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Our ref

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Date

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15 July 2016

Dear Grant,

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

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc in relation to Ofgem's statutory consultation dated 20th June 2016, which covers the proposed changes to the Financial Handbook for close out methodologies for the DPCR5 Price Control.

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

We have reviewed the draft methodologies provided in Supplementary Annex 1. This review has resulted in over 100 minor editorial points being identified that would improve the clarity, consistency and completeness of the drafting. We provide a separate track-changed document which includes comments against the text that requires amendment.

There is one specific point that we would like to highlight.

Annex A2: NOMs Risk Point Methodologies (Section 1: HI Risk Points Methodology)

Paragraph 1.2 of Annex A2 specifies how the authority will calculate risk points for the HI target delta. The current drafting does not clearly state what data will be used to generate the HI risk point delta and could lead to confusion.

The DPCR5 agreed network outputs include two forecast positions for the end of DPCR5: one with no intervention and one with intervention. Each position allocates the total asset population into HI bands for each HI asset category. The difference between the

two positions represents the net movements between HI bands that would result from interventions (e.g. replacement of assets causing fewer HI5 assets and more HI assets).

The process specified in paragraph 1.2 of Annex A2 does not currently contain a stage of calculation that determines the volume of assets associated with HI band movements. Sub-point (i) states that it is the number of assets associated with the licensee's HI component of the Agreed Network Outputs that is multiplied by the weighting factors. This could be interpreted as the total population, not the net movements. Doing this would create an absolute target not a delta target. This is clearly incorrect.

The process needs to be clarified such that the asset volumes associated with HI band movements (derived from the difference between forecasts with and without investment) are multiplied by the weighting factors, not the total asset volumes.

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

Yours sincerely



ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager