR5 HVPs.

6.2 The licensee may be required to provide an overview of each individual DPCR5 HVP that was carried out in [the DPCR5 period](#). This should include a supporting narrative and variance analysis of the licensee's actual expenditure relative to DPCR5 allowance.

6.3 The licensee's Performance Assessment Submission may be required to include summary information on:

- (i) the HVPs that the licensee has completed during the DPCR5 period;
- (ii) the HVPs that the licensee deferred or delayed into later price controls or cancelled during the DPCR5 period;
- (iii) the HVPs that the licensee has started during the DPCR5 period, but will not complete until the RIIO-ED1 period; and,
- (iv) the licensee's investment decision-making processes relating to DPCR5 HVPs.

#### *HVP Actual Incurred expenditure*

6.4 The licensee may be required to provide information to support the technical, regulatory and economic need for its DPCR5 HVP Actual Incurred Expenditure. This may include, but is not limited to, the following:

- (i) a statement of the original needs case for individual DPCR5 HVPs and whether the needs case changed (where applicable);
- (ii) analysis or data to support the need for each individual DPCR5 HVP including information on the drivers of the expenditure at the time the investment decision was made;
- (iii) relevant financial or cost benefit analysis, undertaken by the licensee at the time decisions on DPCR5 HVP expenditure were made by the licensee;
- (iv) analysis of options and alternative investment solutions considered; and,
- (v) arrangements for management and delivery of DPCR5 HVPs.

#### *Avoided HVP Expenditure*

6.5 For Avoided HVP Expenditure to qualify under Step 3 of the HVP re-opener legacy assessment methodology, it will be the responsibility of the licensee to demonstrate how it has achieved efficiencies in HVP expenditure which are due to

innovations in the method and scope of work which was undertaken during the DPCR5 period.

6.6 The Authority may require the licensee to provide:

- (i) an explanation of the Innovative Solutions adopted to address, avoid or defer HVP expenditure (where applicable);
- (ii) justification of the need for the investment which the Innovative Solutions are meeting; and,
- (iii) demonstration that the Innovative Solutions are in the interests of consumers and details of alternative solutions.

6.7 Where required to provide information on Avoided HVP Expenditure the licensee should use financial or cost benefit analysis to demonstrate the Innovative Solutions deliver benefits to customers and present evidence of the decision process. This should include evidence that the proposed Innovative Solutions differs from other conventional solutions that were in widespread use at the beginning of DPCR5 by the licensee or other licensees when addressing a need for HVP expenditure; and provide an estimate of the licensee's view of the likely cost of alternative investment solution relative to the adopted Innovative Solutions.

#### *HVP Network Outputs Gap*

6.8 To inform the Authority's assessment of whether or not a HVP Network Outputs Gap has arisen and the quantification of the HVP Network Outputs Gap, the licensee may be required to provide the following information in its Performance Assessment Submission:

- (i) a description of the Agreed DPCR5 **HVP** Network Outputs for each individual DPCR5 HVP; and,
- (ii) a variance analysis of the type and volume of HVP assets that were forecast to be delivered by the licensee during the DPCR5 period and the type and volume of assets actually delivered by the licensee for each individual DPCR5 HVP.

6.9 The licensee should indicate as part of its Performance Assessment Submission whether it considers it has delivered the Agreed HVP Network Outputs for each individual DPCR5 HVP, and provide supporting narrative and information. This includes but is not limited to:

- (i) information on Delivered HVP Network Outputs and assessment against Agreed HVP Network Outputs;
- (ii) where applicable, information and reasoning behind any failure to deliver Agreed HVP Network Outputs; and,

- (iii) any other relevant information, such as cost benefit analyses, relating to individual DPCR5 HVPs.

6.10 Where the licensee has not delivered Agreed HVP Network Outputs for an individual DPCR5 HVP, the licensee's Performance Assessment Submission must state whether the failure to deliver outputs is due to:

- (i) ~~there~~ being a change in scope of the project's Agreed HVP Network Outputs;
- (ii) cancellation of the project;
- (iii) the project being deferred or delayed partially or in its entirety into RIIO-ED1; or,
- (iv) there being a change in project scope.

6.11 Where there has been a change in the Agreed HVP Network Outputs for an individual project, the licensee should provide in its Performance Assessment Submission:

- (i) a statement and supporting rationale for whether the licensee considers the Delivered HVP Network Outputs for the project to be equivalent to the Agreed HVP Network Outputs or not;
- (ii) supporting information on the decision-making processes, technical and financial and/or cost benefit analysis (where applicable) from the time of the project investment decision which supports the reasoning behind the change in project outputs;
- (iii) analysis of the impact of the changes in outputs on the overall costs and timescales for delivery of the project; and,
- (iv) an assessment of whether outputs have been delivered and whether the Delivered HVP Network Outputs are in the interest of consumers.

6.12 For projects that were cancelled and did not start during the DPCR5 period, the licensee must submit an explanation of why the project has not gone ahead. The licensee's Performance Assessment Submission should provide:

- (i) supporting information on the decision-making processes, technical and financial and/or cost benefit analysis (where applicable) from the time of the project investment decision that supported cancellation of the project; and,
- (ii) information on the value of the cancelled project and any costs incurred by the licensee in relation to the project including preliminary works carried out by the licensee before the project was cancelled.

6.13 For projects that were started in DPCR5 and have been partially deferred into RIIO-ED1, the licensee must provide in its Performance Assessment Submission:

- (i) supporting information on the decision-making processes, technical and financial and/or cost benefit analysis (where applicable) that support the need and decision to partially defer the project into RIIO-ED1;
- (ii) details and reasons behind delays in project start and/or delivery or other rephasing of the work;
- (iii) an assessment of whether outputs have been delivered in a manner that is ~~deemed to be~~ consistent with the definition of efficiency in paragraph 1.11 of Annex C1 and whether the Delivered HVP Network Outputs are in the interest of consumers; and,
- (iv) an assessment of the difference between the Agreed HVP Network Outputs and the Delivered HVP Network Outputs.

