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Consultation

RIIO-ED2 Draft Determinations ENWL Annex

Subject	Details
Publication date	29 June 2022
Response deadline	25 August 2022
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The next electricity distribution price control (RIIO-ED2) will cover the five-year period to 31 March 2028. In December 2021 the Distribution Network Operators (DNOs) submitted their Business Plans to Ofgem setting out proposed expenditure for RIIO-ED2. We have now assessed these plans and this document, and others published alongside it, set out our Draft Determinations for DNO allowances under the RIIO-ED2 price control for consultation. Responses are sought to the questions posed in these documents by 25 August 2022. Following our consideration of these responses we will confirm our Final Determinations by December 2022.

The full suite of Draft Determinations documents outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses before confirming our Final Determinations. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at Ofgem.gov.uk/consultations. If you want your response – in whole or in part – to be

considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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Contents

1. Introduction

Purpose of this document

1.1 This document sets out our Draft Determinations for the Electricity Distribution (ED) price control (RIIO-ED2) for the areas that are specific to ENWL. The RIIO-ED2 price control will cover the five-year period from 1 April 2023 to 31 March 2028. All figures are in 2020/21 prices except where otherwise stated.

1.2 The purpose of this document is to focus on those elements of our consultation position for the price control settlement which specifically affect ENWL.

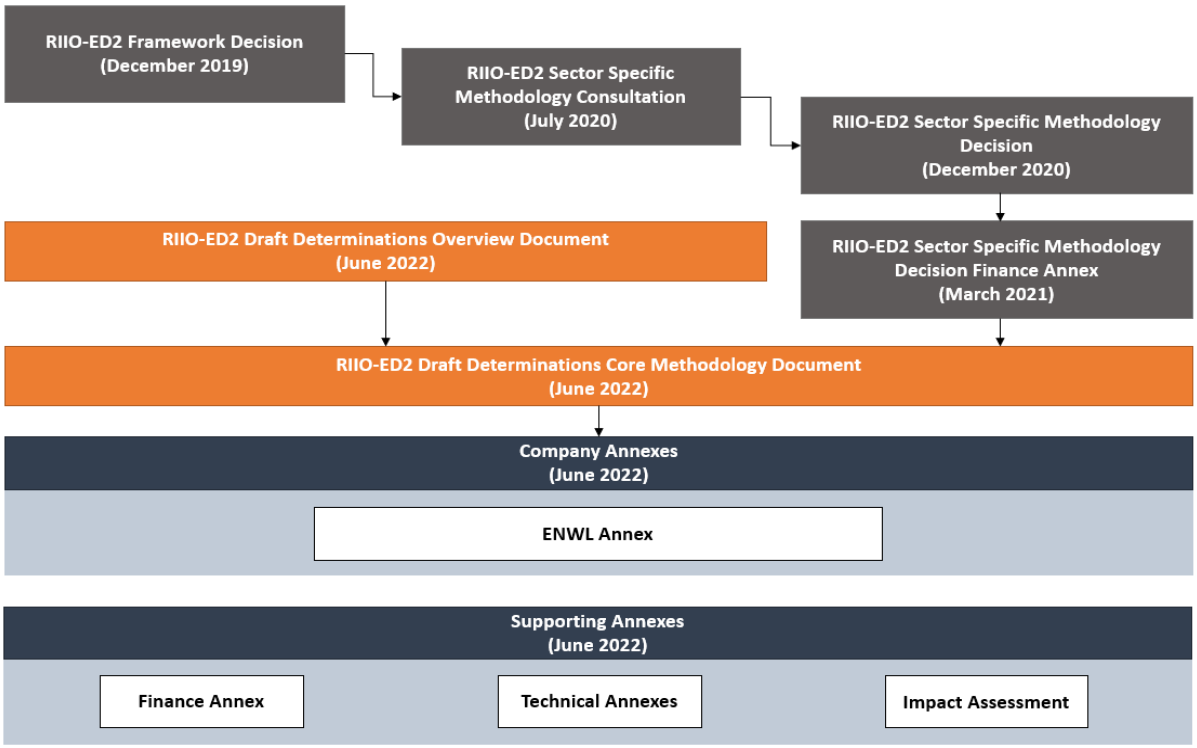
1.3 This document sets out any proposals that are specific to ENWL, including:

- assessment of the business plan incentive (BPI), including consumer value propositions (CVPs)
- baseline cost allowances
- parameters for common outputs
- bespoke Output Delivery Incentives (ODIs)[1]
- bespoke Price Control Deliverables (PCDs)
- bespoke Uncertainty Mechanisms (UMs)
- Network Innovation Allowance (NIA) funding.

1.4 This document is intended to be read alongside the RIIO-ED2 Draft Determinations Core Methodology Document and RIIO-ED2 Draft Determinations Overview Document. Figure 1 sets out where you can find information about other areas of our RIIO-ED2 Draft Determinations.

