

To: Electricity North West Ltd (ENWL)
Northern Powergrid (Northeast) Ltd (NPgN)
Northern Powergrid (Yorkshire) plc (NPgY)
Western Power Distribution (West Midlands) plc (WMID)
Western Power Distribution (East Midlands) plc (EMID)
Western Power Distribution (South Wales) plc (SWALES)
Western Power Distribution (South West) plc (SWEST)
London Power Networks plc (LPN)
South Eastern Power Networks plc (SPN)
Eastern Power Networks plc (EPN)
SP Distribution plc (SPD)
SP Manweb plc (SPMW)
Scottish Hydro Electric Power Distribution plc (SSEH)
Southern Electric Power Distribution plc (SSES)



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for energy consumers

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Date: 15 September 2017

Dear Stakeholders,

DPCR5 Closeout: decision on adjustments to allowances

Introduction

On 13 June 2017, we published our consultation on proposed adjustments for DPCR5 Closeout¹. We assessed company performance under the following mechanisms:

- Load Related Expenditure (LRE) re-opener;
- High Value Projects (HVP) outputs and re-opener mechanisms; and
- Network Output Measures (NOMs).

This letter sets out our decision on adjustments to the licensees' price control allowances under these mechanisms, as per paragraphs 15.15 and 16.15 of the RIIO-ED1 Price Control Financial Handbook ('the Handbook').

Responses to our consultation

We received seven responses to our consultation. All non-confidential responses are available on our website².

Five DNOs agreed with our proposed adjustments. One DNO (WPD) commented on costs relating to their BT21CN HVP, which were originally reported as IT&T costs. WPD argue that these should be included in our assessment under the HVP Re-opener mechanism. This would have the effect of reducing one of their licensee's (EMID) overall underspend for HVPs by £0.88m. We have decided to include these costs as part of our HVP Re-opener assessment. We consider that these costs reflect EMID's implementation of a more efficient and multi-functional solution to BT21CN than that originally proposed.

One supplier (British Gas) highlighted the need to take into account changes in demand in assessing performance under the Load Index (LI) component of the NOMs. In line with our June 2016 decision on the DPCR5 closeout methodologies, we have dealt with lower than expected demand through adjustments under the LRE re-opener. This is also in line with the policy we set out at DPCR5.³ It is also important to note that in calculating the risk reduction at primary substations, we only allowed changes in the risk (and therefore LI

¹ <https://www.ofgem.gov.uk/publications-and-updates/dpcr5-close-out-consultation-proposed-adjustments>

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

³ https://www.ofgem.gov.uk/system/files/docs/2016/06/decision_on_close_out_methodologies_for_the_dpcr5_price_control.pdf, paragraph 2.33

profile) as a result of intervention. Changes due to non-intervention/material changes were excluded from our calculation. This included changes in input data, changes to assessment techniques/calculation methodology, changes due to external factors (drop in demand), changes in asset management strategy etc.

British Gas also requested that we provide updated Return on Regulatory Equity (RoRE) figures for DPCR5, taking the closeout adjustments into account. We stated in our report on company performance during DPCR5 that we will provide updated figures once the closeout process has been finalised.⁴ We plan to publish updated figures as part of our next RIIO-ED1 annual report.

Finally, British Gas note that we accepted a number of innovative solutions involving third party agreements and suggest that these may have resulted in costs for the third parties and their own customers. The innovative solutions we accepted resulted in DNO avoided expenditure and will therefore have the effect of reducing Distribution Use of System (DUoS) charges.

Our decision

Table 1 below outlines the DPCR5 closeout adjustments under each mechanism and for all licensees.

Table 1 – Final DPCR5 closeout adjustments to allowances

	NOMs	Load Related re-opener		HVP re-opener		HVP Outputs
	Value of the outputs gap	Efficient Qualifying Expenditure	Post-threshold Amount	Efficient Qualifying Expenditure	Post-threshold Amount⁵	Value of the outputs gap
ENWL	n/a	87.59	n/a	42.79	n/a	n/a
NPgN	n/a	60.52	n/a	n/a	n/a	n/a
NPgY	n/a	50.39	n/a	26.32	n/a	n/a
WMID	n/a	186.98	n/a	n/a	n/a	n/a
EMID	n/a	199.83	n/a	33.27	-11.67	17.83
SWALES	n/a	28.06	n/a	n/a	n/a	n/a
SWEST	n/a	17.86	-6.22	n/a	n/a	n/a
LPN	n/a	97.40	n/a	136.08	n/a	4.91
SPN	n/a	88.61	-22.75	38.75	0.00	19.10
EPN	n/a	145.46	-12.70	64.00	-3.48	74.23
SPD	n/a	66.76	n/a	n/a	n/a	n/a
SPMW	n/a	66.33	-26.87	23.16	n/a	n/a

⁴ https://www.ofgem.gov.uk/sites/default/files/docs/electricity_distribution_company_performance_2010-2015.pdf, p.5.

⁵ This is the Post-double-count re-opener amount in the Handbook.

SSEH	n/a	20.87	-6.09	n/a	n/a	n/a
SSES	n/a	127.54	n/a	93.57	n/a	n/a

Next Steps

As specified in paragraphs 15.16 and 16.16 of the Handbook, we will also be giving the licensees 28 days' notice of the adjustments to be included in the calculation of a revised ORLEV and revised RIREV values. This notice will be provided bilaterally to licensees.

Final adjustments will be made through RIIO-ED1 allowed revenues, and we will determine revised OLREV and RIREV values by 30 November 2017, for the purpose of the Annual Iteration Process (AIP).

**Kersti Berge, Partner RIIO Networks
Duly authorised on behalf of the
Gas and Electricity Markets Authority (GEMA)**

15 September 2017