6.14 If the project has been deferred into a later price control period, the licensee may also be required to identify:

- (i) where there is no additional allowance for the project in RIIO-ED1:
  - a) an estimate of the costs that will be spent in RIIO-ED1 to complete the project; and,
  - b) a description of outputs which were not delivered during the DPCR5 period and are expected to be delivered during RIIO-ED1 including the timing of this work.
- (ii) where there is an additional allowance for the project in RIIO-ED1:
  - a) a summary of DPCR5 expenditure for the project against the DPCR5 allowance and new RIIO-ED1 allowance for the project;
  - b) a revised forecast of actual expenditure in RIIO-ED1; and,
  - c) a description of outputs which were not delivered during the DPCR5 period and are expected to be delivered during RIIO-ED1 including the timing of delivery of the outputs.

## **7 Traffic Management Act Permit Costs**

7.1 As specified in paragraph 1.10 of Annex D, if the licensee wishes to trigger the DPCR5 traffic management permitting reopener, the Authority requires them to submit a Performance Assessment Submission providing information on traffic management permits for DPCR5.

7.2 The information required on a permit scheme basis, over DPCR5, is as follows:

- (i) the name of the scheme;
- (ii) the local/highway authority relevant to the scheme; and,
- (iii) the date the scheme commenced.

7.3 The information required on a licensee basis, for each Regulatory Year in DPCR5, is qualitative information on Permitting Conditions Costs, System Set Up Costs and Incremental Administration Costs to cover:

- (i) the type of conditions imposed, and the set up and administration arrangements;
- (ii) a summary of how permitting conditions were met, including evidence that the licensee has engaged effectively with the relevant local/highway authorities to negotiate the conditions imposed;
- (iii) where alternatives were considered in any aspect of permitting expenditure; and,
- (iv) whether the licensee has made any appropriate efficiency savings in relation to permitting expenditure, including any Innovative Solutions in terms of street works productivity where a permitting scheme is in place.

# Appendix 1 - Glossary

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## A

### Adjusted DPCR5 IQI Incentive Rate

~~Means~~ The percentage values for the licensee set out in the table below.

<b>Licensee</b>	<b>Incentive rate for 2010/11</b>	<b>Incentive rate for 2011/12 to 2014/15</b>
Electricity North West Ltd	35.29%	35.29%
Northern Powergrid (Northeast) Limited	38.82%	38.82%
Northern Powergrid (Yorkshire) plc	38.82%	38.82%
Western Power Distribution (West Midlands) plc	37.65%	40.00%
Western Power Distribution (East Midlands) plc	37.65%	40.00%
Western Power Distribution (South Wales) plc	42.35%	40.00%
Western Power Distribution (South West) plc	42.35%	40.00%
London Power Networks plc	35.29%	35.29%
South Eastern Power Networks plc	35.29%	35.29%
Eastern Power Networks plc	35.29%	35.29%
SP Distribution plc	35.29%	35.29%
SP Manweb plc	35.29%	35.29%
Scottish Hydro Electric Power Distribution plc	40.00%	40.00%
Southern Electric Power Distribution plc	40.00%	40.00%

### Adjusted Network Outputs

Has the meaning given in the Electricity Distribution (DPCR5): Glossary of Terms - Regulatory Instructions and Guidance: Version 3, dated 27 April 2012.

## Affiliate

Has the meaning given in Standard Condition 1 (Definitions for the standard conditions) of the electricity distribution licence.

## Aggregate Baseline Expenditure Allowance

- | Baseline expenditure allowances for the licensee for ~~High Value Projects~~ DPCR5 HVPs or for DPCR5 Load Related Expenditure, as specified as an aggregate amount (in 2007/08 prices), for the whole of DPCR5, as stated in Appendix 2 of Special Condition CRC 18 of the licence in the form it was in on 31 March 2015.

## Agreed HVP Network Outputs

- | The outputs that ~~DNOs-licensees~~ have committed to delivering for each individual DPCR5 HVP as part of the DPCR5 settlement.

## Agreed Network Outputs

Has the meaning given in the Electricity Distribution (DPCR5): Glossary of Terms - Regulatory Instructions and Guidance: Version 3, dated 27 April 2012.

## Annual Iteration Process

The Annual Iteration Process is the process set out in CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model) that uses revised PCFM Variable Values in the ED1 Price Control Financial Model to recalculate base revenue figures for the licensee for the Price Control Period. The product of each Annual Iteration Process is the value for the term  $MOD_t$  which is a component term in the formula for the licensee's Base Demand Revenue, representing the incremental change to the licensee's Opening Base Revenue Allowance for the Regulatory Year  $t$  and the difference between the recalculated base revenue figures held in the PCFM for Regulatory Years  $t-1$  and earlier with appropriate Time Value of Money Adjustment. The Annual Iteration Process is completed by 30 November in each Regulatory Year  $t-1$  during the Price Control Period.

## Avoided HVP Expenditure

The expenditure avoided relative to the cost of a conventional solution where investment in High Value Projects has been delivered, deferred or avoided through the application of a lower cost Innovative Solution.

## Avoided Reinforcement Expenditure

The expenditure avoided relative to the cost of a conventional solution where load related reinforcement investment has been delivered, deferred or avoided through the application of a lower cost Innovative Solution.

## **B**

### Base Annual PSED Allowance

For the purposes of chapter 3 of this handbook, means an allowance derived in accordance with the formulae set out in row 7 of Tables 3.2 and 3.3 in chapter 3 and excludes the components of total PSED revenue allowances that relate to:

- the licensee's under/over-payment history;
- the application of adjustment factors resulting from Reasonableness Reviews; and
- any adjustment due in respect of the true up of forecast costs to actual costs for ongoing pension costs in Regulatory Year 2009/10.

### Base Demand Revenue ( $BR_t$ )

The amount included in the licensee's Allowed Distribution Network Revenue for a particular Regulatory Year, that is derived in accordance with the formula set out in paragraph 2A.5 of CRC 2A (Restriction of Allowed Distribution Network Revenue).

## **C**

### Contingent Asset

For the purposes of the methodology in chapter 3 of this handbook, means an asset made subject to arrangements under which it might:

- (a) be claimed by the pension scheme trustees;
- (b) be reclaimed by the licensee; or
- (c) remain subject to the arrangement,

depending on the circumstances arising/prevaling and the contractual terms of the arrangement.

An example of a Contingent Asset arrangement could be the payment of funds into an escrow account.

### Cut-Off Date

In respect of the Pension Scheme Established Deficit for electricity distribution licensees, means 31 March 2010.

## **D**

### Decimal Percentage

For the purposes of chapter 5 of this handbook, means a percentage value expressed in decimal format so that, for example, five percent (5%) expressed as a Decimal Percentage is 0.05 and twenty percent (20%) expressed as a Decimal Percentage is 0.2.

### Defined Benefit Scheme

A pension scheme where the benefits that accrue to members are normally based on a set formula taking into account the member's salary levels and accrual of service in the scheme.

### Defined Contribution Scheme

A pension scheme where the benefits that accrue to members are based on the level of cash contributions made to an individual account; the returns on those funds are used to provide a cash amount to purchase an annuity on retirement.

### Delivered HVP Network Outputs

The actual outputs delivered by the licensee for each individual DPCR5 HVP as of 31~~st~~ March 2015.

### Delivered Network Outputs

The network outputs (measured in terms of Load Index, the Health Index and the Fault Rate Record) actually delivered by the licensee as of 31~~st~~ March 2015.

### Demand Group

Has the meaning given in the Electricity Distribution (DPCR5): Glossary of Terms - Regulatory Instructions and Guidance: Version 3, dated 27 April 2012.

### Distribution Services Area

Has the meaning given in Standard Condition1 of the electricity distribution licence.

### Distribution Services Provider

Has the meaning given in Standard Condition 1 of the electricity distribution licence.

### DPCR4 Price Control / DPCR4

~~Means –~~The electricity distribution price control arrangements applicable from 1 April 2005 until 31 March 2010.

### DPCR5 Cost and Revenue Reporting RIGs

Version 3 of Regulatory Instructions and Guidance issued by the Authority under standard condition 48 (Reporting of Price Control Cost Information) in the form it was at as of 31 March 2015, in relation to the collection and reporting of Price Control Cost Information.

### DPCR5 Enhanced Physical Site Security and Black Start

In this handbook has the meaning given in subsection x) in section 2 of chapter 15.

## DPCR5 Equalised Incentive

~~In this handbook, means~~ The equalised incentive described in chapter 21 of the DPCR5 Electricity Distribution Price Control Review Final Proposals - Incentives and Obligations document.

## DPCR5 Fast Money

~~In this handbook means~~ The amounts:

- representing 15 percent of the costs subject to the DPCR5 Equalised Incentive; and
- business support costs, non-operational capex and traffic management costs (excluding administration costs),

that, with respect to baseline expenditure allowances, were included in the determination of DPCR5 Revenue Allowances for the licensee for the year of expected expenditure.

## DPCR5 Final Proposals

The documents comprising the Authority's determination of the restrictions to apply to the licensee's revenue for the period 1 April 2010 until 31 March 2015.

## DPCR5 Financial issues Data Tables

The data tables of that name referred to in the RIGs applicable to the licensee in the DPCR5 Price Control Period.

## DPCR5 High Value Projects (HVP)

Large investment projects with a value in excess of £15 million in respect of which an amount ~~has been~~ was included for the licensee in the Authority's baseline for that category of costs (as reflected in Appendix 2 of CRC 18 in the form it was at as of 31 March 2015).

## DPCR5 IQI Incentive Rate

~~Means~~ The incentive rate(s) for the licensee set out in the table at Appendix 1 to Charge Restriction Condition 18 (Arrangements for the recovery of uncertain costs) of the licence in the form that it was in on 31 March 2015. The incentive rates are reproduced below.

<b>Licensee</b>	<b>Incentive rate for 2010/11</b>	<b>Incentive rate for 2011/12 to 2014/15</b>
Electricity North West Ltd	45%	45%
Northern Powergrid (Northeast) Limited	48%	48%

Northern Powergrid (Yorkshire) plc	48%	48%
Western Power Distribution (West Midlands) plc	47%	49%
Western Power Distribution (East Midlands) plc	47%	49%
Western Power Distribution (South Wales) plc	51%	49%
Western Power Distribution (South West) plc	51%	49%
London Power Networks plc	45%	45%
South Eastern Power Networks plc	45%	45%
Eastern Power Networks plc	45%	45%
SP Distribution plc	45%	45%
SP Manweb plc	45%	45%
Scottish Hydro Electric Power Distribution plc	49%	49%
Southern Electric Power Distribution plc	49%	49%

#### | DPCR5 Load Related Expenditure (~~LRE~~)

Each licensee's DPCR5 expenditure allowances for low volume high cost connections and General Reinforcement, excluding allowances for load related DPCR5 HVPs.

#### DPCR5 NADPR RIGs

Version 3 of the Network Asset Data and Performance Reporting (NADPR) Regulatory Instructions and Guidance issued by the Authority under standard condition 44A (Network Outputs Regime) in the form it was at as of 31 March 2015, in relation to the collection and reporting of Specified Information as defined in that condition.

#### DPCR5 Network Outputs Incentive Rate

This is the IQI incentive rate multiplied by 1.025. The DPCR5 Network Outputs Incentive Rate for each licensee is set out in the DPCR5 NAPDR RIGs.

#### DPCR5 Network Output Measure

| ~~Means aA~~ measure referred to in subsection iii) in section 2 in chapter 16 of this handbook and described in reference documents 1, 2 and 4 specified at the start of that chapter.

## DPCR5 NOMs Failure to Deliver Outputs Methodology

The methodology set out in Annex A1 of this handbook.

## DPCR5 Price Control / DPCR5

~~Means the~~The electricity distribution price control arrangements applicable from 1 April 2010 until 31 March 2015 that preceded RIIO-ED1.

## DPCR5 RAV Rolling Incentive

~~Means the~~The incentive mechanism described in section 1 of chapter 16 of this handbook.

## DPCR5 Revenue Allowance

In this handbook means the PU value sets against the licensee's name in Appendix 1 to Charge restriction condition CRC3 (Restriction of Distribution Charges: Use of System Charges) of the licence in the form which it was in on 31 March 2015 for a particular Regulatory Year in the DPCR5 Period.

## DPCR5 RIGs Submissions

The licensee's RIGs Annual Submissions as defined in the Electricity Distribution (DPCR5): Glossary of Terms - Regulatory Instructions and Guidance: Version 3, dated 27 April 2012.

## DPCR5 Slow Money

In this handbook, means 85 percent of expenditure on costs subject to the equalised incentive described in chapter 21 of the DPCR5 Electricity Distribution Price Control Review Final Proposals - Incentives and Obligations document.

## DPCR5 Time Value of Money Adjustment

A multiplier determined as  $(1+X)^Y$  where:

- X is the WACC for the licensee applicable in the DPCR5 period, which is 4.69 percent; and
- Y represents the number of years over which the DPCR5 Time Value of Money Adjustment is to be applied.

## DPCR5 Traffic Management Act Permit Costs

The costs incurred within the DPCR5 period for the four permitting cost components: Permit Costs, Permitting Conditions Costs, System Set Up Costs and Incremental Administration Costs.

## E

### Early Retirement Deficiency Contributions (ERDCs)

The cost of providing enhanced pension benefits granted under severance arrangements prior to 1 April 2004.

## ED1 Price Control Financial Instruments

The collective term for the ED1 Price Control Financial Handbook and the ED1 Price Control Financial Model.

## ED1 Price Control Financial Model Working Group

The working group whose terms of reference are set out in section 3 of chapter 1 of this handbook.

## ED1 Price Control Financial Methodologies

The methodologies set out in sections 2 and 3 of this handbook that form part of CRC 4A (Governance of ED1 Price Control Financial Instruments) and that are used to determine revised PCFM Variable Values.

## ED1 Price Control Financial Model (PCFM)

The model of that name (with a suffix referring to the month of November in Regulatory Year t-1 as that term is defined for the purposes of CRC 4A) that:

- (a) came into effect on 1 April 2015;
- (b) is represented by a workbook in Microsoft Excel ® format maintained under that name (with a Regulatory Year suffix) on the Authority's website; and
- (c) will be used by the Authority to determine the value of the term  $MOD_t$  through the application of the Annual Iteration Process,

as modified from time to time in accordance with the provisions of CRC 4A (Governance of ED1 Price Control Financial Instruments).

## Electricity Distribution Network Operator

In this handbook has the same meaning as Distribution Services Provider.

## EMID

| ~~Means~~ Western Power Distribution (East Midlands) plc.

## Enhanced Physical Site Security Costs

Has the meaning given in CRC 3F (Arrangements for the recovery of uncertain costs) - but see also DPCR5 Enhanced Physical Site Security and Black Start.

## ENWL

| ~~Means~~ Electricity North West Ltd.

## EPN

| ~~Means~~ Eastern Power Networks plc.

## **F**

### [Fast Money](#)

For RIIO-ED1 means:

- allowance adjustments that flow directly into recalculated base revenue figures for the licensee for RIIO-ED1; and
- the proportion of Totex which is not added to the licensee's RAV balance and is effectively included in the licensee's revenue allowance for the year of expenditure (see also Slow Money and Totex Incentive Mechanism).

### [Fault Rate\(s\)](#)

Has the meaning given in the Electricity Distribution (DPCR5): Glossary of Terms - Regulatory Instructions and Guidance: Version 3, dated 27 April 2012.

### [Fault Rate Asset Category](#)

Has the meaning given in the Electricity Distribution (DPCR5): Glossary of Terms - Regulatory Instructions and Guidance: Version 3, dated 27 April 2012.

### [Fault Rate Points Methodology](#)

The methodology for Fault Rates set out in Section 3 of Annex A2.

### [Fault Rate Point\(s\)](#)

Units used in measuring the achievement of the licensee's fault rate in accordance with the Fault Rate Points Methodology, used by the Authority to determine whether the licensee has met its Agreed Network Outputs or Adjusted Network Outputs.

### [Funding Adjustment Rate](#)

The percentage calculated as  $(1 - \text{Totex Incentive Strength Rate})$ .

## **G**

### [Gearing](#)

In this handbook means the licensee's net debt balance divided by its RAV balance at the time or for the period of time in question.

### [General Reinforcement](#)

Has the meaning given in the Electricity Distribution (DPCR5): Glossary of Terms - Regulatory Instructions and Guidance: Version 3, dated 27 April 2012.

## H

### Health Index (HI)

Has the meaning given in the Electricity Distribution (DPCR5): Glossary of Terms - Regulatory Instructions and Guidance: Version 3, dated 27 April 2012.

### Health Index (HI) Asset Category

Has the meaning given in the Electricity Distribution (DPCR5): Glossary of Terms - Regulatory Instructions and Guidance: Version 3, dated 27 April 2012.

### HI Band

Ranking between HI1 and HI5 assigned by the licensee to relevant assets under the HI framework, as specified in the DPCR5 NADPR RIGs.

### HI Band Weighting(s)

Weightings applied to the volume of assets in each HI Band for the purposes of calculating the number of HI Risk Points for a HI Asset Category for the licensee.

### HI Risk Point(s)

Risk score derived in accordance with the HI Risk Points Methodology and used by the Authority to determine whether the licensee has met its Agreed Network Outputs or Adjusted Network Outputs.

### HI Risk Points Methodology

The methodology for HI Risk Point(s) set out in Section 1 of Annex A2.

### HI Risk Points Reduction

Net reduction in the HI Risk Points for all HI Asset Categories (calculated in accordance with the HI Risk Points Methodology), that was achieved through the licensee's asset replacement or refurbishment Interventions.

### HI Target Delta

The difference between the agreed HI Risk Points as at 31 March 2015 without Intervention and the agreed HI Risk Points as at 31 March 2015 with Intervention ~~and, which~~ represents the deliverable for the HI component of the Agreed Network Outputs or Adjusted Network Outputs.

### HI Tracking Sheet

Reporting subsidiary workbook to the Network Outputs Reporting Workbooks.

### HVP Actual Incurred Expenditure

The licensee's actual expenditure on DPCR5 HVPs.

### HVP Efficient Actual Expenditure

The licensee's HVP Actual Incurred Expenditure adjusted for ~~items deemed by the Authority to not be efficient for any items which do not meet the definition of efficiency as specified in paragraph 1.11 of Annex C1.~~

### HVP Efficient Re-opener Expenditure

The licensee's HVP Efficient Actual Expenditure<sub>7</sub> adjusted<sub>4</sub>, where appropriate, to reflect efficiencies due to innovations in the method and scope of work that was undertaken by the licensee to address an identified need during the DPCR5 period.

### HVP Efficient Qualifying Expenditure

This is equal to the licensee's HVP Efficient Re-opener expenditure adjusted to the level that it would have taken had the licensee experienced the Real Price Effects forecast in the DPCR5 Final Proposals.

### HVP Network Outputs Gap

The value of the outputs gap for an individual DPCR5 HVP for the licensee, prior to the application of the DPCR5 IQI Incentive Rate or the application of the DPCR5 Network Outputs Incentive Rate.

### HVP Network Outputs Review Methodology

The methodology set out in Annex C2 of this handbook.

### HVP Post-threshold Amount

The portion of total ~~DPCR5 expenditure~~HVP Efficient Qualifying Expenditure, that is either above a figure calculated as 120 per cent of the DPCR5 HVP Aggregate Baseline Expenditure Allowances figure (for circumstances of overspend), or the portion of the difference between total DPCR5 ~~expenditure~~HVP Efficient Qualifying Expenditure and DPCR5 HVP Aggregate Baseline Expenditure Allowances that is greater than 20% of DPCR5 HVP Aggregate Baseline Expenditure Allowances (for circumstances of underspend).

### ~~HVP Re-opener Adjustment~~

~~The value of any adjustment to the licensee's revenue allowances following the Authority's assessment of HVP DPCR5 Qualifying Expenditure in the event that the HVP Re-opener is triggered, as set out in Annex C1.~~

### HVP Re-opener Legacy Assessment Methodology

The methodology set out in Annex C1 of this Handbook.

## I

### Incremental Administration Costs

The additional costs from processing TMA permit applications over and above the cost of processing an equivalent New Roads and Street Works Act (NRSWA) 1991 notification.

### Initial High Level Analysis

The preliminary high-level analysis carried out by the Authority and provided to the licensee that sets out the matters with respect to which the Authority considers that the licensee needs to provide further evidence and justification as part of its Performance Assessment Submission.

### Innovative Solution(s)

The solutions that meet one of the following criteria can be defined as Innovative Solutions:

- has been trialled by any DNO as part of an LCNF, NIC, NIA, or IFI innovation project during the DPCR5 period.
- involves the application of technology, systems or processes not in widespread use at the beginning of DPCR5 period to provide long term direct benefits to distribution network customers through:
  - improving the utilisation or provision of network capacity for demand or generation (including demand side solutions)
  - improving the management of asset condition to reduce lifetime costs
  - increasing the DNO's ability to manage network performance, safety or security, or
  - improving the level of service provided to network customers.

Direct benefits can include improvements in economic performance, environmental benefits, safety, quality of service, reliability, and/or resilience.

### Internal Rate of Return

For the purposes of subsection iii) of section 2 of chapter 15 of this handbook, means the percentage rate, which if used as a discount rate with respect to cashflows would give a net present value of zero, where the cashflows are:

- the projected revenue streams; and
- the total of Use of System Capex amounts (before application of the pass through rate) in nominal prices and as a negative value.

### International Financial Reporting Standards (IFRS)

Accounting standards set by the International Accounting Standards board.

### Intervention(s)

Has the meaning given in the Electricity Distribution (DPCR5): Glossary of Terms - Regulatory Instructions and Guidance: Version 3, dated 27 April 2012.

## L

### LI Band

Ranking between LI1 and LI5 assigned by the licensee to each Demand Group under the LI framework, as specified in the DPCR5 NADPR RIGs.

### LI Band Profile

The number of Demand Groups per LI Band for a licensee.

### LI Band Profile Target

Agreed LI Band Profiles as at 31~~st~~ March 2015 with Intervention and represents the deliverable for the LI component of the Agreed Network Outputs or Adjusted Network Outputs.

### LI Band Weighting(s)

Weightings applied to Demand Groups in each LI Band for the purposes of calculating the number of LI Risk Points for the licensee.

### LI Risk Point(s)

Risk score derived in accordance with the LI Risk Points Methodology and used by the Authority to determine whether the licensee has met its Agreed Network Outputs or Adjusted Network Outputs.

### LI Risk Points Methodology

The methodology for LI Risk Point(s) set out in, Section 2 of Annex A2.

### LI Target

The licensee's Load Index target for the end of DPCR5.

### Load Index (LI)

Has the meaning given in the Electricity Distribution (DPCR5): Glossary of Terms - Regulatory Instructions and Guidance: Version 3, dated 27 April 2012.

### Load Related Actual Incurred Expenditure

The licensee's actual expenditure on low volume high cost connections and general reinforcement in the DPCR5 period, excluding load- related DPCR5 HVPs and distributed generation connections.

### Load Related Efficient Actual Expenditure

The licensee's Load Related Actual Incurred Expenditure adjusted for: (i) items the Authority determines to not be efficient as result of its Performance Assessment; (ii) customer contributions over the DPCR5 period that did not cover the actual customer funded proportion of LVHC connection costs; and ~~(iii) distributed generation connections~~.

### Load Related Efficient Qualifying Expenditure

The licensee's Load Related Efficient Re-opener Expenditure adjusted to reflect Real Price Effects during the DPCR5 period.

### Load Related Efficient Re-opener Expenditure

The licensee's Load Related Efficient Actual Expenditure, adjusted where appropriate, to reflect efficiencies in Load Related Actual Incurred Expenditure due to innovations in the method and scope of work that was undertaken by the licensee to address an identified need during the DPCR5 period.

### Load Related Post-threshold Amount

The portion of total DPCR5 expenditure Load Related Efficient Qualifying Expenditure, that is either above a figure calculated as 120 per cent of the DPCR5 Load Related Expenditure LRE-Aggregate Baseline Expenditure Allowance figure (for circumstances of overspend), or the portion of the difference between total DPCR5 expenditure Load Related Efficient Qualifying Expenditure and DPCR5 Load Related Expenditure LRE-Aggregate Baseline Expenditure Allowance that is greater than 20% of DPCR5 Load Related Expenditure LRE-Aggregate Baseline Expenditure Allowance (for circumstances of underspend).