[1] In this document, we refer to 'ODI-F' which is a financial incentive and 'ODI-R' which is a reputational incentive.

Figure 1: Draft Determinations document map



What are the company specific elements of ENWL's Draft Determinations?

1.5 This section sets a high-level summary of the elements of our Draft Determinations which are specific to ENWL.

1.6 T summarises our assessment of ENWL across the four stages of the BPI and where you can find additional information about our consultation position for each stage.

Table 1: Summary of proposed ENWL BPI performance

BPI stage	Ofgem proposed position	Further detail
Stage 1 Minimum Requirements	Pass	Overview Document for approach to assessment and rationale
Stage 2 Consumer Value Propositions	No reward	Chapter 2 of this document
Stage 3 Penalty	No penalty	Chapter 3 of this document
Stage 4 Reward	No reward	Chapter 3 of this document
Cap calculation	N/A	Overview Document for approach to assessment and rationale

Overall	No penalty and no reward	

1.7 The cost confidence assessment we have undertaken as part of this process results in a proposed Totex[2] Incentive Mechanism (TIM) incentive rate for ENWL of 50%. For further details on the TIM, see Chapter 9 in the Overview Document.

1.8 We present a summary of our proposed baseline Totex for ENWL in Table 2. This reflects our view of efficient costs including ongoing efficiency over RIIO-ED2. For further details, please refer to Chapter 7 of the Core Methodology Document.

Table 2: ENWL RIIO-ED2 submitted Totex versus proposed baseline Totex (£m, 2020/21)[3]

Cost area	ENWL submitted Totex	Ofgem proposed Totex	Difference	Difference
Load related capex	302	252	-50	-16.5%
Non-load related capex	640	519	-121	-18.9%
Non-operating capex	93	76	-17	-18.5%
Network operating costs	320	259	-61	-19.0%
Closely associated indirects	404	327	-77	-19.0%
Business support costs	256	208	-49	-19.1%
Totex	2,015	1,640	-375	-18.6%

1.9 The common outputs that we are proposing for all DNOs in RIIO-ED2 are set out in Table 3 with further details provided in the Core Methodology Document. Table 3 also sets out the bespoke outputs that we are proposing to apply to ENWL in RIIO-ED2 (further details are contained within Chapter 2)

Table 3: Summary of proposed common and bespoke outputs applicable to ENWL

Output name	Output Type	Further detail
Common outputs for the ED Sector		
Annual environmental report	ODI-R	Chapter 3, Core Methodology Document

[2] Totex is a shorthand term for total expenditure

[3] Submitted Totex is net costs, including our cost exclusions and reallocations and excluding real price effects (RPE), ongoing efficiency, non-controllable costs, and pass-through costs (except New Transmission Capacity Charges (NTCC)). Proposed Totex is net costs, excluding RPEs, non-controllable costs, pass-through costs (except NTCC), but includes Ofgem's view of ongoing efficiency and is before post-modelling adjustments for uncertainty mechanisms.

Distribution System Operator (DSO) incentive	ODI-F	Chapter 4 Core Methodology Document
Digitalisation licence condition	Licence Condition (LC)	Chapter 4 Core Methodology Document
Technology Business Management taxonomy for classifying digital/IT spend	ODI-R	Chapter 4 Core Methodology Document
Innovation project to modernise regulatory reporting	ODI-R	Chapter 4 Core Methodology Document
Customer satisfaction survey	ODI-F	Chapter 5, Core Methodology Document
Complaints metric	ODI-F	Chapter 5, Core Methodology Document
Time to connect	ODI-F	Chapter 5, Core Methodology Document
Guaranteed standards of performance – Connections	LC	Chapter 5, Core Methodology Document
Major connections incentive	ODI-F	Chapter 5, Core Methodology Document and Chapter 2 of this document
Treating domestic customers fairly	LC	Chapter 5, Core Methodology Document
Consumer vulnerability incentive	ODI-F	Chapter 5, Core Methodology Document and Chapter 2 of this document
Vulnerability annual report	ODI-R	Chapter 5, Core Methodology Document
Interruptions incentive scheme	ODI-F	Chapter 6, Core Methodology Document and Chapter 2 of this document
Guaranteed standards of performance – reliability	LC	Chapter 6, Core Methodology Document

Network asset risk metric	PCD, ODI-F	Chapter 6, Core Methodology Document and Chapter 2 of this document
Cyber resilience IT	PCD	Chapter 6, Core Methodology Document and Confidential ENWL annex
Cyber resilience operational technology (OT)	PCD	Chapter 6, Core Methodology Document and Confidential ENWL annex
Proposed bespoke outputs for ENWL		
Dig, Fix and Go	ODI-F	Chapter 2 of this document
Smart Street	PCD	Chapter 2 of this document
Borrowdale Transformers	ODI-R	Chapter 2 of this document

1.10 The common UMs that we are proposing for all DNOs in RIIO-ED2 are set out in Table 4 with further details in the Core Methodology Document. Bespoke UMs specific to ENWL are also set out in Table 4, with further details in Chapter 4.

Table 4: Summary of proposed common and bespoke UMs applicable to ENWL

UM Name	UM type	Further detail
Common UMs to the ED sector		
Coordinated Adjustment Mechanism	Re-opener	Overview, Chapter 5 of SSMD[4]
Real Price Effects	Indexation	Annex 2, Chapter 4 of SSMD
Ofgem licence fee	Pass-through	Annex 2, Chapter 8 of SSMD
Business rates	Pass-through	Annex 2, Chapter 8 of SSMD
Transmission Connection Point Charges	Pass-through	Annex 2, Chapter 8 of SSMD
Pension deficit repair mechanism	Pass-through	Annex 2, Chapter 8 of SSMD

[4] For more details on our Sector Specific Methodology Decision (SSMD) https://www.ofgem.gov.uk/publications/riio-ed2-sector-specific-methodology-decision.

Ring-fence costs	Pass-through	Annex 2, Chapter 8 of SSMD
Miscellaneous pass-through	Pass-through	Annex 2, Chapter 8 of SSMD
Environmental legislation	Re-opener	Chapter 3, Core Methodology Document
Visual amenity	Use It Or Lose It (UIOLI)	Chapter 3, Core Methodology Document
Polychlorinated biphenyls	Volume driver	Chapter 3, Core Methodology Document
Load Related Expenditure (LRE) – Secondary Reinforcement	Volume driver	Chapter 3, Core Methodology Document
LRE – Low Voltage (LV) Services	Volume driver	Chapter 3, Core Methodology Document
LRE - General	Re-opener	Chapter 3, Core Methodology Document
Net Zero	Re-opener	Chapter 3, Core Methodology Document
Digitalisation	Re-opener	Chapter 4, Core Methodology Document
DSO	Re-opener	Chapter 4, Core Methodology Document
Worst Served Customers	UIOLI	Chapter 6, Core Methodology Document
Severe Weather 1-in-20	Pass through	Chapter 6, Core Methodology Document
Storm Arwen	Re-opener	Chapter 6, Overview Document
Physical security	Re-opener	Chapter 6, Core Methodology Document
Electricity system restoration	Re-opener	Chapter 6, Core Methodology Document
Cyber resilience OT and IT	Re-opener	Chapter 6, Core Methodology Document and Confidential ENWL annex
Cyber Resilience OT	UIOLI	Chapter 6, Core Methodology Document and Confidential ENWL annex

Smart meter information technology costs	Pass-through	Chapter 7, Core Methodology Document
Smart meter communications costs	Pass-through	Chapter 7, Core Methodology Document
Streetworks costs	Re-opener	Chapter 7, Core Methodology Document
Rail electrification	Re-opener	Chapter 7, Core Methodology Document
High Value Projects	Re-opener	Chapter 7, Core Methodology Document
Cost of debt indexation	Indexation	Chapter 2, Finance Annex
Cost of equity indexation	Indexation	Chapter 3, Finance Annex
Tax review	Re-opener	Chapter 7, Finance Annex
Inflation indexation of Regulatory Asset Value (RAV)	Indexation	Chapter 9, Finance Annex
Electric Vehicle Provider of Last Resort	To be confirmed	Chapter 6, Overview Document
Bespoke UMs to ENWL		
Moorside - Nuclear development on the west coast of Cumbria	Re-opener	Chapter 4

1.11 Table 5 sets out our NIA proposals for ENWL (further details can be found in Chapter 5). Our general approach to the NIA is set out in Chapter 3 of our Core Methodology Document.

Table 5: Summary of proposed NIA applicable to ENWL

Consultation position for ENWL NIA
£6m initial allowance, to be reviewed in 2025

1.12 Table 6 summarises the financing arrangements that we are proposing to apply to ENWL and all other DNOs. Please refer to Chapter 4 of our Finance Annex for more detail on these areas.

Table 6: Summary of financing arrangements applicable to ENWL

Finance parameter	ENWL rate	Source
Notional gearing	60%	See Table 19 in Finance Annex
Cost of equity allowance	4.75%	
Cost of debt allowance	2.26%	
WACC allowance	3.26%	

2. Setting Outputs

Introduction

2.1 This chapter sets out our Draft Determinations for output areas that specifically apply to ENWL. In this chapter we provide our proposals on:

- The ENWL specific parameters for common outputs, detailed in our Core Methodology Document, which we propose to apply to all DNOs.
- The bespoke outputs and CVPs proposed in ENWL's Business Plan.

Common outputs

2.2 The ENWL specific parameters for the common outputs which we are proposing for all DNOs in RIIO-ED2 are set out in the tables below. Further details on these outputs and our consultation position are set out in the Core Methodology Document.

Interruptions Incentive Scheme (IIS)

2.3 Tables 7-10 summarise ENWL's unplanned Customer Interruptions (CI) and Customer Minutes Lost (CML) targets and revenue cap and collar.

2.4 The unplanned targets are calculated under a common methodology that uses each DNO's own historical performance to determine their targets, which means they are bespoke for each DNO. This methodology ensures the DNOs are incentivised to improve their performance (or avoid it deteriorating) but recognises that there are factors that will affect each DNO's current performance and the cost and impact of any changes.

2.5 Please refer to Chapter 6 of the Core Methodology Document for our consultation position and rationale. Planned CI and CML targets will be updated at Final Determinations, once 2021/22 performance data has been finalised.

Table 7: Consultation position – IIS – unplanned CI targets

	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	30.0	29.8	29.7	29.5	29.4

Table 8: Consultation position – IIS – unplanned CML targets

	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	26.10	25.7	25.3	24.9	24.6

Table 9: Consultation position – IIS – revenue cap (£m)

	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	8.8	8.8	8.8	8.8	8.8

Table 10: Consultation position – IIS – revenue collar (£m)

	2023/24	2024/25	2025/26	2026/27	2027/28
ENWL	22.0	22.0	22.0	22.0	22.0

Network Asset Risk Metric (NARM) PCD and ODI-F

2.6 Table 11 summarises our proposals for ENWL's Network Asset Risk Metric (NARM) baseline network risk output for RIIO-ED2. Please refer to Chapter 6 of the Core Methodology Document for our consultation position and rationale.

Table 11: Consultation position – NARM PCD & ODI-F – Baseline Network Risk Outputs (£R, 2020/21 prices)

Network	Draft Determinations proposed baseline network risk output
ENWL	416,645,265

Consumer Vulnerability Incentive

2.7 Tables 12 and 13 summarise our proposals for ENWL's vulnerability incentive targets for the value of fuel poverty services delivered and the value of low carbon support services delivered, with financial targets set out in net present value (NPV).

Table 12: Consultation position – Consumer Vulnerability Incentive (ODI-F): the value of fuel poverty services delivered (NPV, £m)

	Year 2 target	Year 5 target
ENWL bespoke target	£19.9m	£60.8m

Table 13: Consultation position – Consumer Vulnerability Incentive (ODI-F): the value of low carbon transition services delivered (NPV, £m)

	Year 2 target	Year 5 target
ENWL bespoke target	Not yet provided by ENWL	Not yet provided by ENWL

2.8 The NPV proposed by ENWL in table 12 are the forecasted values based on the delivery of its vulnerability strategy. ENWL have not yet provided forecasts for the value expected to be delivered for low carbon support services.

2.9 We have reviewed the targets proposed and the supporting rationale. That review is ongoing, and we will work with all DNOs to ensure that the DNOs' targets are complete, comparable and independently assured, using the common Social Value Framework ahead of Final Determinations.

2.10 Our approach to bespoke target setting and further detail on these metrics can be found in Chapter 5 of our Core Methodology Document.

Major Connections Incentive

2.11 The Major Connections Incentive will be an ODI-F with a maximum penalty exposure of 0.9% base revenue and applied to performance in the Major Connections Customer Satisfaction Survey.[5] Please see "Creating consistency in baselines for ODI incentive rates, caps, or collars" in section 10 of the Finance Annex for our proposal to translate this incentive to 0.35% RoRE.

2.12 The penalty is calculated by applying approximately a 0.1% penalty rate per Relevant Market Segment (RMS), and will be applied based on the number of RMS where effective competition has not been demonstrated.[6] Based on the outcomes of the Distribution Price Control Review 5 ('DPCR5') Competition Test and our minded-to proposals on the competition review for ENWL there would be a maximum penalty of 0.1% of base revenue.

Common outputs consultation question

[5] See the Major Connections Incentive section of the Core Methodology Document for more details.
[6] For more details on which RMS have demonstrated evidence of effective competition, see our minded-to proposals https://www.ofgem.gov.uk/publications/consultation-our-review-competition-electricity-distribution-connections-market

ENWL-Q1. What are your views on the company specific parameters we have proposed for the common outputs that we have set out above?

Bespoke outputs

2.13 For RIIO-ED2, we invited DNOs to propose additional bespoke outputs as part of their Business Plans reflecting the needs of, and feedback from, their stakeholders and consumers.

2.14 We said that companies were required to support their bespoke proposals with robust justification. In our Business Plan Guidance (BPG)[7], we asked for this justification to ensure that the potential consumer benefits put forward under bespoke proposals were significant enough to merit introducing any additional cost and/or regulatory complexity associated with them.

2.15 In making our Draft Determinations for RIIO-ED2 outputs, we have sought to strike a balance between these trade-offs for each bespoke proposal. You can find the background and our assessment approach in our Overview Document.

2.16 ENWL has submitted 8 outputs. This includes 1 bespoke ODI-R, 1 ODI-F, 4 PCDs and 2 CVPs. We provide a summary of each bespoke proposal below, with the full details of each bespoke output put forward by ENWL found in its Business Plan submission[8]. We set out our assessment of each output and detail which of them we are proposing to accept and apply to ENWL in RIIO-ED2.

Bespoke Output Delivery Incentives

2.17 Table 14 below summarises the bespoke ODI proposals that ENWL submitted as part of its Business Plan and outlines our consultation position.

[7] https://www.ofgem.gov.uk/publications/riio-ed2-business-plan-guidance
[8] Our plan to lead the North West to Net Zero: 2023-2028 (enwl.co.uk)

Table 14: ENWL's bespoke ODI proposals

Output name and description	Consultation position
Borrowdale Transformers (ODI-R): Replacing 223 transformers over the course of ED2 and ED3 to reduce the safety and failure risk associated with these assets.	**Accept:** We propose to accept this bespoke output. See Table 16.
Dig, Fix and Go (ODI-F): Operational and investment changes to increase the restoration speed following emergency street works.	**Accept:** We propose to accept this bespoke output. See further down this chapter.

Our consultation position on bespoke ODIs

Borrowdale Transformers

Table 15: Borrowdale Transformers description

ODI-R Borrowdale Transformers	
Purpose	A reputational incentive to ensure the timely replacement of Borrowdale Transformers.
Benefits	To ensure a safe and reliable network.

Background

2.18 ENWL have identified 223 transformers within the Lake District National Park that are unlikely to be fully electrically protected in accordance with Electricity Safety, Quality and Continuity Regulations (ESQCR). ENWL proposes to replace these transformers over the course of ED2 and ED3 to reduce the safety and failure risk associated with these assets.

Consultation position

Table 16: Consultation position – Borrowdale Transformers ODI-R

Output parameter	Consultation position
Target	ODI to measure the number of Borrowdale transformers that have been replaced. We propose that ENWL should deliver the asset replacements it has set out for each regulatory year in its Engineering Justification Paper.
ODI Type	ODI-R

Implementation	ENWL should report on its progress against their annual targets through the Regulatory Reporting Pack (RRP).

Rationale for our consultation position

2.19 We recognise that replacement of these assets comes with specific delivery risks due to the nature of their location. As the proposed programme spans across ED2 and ED3, we recommend that progress should be monitored through an ODI-R to encourage a timely delivery.

Dig, Fix and Go

Table 17: Dig, Fix and Go Description

ODI-F Dig, Fix and Go	
Purpose	A financial incentive to decrease the time taken to restore roads and surrounds following emergency street works.
Benefits	Average restoration time will decrease from 5.1 to 3 days, reducing the length of time that customers face inconvenience from emergency street works.

Background

2.20 In its Business Plan, ENWL proposed an ODI-F to reduce its restoration time from 5.1 to 3 days. ENWL will achieve this through a range of operational and investment changes, including applying innovative solutions.

Consultation position

Table 18: Consultation Position - Dig, Fix and Go ODI-F

Output parameter	Consultation position
Target	Maintain a lower average restoration speed of 3 days with a penalty range of 7.2 days (ie +/- 2.1 days compared to current average of 5.1)
ODI type	Financial. Symmetric incentive cap and collar of +/- 0.5% of Totex[9]
Incentive rate	£0.98m per average day above or below the current average per annum
Implementation	Reported through the RRP

[9] Please see "Creating consistency in baselines for ODI incentive rates, caps, or collars" in section 10 of the Finance Annex for our proposal to set the maximum penalty of this incentive to -0.20% RoRE.

Rationale for consultation position

2.21 ENWL's current average restoration time for emergency street works is better than electricity industry averages. However, they have provided evidence in their Dig, Fix and Go proposal of extensive consultation with their stakeholders who have indicated a strong understanding and desire for even faster restoration times, following emergency street works. Stakeholders have identified benefits of faster restoration times, including lower stress and anxiety from lost time, a reduction in air pollution from stationary vehicles and less disruption to local businesses and trades.

2.22 ENWL proposed an incentive range of +/- 1% of Totex. However, we do not think the benefits are sufficiently different to justify an incentive range that is double the range we are proposing to accept for UKPN's Collaborative street works ODI,[10] which shares similar benefits. We are therefore consulting on an incentive range of +/- 0.5% for both ODIs[11]. We recognise that this effectively means ENWL's proposed incentive rate will also be halved from £1.96m per average day per annum to £0.98m,[12] but we think this reflects the benefit of faster restoration times to customers.

Consultation que*stions*

ENWL-Q2. What are your views on our proposals for ENWL's bespoke ODIs?

Bespoke price control deliverables

2.23 Table 19 below summarises the bespoke PCD proposals that ENWL submitted as part of its Business Plan and outlines our consultation position.

