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for energy consumers

Email: RIIO.Implementation@ofgem.gov.uk

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Dear Stakeholder

DPCR5 Closeout Methodologies - further changes since informal consultation

On 29 September 2015¹ we published an informal consultation on the methodologies for calculating several elements of the previous price control, DPCR5, which could not be settled until the price control had ended. The consultation closed on 10 November 2015. Responses are published on our website.²

Some of the responses to the consultation have driven us to reconsider our approach to assessing the Network Output Measures (NOMs). The NOMs methodology we described in the informal consultation departed in several areas from the high-level description in DPCR5 Final Proposals (FPs) and the Network Asset Data and Performance Reporting regulatory instructions and guidance (NADPR RIGs). Some consultation responses caused us to carry out additional work to clarify and be consistent with the intent of DPCR5 FPs and the NADPR RIGs. We are considering revising our initial consultation approach to NOMs as follows:

- **Fault rates:** We consulted on our intention not to apply a financial adjustment for fault rates as we did not consider it possible to establish a clear link between costs and fault rates. After further discussions with stakeholders we have identified ways in which we could monetise fault rates, and we are developing tools which will enable us to do this. With a NOMs methodology now available to us, our view is that having financial consequences in place where DNOs have failed to deliver protects customers and incentivises genuine efficiencies. Monetising fault rates also ensures a consistent approach to performance assessment for all asset classes where asset replacement or refurbishment expenditure was allowed in DPCR5.
- **Material changes:** In the informal consultation we stated that we would only take material changes into account as part of a qualitative assessment. We now consider that material changes are key to understanding and assessing DNO performance, in both the quantitative and qualitative assessment. We therefore propose to make changes to the agreed DPCR5 HI and LI outputs to account for material changes (eg changes in input data, methodologies) external factors (eg changes in demand growth) and changes in asset management approach. This involves making appropriate adjustments to the agreed outputs to take account of material changes in line with the original intent in DPCR5 Final Proposals and the NADPR RIGs. We

¹https://www.ofgem.gov.uk/sites/default/files/docs/2015/09/consultation_on_close_out_methodologies_for_the_dpcr5_price_control_final_0.pdf

²<https://www.ofgem.gov.uk/publications-and-updates/consultation-methodologies-dpcr5-close-out>

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would make these revisions prior to carrying out the final assessment of whether there is an outputs gap and the value of any outputs gap.

We also propose to include an additional methodology for assessing the amounts that Scottish and Southern Electricity has spent on flood prevention in its Hydro region (SSEH). This is because, as stated in DPCR5 FPs, SSEH was unable to provide sufficiently detailed information in time for us to include forecast flood prevention expenditure in their DPCR5 allowances³.

We are engaging directly with key stakeholders to take the changes highlighted in this letter into account in our revised DPCR5 Closeout Methodologies. We welcome your views on what we have described. Please submit your responses to Chris Watts at RIIO.Implementation@ofgem.gov.uk by Friday 8 January.

In finalising the DPCR5 Closeout Methodologies, we are continuing to give careful consideration to all responses to our informal consultation. We will formally modify the RIIO-ED1 Price Control Financial Handbook to incorporate the DPCR5 close out methodologies by 31 March 2016.

Yours faithfully,

Anna Rossington
Associate Partner - RIIO Implementation

³ https://www.ofgem.gov.uk/sites/default/files/docs/2009/12/fp_3_cost-assessment-with-ss-comments.pdf