



The DPCR5 close-out: proposed adjustments

Northern Powergrid's response to Ofgem's DPCR5 Close out: Consultation on proposed adjustments

KEY POINTS AND CONSULTATION RESPONSE

Our key message is that we agree with Ofgem's findings for Northern Powergrid, and have arrived at exactly the same overall result for each of our licensees from the start of the process: no adjustment is warranted.

- Ofgem gathered a great deal of evidence through its requirement for a performance assessment submission which it does not make sense to repeat here. But in short:
 - In terms of output delivery, there are three strands which form part of an overall assessment of delivery – health indices, load indices and fault rates. On each individual element both Northern Powergrid licensees pass the relevant tests and thresholds. The overall result is, therefore, that no adjustment is warranted for output delivery.
 - Turning to load-related expenditure, Northern Powergrid spent less than the allowances, but each of our licensee's efficient expenditure was above the relevant thresholds and therefore no adjustment is warranted.
 - For high value project expenditure, the relevant licensee spent less than the DPCR5 period allowances but its efficient expenditure was above the reopener threshold.
 - In terms of high value project output delivery, we delivered the network outputs specified in the DPCR5 settlement, set using the load index and health index.
- As noted by Ofgem, one of our high value projects was subject to significant changes which were in the interests of consumers.
 - Although the changes delayed completion of the project, they did not threaten the originally agreed outputs, and ensured consumers were protected from a cost-overflow in what would normally be a pass through category (future exit charges) by shifting the costs onto Northern Powergrid's directly incurred cost base.
 - As Ofgem notes, there has been no double-funding of the project even though allowances were granted in the RIIO-ED1 period; in fact the allowances provided over the two periods are similar to the total cost of the project anticipated at the DPCR5 review, with incremental cost escalation being treated under the sharing factor.
- Ofgem's proposal that there should be no DPCR5 close-out adjustment for Northern Powergrid is therefore entirely justified.
- We have no observations on the proposed adjustments for other companies.