[10] Information on the Collaborative streetworks bespoke proposal can be found in UKPN's annex
[11] Please see "Creating consistency in baselines for ODI incentive rates, caps, or collars" in section 10 of the Finance Annex for our proposal to set the maximum penalty of this incentive to -0.20% RoRE.
[12] This is the amount that ENWL can earn annually for each day that the average restoration time is shorter than the baseline (eg if ENWL's average restoration time was 4.1 days in one year, then they would earn an incentive payment of £0.98m, reflecting that this time is one day shorter than the baseline of 5.1 days).

Table 19: ENWL's bespoke price control deliverable proposals

Output name and description	Consultation position
Smart Street: Voltage management technology that alters output voltage at distribution transformers to reduce consumer energy consumption.	**Accept:** We propose to accept the PCD proposal for installation of the Smart Street voltage management technology at 1,000 sites, funded through baseline and subject to cost assessment. See paragraph 2.24 for further detail.
Borrowdale Transformers: Replacing 223 transformers over the course of ED2 and ED3 to reduce the safety and failure risk associated with these transformers.	**Accept as ODI-R:** We propose rejecting this as a PCD as proposed by ENWL as it does not meet the materiality threshold set out in in our SSMD. We propose to instead establish this output as an ODI-R. Please refer to paragraph 2.18 for our consultation position on the proposed ODI-R.
LineSIGHT: New technology developed by ENWL to enable remote detection of damaged equipment earlier than through visual inspection. This will help to pinpoint the location of faults, enabling more efficient despatch of repair crews.	**Reject:** We recognise the potential benefits that this technology may provide, but do not think its use needs to be explicitly incentivised. We consider that it should be treated as part of ENWL's toolkit to meet its obligation to operate a safe and secure network. This is supported by ENWL's view that LineSIGHT is innovation that has been proven through innovation funding to improve the safety of the network and is now being implemented as business as usual (BAU).
Vulnerable customer network improvements: Undertaking a programme of investments on high voltage feeders to reduce the future likelihood of a loss of supply for groups of customers with known high vulnerabilities fed from poorly performing parts of the network.	**Reject:** We welcome ENWL's efforts to improve the network for customers in vulnerable situations. We found that ENWL provided insufficient evidence to support the use of a PCD and consider there to be considerable overlap with the interventions applied by all DNOs under the Interruptions Incentive Scheme. See paragraph 2.29. for further detail.

Smart Street

Table 20: Smart Street Description

Smart Street	
Purpose	Voltage management technology that alters output voltage at distribution transformers.
Benefits	Reductions in energy consumption for consumers that could reduce customer bills, alongside wider system benefits including reductions in carbon emissions, reinforcement and technical losses.

Background

2.24 Smart Street utilises the technique of Conservation Voltage Reduction (CVR) to optimise voltage levels at the distribution level. In RIIO-ED1, Smart Street

received Innovation Roll-Out Mechanism (IRM) funding to deploy the technology at 180 substations.

Consultation position

Table 21: Consultation Position – Smart Street

Output parameter	Consultation position
Type	Mechanistic PCD
Output	Smart Street installed at 1000 substations covering 250,000 customers
Expected time of delivery	End of RIIO-ED2
Totex baseline allowances	£78m
Proposed approach to allowance clawback	Downwards adjustment based on unit cost multiplied by the difference between total number of substations with Smart Street installed and the proposed target of 1,000 substations.
Accountability Mechanisms	We propose ENWL reports on the benefits Smart Street delivers to consumers and associated reductions in energy consumption in the RRP.

Rationale for consultation position

2.25 We propose accepting Smart Street as a mechanistic PCD. This will enable Ofgem to clawback costs where ENWL deploys Smart Street to less than the 1000 substations proposed. This acknowledges that in further rollout, it may not be economic or efficient to deliver the solution to every substation. We believe ENWL is best placed to decide on the extent of this deployment and for this reason an alternative mechanism such as a volume driver would not be appropriate for efficient deployment. We recognise there is a risk ENWL installs Smart Street at sites that are not as economic or efficient, however we believe there would still be benefits to consumers for completing up to 1000 sites.

2.26 However, we are not proposing a reward for the accompanying Smart Street CVP submitted alongside this PCD (see Table 22). We propose costs are treated as baseline for this activity.

2.27 We are not proposing a CVP reward because Ofgem has concerns that the modelled benefits found in ENWL's CVP proposal may be overstated. Specifically, we are concerned that Smart Street's ability to reduce energy consumption may deteriorate over the lifetime of the project as domestic consumption profiles

change due to the expected uptake in Low Carbon Technologies (LCTs) and electric vehicles (EV). These concerns were also shared by the Challenge Group in their report.

2.28 While we are not yet confident in the full extent of benefits Smart Street will create, we recognise that conservation voltage management technologies more broadly could yield significant benefits for consumers. We believe further historical evidence through projects like Smart Street will improve our understanding of the future role of such technologies in a net zero system. For this reason, we are also proposing that ENWL provides an annual PCD report on the benefits that Smart Street delivers to consumers and associated reductions in energy consumption.

