

Interested parties

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Publication of RIIO-ED2 Business Plan Guidance

We have today published the updated RIIO-ED2 Business Plan Guidance (BPG). The BPG sets out the information that should be included in companies' Business Plans for the RIIO-ED2 price control period and how we will assess those plans.

In August 2020, we issued a draft version of the BPG and, via the RIIO-ED2 Sector Methodology Consultation, invited stakeholders to comment on the guidance. Specifically, we invited stakeholder views on whether any further detail on the proposed required content of the Business Plans was needed or whether any additional information should be requested. We also sought views on the proposed approach for assessing companies' Customer Value Proposition (CVP) proposals and a proposed set of minimum requirements for Business Plans.¹ Responses to that consultation were published alongside the Sector Methodology Decision in December and are available [here](#). Below, we set out the responses we received on the draft BPG and also set out how we have updated the document.

Responses to the consultation

Most respondents did not suggest that additional minimum requirements (for the purposes of Stage 1 of the Business Plan Incentive (BPI)) should be added to those proposed in the BPG, nor that the minimum requirements proposed in the draft should be removed.

The RIIO-ED2 Challenge Group suggested that we add an additional item stating that Ofgem may specifically consider the views of the Challenge Group on the draft Business

¹ See [RIIO-ED2 Sector Methodology Consultation: Annex 2 Keeping bills low for consumers](#) consultation questions COQ55-58 (page 127-128)

Plan. Other respondents asked Ofgem to confirm whether the minimum requirements would apply only to final Business Plans or also to draft Business Plans. One respondent suggested that the scope of the minimum requirements should be expanded to include a requirement on native competition. Some respondents commented that the inclusion of the Minimum Requirements Index Sheet (for DNOs to use in identifying the location within their plans of material relevant to our assessment of Stage 1 of the BPI) was a useful addition.

In relation to CVPs, one respondent said that it welcomed the requirement to outline stakeholder support for CVPs and recommended that Ofgem's CVP assessment outlines how much weight has been put upon this support. Some DNO respondents highlighted the collaborative work that DNOs have been doing on developing a Social Return on Investment (SROI) tool and asked Ofgem to clarify its position on the use of this tool in evidencing the value of CVP proposals. Some DNO respondents requested further detail on how Ofgem will carry out its assessment of CVP proposals contained in Business Plans.

In some instances, respondents raised comments on the design of the BPI – for instance suggesting that DNOs' CVP proposals should not be restricted to the five areas of activity set out in the Sector Methodology Consultation and draft BPG. We have reflected on such comments in the Sector Methodology Decision document, rather than in the BPG.

Our response and changes to the BPG

In relation to the points raised on the applicability of the minimum requirements to DNOs' draft Business Plans, we can confirm that our assessment will be carried out solely on the final Business Plan. However, the guidance makes clear that for a plan to be considered complete for the purposes of Stage 1 of the BPI, it must demonstrate how it has been tested, challenged and developed using the RIIO-ED2 Enhanced Engagement process.

In response to the suggestion that further guidance on native competition should be incorporated into the BPG, we note that, in RIIO-GD2 and T2, we asked companies to produce competition plans that demonstrated how they would undertake native competition in line with a set of best practice principles. However, for RIIO-ED2, we believe our proposals on procuring flexibility go further in incentivising the best outcomes for consumers in this regard.²

In response to the comments relating to the CVP, our view is that the BPG contains a sufficient level of detail on how we will assess companies' proposals and the factors that we will take into account in carrying out our assessment. We can see potential benefits in the

² These are set out in Section 5 of the [RIIO-ED2 Methodology Decision](#)

DNOs' collaborative work to develop a SROI tool that could be used by DNOs to provide evidence of the customer benefits of their CVP proposals. We can also see the potential benefits in DNOs following a common approach in doing so. Wherever possible, we encourage DNOs to work together to use a common methodology to determine the monetised value associated with their proposals. We will take this into account alongside all other relevant information when reviewing DNOs Business Plans, but we cannot at this time confirm what weight we will place on this material; alongside the tool itself, we will need to consider the relevance and accuracy of the inputs that are employed to calculate customer benefits through this tool.

Section 5 of the BPG has been updated to incorporate additional information relating to forecasting and scenarios, including the types of information DNOs should provide in support of regional forecasts for load growth.

We have decided to delay publishing our minded-to proposals for the Access and Forward-looking charges Significant Code Review (Access SCR) to ensure that our decision in this area is aligned with our Full Chain Flexibility Strategic Change Programme. We have updated the relevant parts of Section 5 of the BPG to reflect this.

Other updates have been made to the guidance to reflect the final policy positions reached in the Sector Methodology Decision. In particular, in Section 3 and 4 of the BPG, we have updated the requirements relating to DNOs' vulnerability, connections and DSO strategies and, in Section 8, we have updated the information relating to the BPI.

The version of the RIIO-ED2 Business Plan Guidance that we have published today remains a live document and may be subject to change. As noted in the BPG, certain aspects of the guidance relating to financial issues will be confirmed following publication of the Finance annex to the Sector Methodology Decision.

Yours sincerely,

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