### Load Related Re-opener Legacy Assessment Methodology

The methodology set out in Annex B of this Handbook.

### LPN

~~Means~~-London Power Networks plc.

### M

#### March/April RPI Factor for a Regulatory Year

~~Means~~a value calculated as:

the arithmetic average of the Retail Prices Index (all items) published by the Office for National Statistics for the month of March in the Regulatory Year concerned and the next month of April, rounded to three decimal places;

divided by

the arithmetic average of the Retail Prices Index (all items) published by the Office for National Statistics for each month of the Regulatory Year concerned, rounded to three decimal places.

### Material Change(s)

A change (~~from forecast~~) that is likely to have a material impact on the licensee's performance against the Agreed Network Outputs and falling into one of the following four categories:

- (a) Changes to input data,
- (b) Changes to the assessment technique / calculation methodology,

- (c) Changes due to external factors, and
- (d) Changes to the DNO's asset management strategy and approach, which could include a change in attitude to risk overall, or a shift in priorities from one risk to another because of one of the changes identified in (a), (b), and (c) above.

### Material Change Log

Has the meaning given in the Electricity Distribution (DPCR5): Glossary of Terms - Regulatory Instructions and Guidance: Version 3, dated 27 April 2012

### MOD

The term of that name included in the formula for Base Demand Revenue set out in CRC 2A (Restriction of Allowed Distribution Network Revenue). It represents the incremental change to be applied to the licensee's Opening Base Revenue Allowance for the Regulatory Year concerned and the difference between the recalculated base revenue figures held in the PCFM for Regulatory Years t-1 and earlier with appropriate Time Value of Money Adjustment. Values for the MOD term are calculated under the Annual Iteration Process for the ED1 Price Control Financial Model - see CRC 4B and chapter 2 of this handbook.

The value of  $MOD_t$  is specified in a direction given by the Authority by 30 November in each Regulatory Year t-1.

### N

#### Net Tax Pool Movements

~~Means~~ The change from the closing balance reported for a tax pool as at the end of one Regulatory Year and the closing balance for the same tax pool as at the end of the next Regulatory Year, being the sum of:

- net additions to the pool during the year,
- the amount of any revision to the first year's closing balance, and
- the amount (as a negative value) of applicable writing down allowances.

#### Network Outputs Measures (NOMs)

Metrics provided by the licensee to report the status of distribution asset utilisation and distribution asset health, used to inform an assessment of the efficacy of the licensee's asset management decisions over the DPCR5 period and comprising the following:

- Health Indices (HI);
- Load Indices (LI);
- Fault Rates.

#### Network Outputs Reporting Workbooks

Reporting workbook used by licensees to submit data on all Network Output Measures (measured in terms of the Load Index, the Health Index and the Fault Rate) as part of their Annual Submission during the DPCR5 period, as specified in chapter 2 of the DPCR5 NADPR RIGs.

## NNRRB

(see NPV Neutral RAV Return Base)

## NOMs Network Outputs Gap

The total monetary value of the difference (if any) between the licensee's Delivered Network Outputs and the Adjusted Network Outputs. The NOMs Network Outputs Gap is only calculated if, after carrying out a Performance Assessment, the Authority determines that the licensee has not delivered Qualitatively Equivalent Network Outputs and is unable to provide sufficient justification and evidence for its performance.

## NOMs Risk Points Methodologies

The collective term for the HI Risk Points Methodology, LI Risk Points Methodology and Fault Rate Points Methodology set out in Annex A2 of this Handbook.

## Notice

Has the meaning given in Standard Condition1 of the electricity distribution licence.

## NPgN

~~Means~~ Northern Powergrid (Northeast) Limited.

## NPgY

~~Means~~ Northern Powergrid (Yorkshire) plc.

## NPV Neutral RAV Return Base (NNRRB)

In this handbook means a value calculated as the arithmetic average of:

- (a) the opening RAV balance (or notional RAV balance for the calculation in question); and
- (b) the closing RAV balance (or notional RAV balance for the calculation in question), discounted by a factor calculated as

$$\frac{1}{1+WACC}$$

For the Regulatory Year referred to in the same instance.

## N-2 Reinforcement

Has the meaning of General reinforcement (EHV & 132kV N-2) as defined in the [Electricity Distribution \(DPCR5\): Glossary of Terms - Regulatory Instructions and Guidance: Version 3, dated 27 April 2012](#)~~Glossary for DPCR5 RIGs~~

## O

### Ofgem Website

The website at the URL: [www.ofgem.gov.uk](http://www.ofgem.gov.uk)

### Ongoing Pension Service Costs (OPSC)

All pension costs incurred by the licensee except those relating to the Pension Scheme Established Deficit.

### Opening Base Revenue Allowance

The amount in 2012/13 prices, represented by the term  $PU_t$ , included in the licensee's Base Demand Revenue for a particular Regulatory Year that is set down against the licensee's name in the table at Appendix 1 to CRC 2A (Restriction of Allowed Distribution Network Revenue). Updated PU values were set for WPD in February 2015 under CRC4C.

## P

### PCFM Variable Value

~~means a~~ value held in the PCFM Variable Values Table for the licensee contained in the ED1 Price Control Financial Model:

- (a) that may be revised by a direction of the Authority following a determination under the relevant CRC; but
- (b) the revision of which does not constitute a modification of the ED1 Price Control Financial Model for the purposes of CRC 4A.

### PCFM Variable Values Table (for the licensee)

The table of blue shaded cells on the Input worksheet of the ED1 PCFM containing the PCFM Variable Values for the licensee.

### Pension Deficit Allocation Methodology

The methodology of that name contained in the Pension RIGs used by the Authority in the determination of the licensee's Pension Scheme Established Deficit.

### Pension Principles

See paragraph 3.5 in chapter 3.

### Pension Protection Fund (PPF)

The fund, established under the provisions of the Pensions Act 2004, to provide compensation to members of eligible defined benefit pension schemes, when there is a qualifying insolvency event in relation to the employer, and where there are

insufficient assets in the pension scheme to cover the Pension Protection Fund level of compensation.

### Pension Protection Fund (PPF) Levy

The levy on pension schemes by which the PPF is financed. This levy has a number of constituent elements including a fixed element (based on scheme liabilities) and a risk based element (based on the perceived insolvency risk of each scheme). Additionally there is an administration levy charged to cover the PPF running costs.

### Pension RIGs

The Energy Network Operators' Price Control Pension Costs - Regulatory Instructions and Guidance: Triennial Pension Reporting Pack supplement including the Pension Deficit Allocation Methodology published by Ofgem on 12 April 2013.

### Pension Scheme Administration

The range of activities that pension scheme trustees are required by legislation to undertake or commission in running the pension scheme. It includes, without limitation, the keeping of scheme records, scheme management and administration, scheme policy and strategy formulation, the provision of information to scheme members, the calculation and payment of benefits, liaison with tax and regulatory authorities and the preparation of valuations. It does not include the provision of advice to the licensee's manager on the management of the scheme or any deficit position. Administration costs do not include investment management fees; these are considered to be deductions from investment returns.

### Pension Scheme Established Deficit (PSED)

The difference between pension scheme assets and liabilities, as determined under periodic scheme valuations, that is attributable to:

- the regulated business; and
- pensionable service up to the end of the cut-off date, which for Electricity Distribution Network Operators is 31 March 2010.

If the Pension Scheme Established Deficit figure becomes negative, it is referred to as a surplus relating to pensionable service up to the end of the cut-off date.

### Pension Scheme Established Deficit Adj (PSED<sub>ADJ</sub>)

A different value (PSED<sub>ADJ</sub>) substituted for the PSED for the purposes of the methodology in this handbook. The Authority may, following bilateral discussions, agree with the licensee that a different value be substituted for the PSED.

### Pension Scheme Incremental Deficit (PSID)

The difference between pension scheme assets and liabilities, as determined under periodic scheme valuations, that is attributable to:

- the regulated business; and

- pensionable service after the cut-off date, which for Electricity Distribution Network Operators is 31 March 2010.

If the incremental deficit figure becomes negative, it is referred to as a surplus relating to pensionable service after the cut-off date.

### Performance Assessment

The Authority's assessment of the licensee's performance under each of the following methodologies:

- Traffic Management Permit Costs [Legacy Assessment Methodology](#);
- Load Related Re-opener Legacy Assessment Methodology;
- HVP Re-opener Legacy assessment [Methodology](#);
- HVP Network Outputs Review [Methodology](#); and,
- [DPCR5](#) NOMs Failure to Deliver Outputs Methodology.

### Performance Assessment Submission

The submission provided by the licensee to the Authority pursuant to the scope outlined in Annex E.

### Permit Costs

The cost of the TMA permits paid for by the licensee to the relevant local/highways authority.

### Permitting Conditions Costs

The costs of adhering to conditions of undertaking works that require a TMA permit, including the costs of adhering to codes of practice. This only includes the incremental costs resulting from the permitting conditions; any costs that have been incurred in their absence as part of usual operating practices will not be included.

### Permitting Scheme

The term 'permitting scheme' refers to permit or lane rental scheme in England and Wales or the Scottish equivalent under the Transport (Scotland) Act 2005.

### Preliminary View

Has the meaning given in paragraph 15.12 and 16.12.

### Primary Substation

Has the meaning given in the [Electricity Distribution \(DPCR5\): Glossary of Terms - Regulatory Instructions and Guidance: Version 3, dated 27 April 2012](#) [Glossary for DPCR5 RIGs](#).

### Primary Schemes

Projects carried out on 33kV and above by on primary substation reinforcement, circuit reinforcement and voltage reinforcement.

## Q

### Qualitatively Equivalent Network Outputs

A package of ~~Delivered~~ Network Outputs, which includes, ~~taking~~ all three NOMs components, ~~into account, the Authority determines, following its Performance Assessment, which results has~~ in substantially the same risk outcome for customers as that funded through the asset replacement, refurbishment, and Demand Group reinforcement elements of the licensee's DPCR5 settlement.

## R

### RAV – Regulatory Asset Value

A financial balance representing expenditure by the licensee that has been capitalised under regulatory rules. The licensee receives a return and depreciation on its RAV in its price control allowed revenues.

### Real Price Effects

A measure of the expected real input price inflation for the licensee.

### Reasonableness Review

A review by the Authority of the findings of an independent report commissioned by it on the reasonableness of costs associated with the licensee's pension deficit position (but not on the deficit allocation to the PSED) which may lead to further review procedures if the licensee is an outlier with respect to cost levels and that position is:

- (a) to the detriment of consumers; and
- (b) reasonably attributable to the NWO, recognising the responsibilities and independence of pension scheme trustees.

### Regulatory Accounts

Has the meaning given in Standard Condition1 of the electricity distribution licence.

### Regulatory Instructions and Guidance (RIGs)

The collective term for documents issued to licensees under SLC 45 by the Authority that include:

- instructions regarding data and information that the licensee must report to Ofgem;
- guidance on the way in which data and information should be reported and the timing requirements for submissions; and
- templates, including workbooks in Microsoft Excel® format, for use by the licensee in making submissions.

### Regulatory Year

A year beginning on 1 April and ending on the following 31 March in respect of which price control allowances are set. The RIIO-ED1 Price Control Period comprises the eight Regulatory Years from 1 April 2015 to 31 March 2023.

#### Related Undertaking

Has the meaning given in Standard Condition 1 (Definitions for the standard conditions) of the electricity distribution licence.

#### Relevant Adjustment

For the purposes of chapter 12 of this handbook, has the meaning given in CRC 3D (The Innovation Roll-out Mechanism).

#### Revised HVP Re-opener Value

| The HVP ~~re~~Re-opener adjustment value adjusted for double-counting.

#### Revised Load Related Re-opener Value

| The Load Related Expenditure ~~LRE~~ ~~re~~Re-opener adjustment value adjusted for double-counting.

#### RIGs

See Regulatory Instructions and Guidance.

#### RIIO

Revenue = Incentives + Innovation + Outputs.  
Ofgem's framework for the economic regulation of energy networks.