Vulnerable customer network improvements – rationale

Background

2.29 In its Business Plan, ENWL proposed a programme of investments on high-voltage (HV) feeders that supply locations with high concentrations of vulnerable customers. The investments would deliver improvements that would seek to reduce the duration of unplanned interruptions on the HV network in areas with high numbers of customers with a high reliance on electricity, such as those medically dependent on electricity; and reduce the likelihood of unplanned interruptions for customers with a vulnerability. ENWL proposed a cost of £20m for this programme.

Rationale for consultation position

2.30 We propose to reject ENWL's PCD proposal for several reasons as explained in this section.

2.31 We consider there to be considerable overlap with the Interruptions Incentive Scheme (IIS) which drives DNOs to improve the overall reliability of their networks for the average consumer, as they are not funded through baseline to do so. A customer's classification as vulnerable is not influenced by the interruptions they face, so we think it is likely that the improvements made through this programme would contribute fully to IIS performance against targets in the same way as any other reliability improvements.

2.32 In addition, we are concerned that whilst some customers in vulnerable situations are not necessarily explicitly captured under those who are Worst Served Customers (WSC), under this proposal they could be prioritised over and above those who are supplied by the worst performing parts of the network.

2.33 We note that ENWL's CEG is supportive of the use of PCDs to protect consumers in the event of under delivery. However, there is a lack of justification as to why this proposal should be taken forward as a PCD and no reasoning provided for why delivery of the proposal is uncertain. We consider that ENWL could undertake such network improvements as part of its planned network improvements in RIIO-ED2 captured by the IIS and/or funding for WSC.

2.34 We note that ENWL has not set out what benefit this proposal would deliver for customers in vulnerable circumstances. For example, how much the risk of a power cut or length of a power cut would likely reduce for customers benefitting from this investment programme. It's unclear the extent to which this proposal has support from ENWL's customers and stakeholders. This is especially the case given the £1000 cost per vulnerable customer benefitting from the automation investment programme, and £3393 cost per vulnerable customer benefitting from the improvements to six poorly performing HV feeders.

Consultation questions

ENWL-Q3. What are your views on our proposals for ENWL's bespoke price control deliverables?

Consumer Value Propositions

2.35 Table 22 below summarises the CVP proposals that ENWL submitted as part of its Business Plan and our consultation position in relation to each. Where additional space is required to outline our rationale, we have provided further information under specified headings.

Table 22: ENWL's CVP proposals

Output name and description	Consultation position
Smart Street: Voltage management technology that alters output voltage at distribution	**Accept, no reward:** Ofgem welcomes this initiative from ENWL and its progress since previously receiving Innovation Roll-out

transformers to reduce consumer energy consumption.	Mechanism funding in 2019[13]. However, for this CVP proposal, we were concerned that modelled benefits were overstated and expected reductions in energy consumption may not be fully realised due to expected changes in future domestic consumption profiles. We propose Smart Street is funded as part of baseline, subject to cost assessment and its accompanying PCD to ensure allowance can be clawed back as it may not be economical or efficient to install Smart Street at all sites.[14]
Customer Load Active System Services (CLASS): Voltage management technology installed at primary substations that allows for demand control on ENWL's network. Demand reduction caused by voltage changes can then be provided to the ESO for its residual balancing purposes.	**Reject:** Ofgem has consulted on the regulatory treatment of CLASS in RIIO-ED2 separately. We believe all of the regulatory options being explored for CLASS as part of the recent consultation would make accepting a CVP relating to CLASS from one DNO to be inappropriate and risk disrupting the intention of any future decision on the treatment of CLASS.

Consultation questions

ENWL-Q4. What are your views on our proposals for ENWL's CVPs?

[13] IRM Decision Document: ENWL Smart Street (ofgem.gov.uk)

[14] By way of accepting the PCD for Smart Street and accepting, without reward, the Smart Street CVP, note that we propose only allowing baseline funding of the proposed £78 million once.

3. Setting baseline allowance

Introduction

3.1 This chapter sets out our Draft Determinations on baseline allowances for the different cost areas within ENWL's Business Plan submission. We intend this chapter to be read alongside other parts of our Draft Determinations that set out our overall approach to RIIO-ED2.

Baseline allowances

3.2 Baseline Totex referenced in this chapter comprises forecast controllable costs[15] and is inclusive of our proposed ongoing efficiency challenge, unless stated otherwise. Furthermore, the figures presented in this chapter do not include real price effects (RPEs) to allow comparison with DNOs' submissions.

3.3 Table 23 compares ENWL's submitted baseline Totex for its network with our Draft Determination position at a disaggregated cost activity level.

