

Grant McEachran
RIIO Electricity Distribution
Ofgem
3rd Floor
Cornerstone
West Regent Street
Glasgow
G2 2BA

Avonbank
Feeder Road
Bristol
BS2 0TB

Telephone 0117 9332175
Fax 0117 9332428
Email asleightholm@westernpower.co.uk

Our ref

Your ref

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Date

7th August 2017

Dear Grant,

DPCR5 Close out: Consultation on Proposed Adjustments

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 consultation on proposed adjustments for the close out of DPCR5 mechanisms.

Since the DPCR5 period finished there has been a lot of work carried out on the close out of DPCR5 by both Ofgem and the licensees to develop the methodologies and financial handbook, provide and analyse performance assessment submissions, and resolve supplementary questions. This consultation is the culmination of extensive and comprehensive analysis work.

When DPCR5 closed in March 2015, the methodologies for the close out did not exist. This led to a protracted period of development and analysis which means that the results for close out are being consulted on at a point in time that is over two years after the price control closed.

We have previously pointed out that if price control periods were still on five year cycles we would be closing out the previous period whilst establishing business plans for the next price control. In order to avoid protracted close out of RIIO-ED1 in the future, we urge Ofgem to consider the development of close out methodologies ahead of the end of RIIO-ED1 and we are encouraged that Ofgem has started this work by establishing a cross sector working group to look at the close out of Network Output Measures (NOMS) for RIIO-1.

The work on RIIO-ED1 close-out processes should not be limited to NOMs and the definition of processes for other mechanism should commence as soon as the DPCR5 close out work is concluded. We are happy to support Ofgem with the development of the methodologies.

There are three specific adjustments for WPD within the consultation. The following provides comments on the proposed amendments and Appendix A provides details of a couple of errors within the consultation document.

Load Related Re-opener

We note that the proposed adjustment for the load related re-opener for SWEST is £6.22m. This adjustment results from expenditure that was lower than the re-opener threshold and the amount below the threshold being a material amount.

High Value Projects Outputs

WPD had three high value projects in DPCR5, all of them in EMID, two of which were delivered. Minor initial project costs were incurred on the third project, but the project was cancelled because circumstances changed. The consultation proposes an adjustment of £17.83m for this cancelled project taking into account the initial project costs incurred.

High Value Projects Expenditure

The overall expenditure on high value projects was lower, partly due to the cancelled project, but also due to lower cost solutions being adopted. We note that Ofgem has taken into account double counting in proposing a post double counting adjustment of £12.65m.

In paragraph A3.6 Ofgem has indicated that it has rejected a claim for £0.88m, which WPD requested should be taken into account as part of the costs for the BT21CN high value project

The £0.88m related to expenditure on the multi-functional trunk communications network and had been reported as 'Communications for switching and monitoring' within the 'Operational IT and Telecoms' category of expenditure. WPD identified that whilst the main driver of building the trunk network was other operational communication requirements, part of the work provided benefits to the BT21CN programme, offsetting the need for specific BT21CN costs. It was calculated that around 35% of the total expenditure for communication for switching and monitoring (equating to £0.88m) was associated with BT21CN. WPD's view is that these costs should be considered as being part of the BT21CN expenditure.

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

Yours sincerely



ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager

Appendix A – Errors in Consultation Document

Table A1.5

The Values shown for SWALES and SWEST for 'Maximum Fault Rate Points Allowance' and 'Delivered Fault Rate Points' are in the wrong columns. The values should be switched.

Paragraph A1.6

Within this paragraph the phrase 'the lowest of all DNOs' is used in relation to SSEH's risk points. This could be interpreted as meaning that being 'the lowest of all DNOs' is somehow the best performance.

This is not strictly true because the absolute value of LI risk points depends on the number of customers being counted within load indices. For example two licensees, both of which could have no LI4 or LI5 substations, could have different absolute LI risk points, simply because the customer numbers were different.

LI risk points is the sum across all substations of the product of customer numbers and a weighting related to the LI ranking of the substation. The weighting factor for LI1 –LI3 is unity and therefore the only difference between the two licensees would be the customer numbers.

Within this example neither of the licensees have any higher risk substations and therefore both would be in a similar network risk position. So it is not strictly correct to suggest that a lower absolute value of LI risk points value would be better.