

Electricity North West

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Maxine Frerk
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23 September 2014

Dear Maxine,

Thank you for meeting with me on Tuesday to discuss the Smart Grid Forum. As you know, we have actively supported the Smart Grid Forum (SGF) and have provided considerable leadership to the DNO workstreams and sub-groups that operate within it. There have been a number of significant developments in DNO technology in recent years, largely stimulated by the Innovation Funding Incentive (IFI) and tiers 1 and 2 of the Low Carbon Network Fund and I am proud of the role that Electricity North West have played within this. Through our joint work in SGF Workstream 3 these developments have been captured by initiatives such as the Transform model and therefore, have clearly resulted in substantial customer benefits in our business plan.

Overall, I firmly believe that there are significant benefits that arise from Smart and that these should have been included in all DNOs business plans. The benefits are of a magnitude that it would be inappropriate to merely rely on the efficiency incentive and sharing factor to share them with customers. I also note and welcome that Ofgem recognise most of the considerable benefits included in Electricity North West's business plans.

I can now see from the Draft Determination that not all DNOs have adopted the same approach and that this has resulted in Ofgem having to estimate the full extent of the benefits.

As I believe we have included some of the most substantial levels of smart benefits of any DNOs in our business plan, it is not a surprise that your team identify it as one of the most efficient overall. As such our business plan can be used as a useful reference guide for Ofgem to help determine the levels of smart benefits it should be able to observe in the plans of others.

For example you will note that there are quite wide differences between business plans in the assumptions used to underpin reinforcement forecasts, particularly forecasts of the take-up in electric vehicles, heat pumps and PV. These differences are clearly illustrated in the section 3.2 of the report that EATL have recently completed for the ENA. Given that there are such wide differences between DNO assumptions of reinforcement expenditure and smart benefits Ofgem must carry-out more benchmarking and relative comparison of DNOs plans and recognise these issues in its assessment of the opportunity for further savings from each slow track DNO.

As my team have already pointed out, the Ofgem assessment requires further work as there are a number of errors and misunderstandings we observe that materially distort the results of Ofgem's analysis to date. There are errors in both Ofgem's bottom-up build of savings and in the top-down cross-check subsequently applied.

There are two further issues that exacerbate the problems with the Draft Determination and cause particular issues for Electricity North West.

- Ofgem wrongly dismisses benefits included in our plan as being Business-as-Usual, rather than smart due to a lack of specification in Ofgem's data request. Our new oil regeneration solution will result in massive cost savings. This new approach has been wrongly dismissed as a Business-as-Usual approach because it has been confused with traditional oil replacement. However, had we included a traditional solution our efficient cost allowances would have been much higher, clearly indicating the benefit of our approach over that in other DNOs' plans.
- In allocating its derivation of the net benefits of smart between the DNOs Ofgem has made multiple and very material errors. In particular Ofgem fails to correct for the differences in work mix, especially reinforcement. This factor alone leads to Electricity North West being given £17million greater reduction than is indicated by Ofgem's own analysis. There is a 40% challenge applied to our low reinforcement forecasts which contrasts with much lower 12% reductions applied to other companies with much bigger reinforcement programmes.

We remain committed to working constructively with your team to resolve these issues and derive a more accurate forecast of the levels of smart benefits that should be included in each DNOs plan. My team have already proposed a number of helpful corrections to the Ofgem analysis and will continue to assist your team to improve its assessment of the appropriate level of benefits to assume for other DNOs, using public domain evidence and established benchmarking techniques. However, to do so effectively we will need your team engage more closely, share the derivations of your calculations of smart benefits and be willing to explore revised calculations together.

I have instructed my team to be ready to engage further and to respond to any requests for assistance from Ofgem, we await your response.

Yours sincerely,



 **Steve Johnson**
CEO