#### RIIO-ED1

The price control arrangements applicable to Electricity Distribution Network Operators from 1 April 2015 until 31 March 2023.

#### RIIO-ED2

The price control arrangements that will be applicable to Electricity Distribution Network Operators after 31 March 2023.

## S

#### Scheme Valuation Dataset

The items set out in paragraph 3.22 of chapter 3 of this handbook, provided to Ofgem by the licensee in accordance with the Pension RIGs.

#### Slow Money

For RIIO-ED1, means the proportion of Totex that is added to the licensee's RAV balance on which the licensee receives a revenue allowance to cover finance (Vanilla WACC) and depreciation costs.

#### Smart Meter Installation

Has the meaning given in CRC 3E (Smart Meter Roll-out Costs).

#### Smart Meter Intervention

Has the meaning given in CRC 3E.

#### SPD

| ~~Means~~ SP Distribution plc.

#### Specific Customer Funded Reinforcement Percentage Band

| ~~Means~~ ~~the~~ band of percentage values specified against the licensee's name in Table 2 of CRC 5G (Net to gross adjustment for DPCR5 Load Related Expenditure).

#### SPMW

| ~~Means~~ SP Manweb plc.

#### SPN

| ~~Means~~ South Eastern Power Networks plc.

#### SSEH

| ~~Means~~ Scottish Hydro Electric Power Distribution plc.

#### SSES

| ~~Means~~ Southern Electric Power Distribution plc.

#### SWALES

| ~~Means~~ Western Power Distribution (South Wales) plc.

#### SWEST

| ~~Means~~ Western Power Distribution (South West) plc.

#### System Set Up Costs

The one-off costs of developing the necessary IT system(s) to process TMA permit applications, over and above those costs already funded.

## T

### Time Value of Money Adjustment

A multiplier used when the award or application of a financial value, attributable to a particular year, is deferred until a later year, even where the deferral is routine and in accordance with a price control mechanism.

In basic terms, for any one year, the multiplier is  $(1+X)$  where:

- X is the WACC for the licensee applicable to the period of deferral.

See also DPCR5 Time Value of Money Adjustment

### TMA Permitting Reopener Notice

A Notice submitted by the licensee to the Authority under paragraph [1.8\(1\)](#)~~1.7(1)~~ of [Annex D](#), during the window referred to in paragraph [15.95](#)~~1.8~~, that is accompanied, where applicable, by the information set out in the Performance Assessment Submission in Annex E.

### Total HVP Network Outputs Gap

The total value of the HVP network outputs gap for all DPCR5 HVPs for the licensee, following the application of the DPCR5 Network Outputs Incentive Rate or the application of the IQI Incentive Rate (as appropriate) used in the calculation of the revised DPCR5 HVP failure to deliver outputs adjustment value for the licensee.

### Totex

The term used to describe the licensee's total expenditure (with limited exceptions) on regulated business activities. It includes both capital and operating expenditure items. The Totex approach facilitates the equalisation of incentives (between capital and operating expenditure solutions) under the Totex Incentive Mechanism.

### Totex Incentive Mechanism (TIM)

TIM is the mechanism under which adjustments are made to reflect differences between the licensee's allowed Totex and actual expenditure. The licensee's Opening Base Revenue Allowances have been modelled on the basis that actual Totex expenditure levels are expected to equal allowed Totex expenditure levels (allowances). If actual (outturn) expenditure differs from allowances, for any Regulatory Year during the Price Control Period, the TIM provides for an appropriate sharing of the incremental amount (whether an overspend or under spend) between consumers and the licensee in accordance with the licensee's Totex Incentive Strength Rate.

### Totex Capitalisation Rate

The percentage values set down against the licensee's name under that heading in Appendix 1 of CRC 3B (Determination of PCFM Variable Values relating to actual Totex expenditure for Totex Incentive Mechanism Adjustments). It is the percentage of Totex which is added to RAV (see also Slow Money).

### Totex Incentive Strength Rate (TISR)

A percentage figure specified in CRC 3B (Determination of PCFM Variable Values for Totex Incentive Mechanism Adjustments) for the licensee. It represents the percentage of any overspend/under spend against Totex allowances that a licensee bears/retains.

### Traffic Management Act

The term used to mean, collectively, the Traffic Management Act 2004 and the Transport (Scotland) Act 2005.

### Traffic Management Permit Costs Legacy Assessment Methodology

The methodology set out in Annex D of this Handbook.

### Triennial (pension scheme) valuation

An actuarial valuation of a pension scheme which has been carried out to meet the requirements of Section 224(2)(a) of the Pensions Act 2004 and which results in a written report on scheme assets and liabilities by the scheme actuary. Interim updates to triennial valuations may also be produced.

## U

### Updated (pension scheme) valuation

A report by the scheme actuary which provides an update on scheme assets and liabilities between triennial valuations.

### Use of System Capex

In chapter 15 of this handbook has the meaning given in Special Condition CRC11 of the licence in the form it was in on 31 March 2015.

## V

### Vanilla WACC

See WACC and WACC for DPCR5.

### Visual Amenity Project

Has the meaning given in CRC 3J (Allowed expenditure on Visual Amenity Projects).

## W

### WACC

The Vanilla Weighted Average Cost of Capital is Ofgem's preferred way of expressing the rate of return allowed on the Regulatory Asset Values (RAV) of price controlled network companies. The use of Vanilla WACC means that the company's tax cost is separately calculated as a discrete allowance so that only the following have to be factored in:

- the pre-tax cost of debt - ie the percentage charge levied by lenders; and
- the post tax cost of equity – ie the percentage return equity investors expect to actually receive,  
weighted according to the price control Gearing assumption.

"Real Vanilla WACC" is used which gives a lower percentage than "Nominal Vanilla WACC" would (when inflation is positive). This is because inflation isn't taken into account in the determination of the Real Vanilla WACC percentage.

#### WACC for DPCR5

| ~~Means~~ 4.69 percent.

#### WMID

| ~~Means~~ Western Power Distribution (West Midlands) plc.

#### Worst Served Customer

Has the meaning given in CRC 3H (Allowed expenditure on improving services to Worst Served Customers).

#### Worst Served Customer Project

Has the meaning given in CRC 3H.