Table 23: ENWL submitted Totex versus proposed baseline Totex (£m, 2020/21 price base)

ENWL	Cost activity	Submitted Totex	Proposed Totex	Difference	Difference
Capex[16]	Connections	22	18	-4	-18.8%
Capex	New transmission capacity charges	-	-	-	-
Capex	Primary reinforcement	20	16	-4	-18.9%
Capex	Secondary reinforcement	150	121	-29	-19.5%
Capex	Fault level reinforcement	32	26	-6	-19.4%
Capex	Civil works condition driven	27	22	-5	-19.0%
Capex	Blackstart	-	-	-	-
Capex	Legal and safety	42	34	-8	-19.3%
Capex	Quality of Supply (QoS) and North of Scotland resilience	20	-	-20	-100.0%

[15] Non-controllable costs, while included in overall allowed revenue recoverable by DNOs, are not included in baseline Totex and are treated separately. See Chapter7 of the Core Methodology Document for more details on what is and isn't included in the numbers presented here.
[16] Capex is a shorthand term for capital expenditure and Opex is a shorthand term for operational expenditure

Capex	Flood mitigation	4	3	-1	-18.7%
Capex	Physical security	5	4	-1	-19.5%
Capex	Rising and lateral mains	17	14	-3	-19.0%
Capex	Overhead line clearances	9	7	-2	-18.1%
Capex	Losses	10	8	-2	-19.0%
Capex	Environmental reporting	28	23	-5	-18.2%
Capex	Operational IT and telecoms	78	64	-14	-18.5%
Capex	Worst Served Customers	21	17	-4	-19.3%
Capex	Visual amenity	6	5	-1	-19.0%
Capex	Diversions (excl Rail)	73	59	-14	-19.2%
Capex	Diversions-rail electrification	0	-	-0	-100.0%
Capex	Civil works asset replacement driven	9	8	-2	-19.0%
Capex	Asset replacement NARM	166	134	-31	-19.0%
Capex	Asset replacement Non-NARM	68	55	-13	-19.2%
Capex	Asset refurbishment Non-NARM	25	20	-5	-19.0%
Capex	Asset refurbishment NARM	30	24	-6	-19.0%
Capex	IT and telecoms (Non-Op)	36	29	-6	-18.2%
Capex	Non-Op property	12	10	-2	-18.4%
Capex	Vehicles and transport (Non-Op)	23	18	-4	-18.9%
Capex	Small tools and equipment	23	19	-4	-18.7%
Capex	High Value Projects RIIO-ED2	22	18	-4	-18.4%
Capex	Shetland	-	-	-	-
Opex	Tree cutting	49	40	-9	-19.0%
Opex	Faults	127	103	-24	-19.0%
Opex	Severe weather 1 in 20	2	-	-2	-100.0%
Opex	Occurrences Not Incentivised (ONIs)	46	38	-9	-19.1%
Opex	Inspections	17	14	-3	-19.0%
Opex	Repair and maintenance	54	44	-10	-19.0%
Opex	Dismantlement	2	2	-0	-19.0%
Opex	Remote generation opex	-	-	-	-
Opex	Substation electricity	10	8	-2	-19.0%
Opex	Smart metering roll out	13	11	-2	-17.6%

Opex	Total closely associated indirects (CAI)	404	327	-77	-19.0%
Opex	Total business support	256	208	-49	-19.1%
Cost activities sub-total[17]		1,959	1,569	-390	-19.9%
Excluded cost activities[18]		-22	-		-
Total Totex (modelled component)		1,937	1,569	-368	-19.0%
Technically assessed Totex		78	72	-6	-8.2%
Total Totex		2,015	1,640	-375	-18.6%

Technically assessed costs

3.4 For technically assessed costs, we have made the following adjustments, listed in Table 24 below. Our proposed view of bespoke proposals is presented in Chapter 2. Further details on other items is provided later in this chapter.

Table 24: Consultation position – technically assessed costs

DNO	Proposal name	Draft Determinations proposal		
		Submitted	*Proposed (1)*	*Confidence*
		£m	£m	
ENWL	Smart Street	78	78	High
(1) Proposed costs do not include efficiency challenge				

3.5 With regards to Smart Street, we propose that the costs are treated as high confidence as the unit costs for the proposal are broadly in line with realised actual costs in RIIO-ED1. We also assessed these RIIO-ED1 costs as reasonable and efficient as part of our decision to award the Smart Street project IRM funding in 2019[19].

Engineering Justification Paper review

3.6 We have reviewed each of the individual Engineering Justification Papers (EJP) submitted by ENWL, as well as the relevant supporting documentation. The EJPs

[17] Proposed Totex for Worst Served Customers and Visual Amenity are shown here including ongoing efficiency for comparability with other activities, but ongoing efficiency is removed from these two activities as a post-modelling step. See Worst Served Customers and Visual Amenity sections in Chapter 7 of the Core Methodology Document for the proposed Totex values excluding ongoing efficiency.

[18] QoS & North of Scotland Resilience, Diversions Rail Electrification and Severe Weather 1 in 20 cost activities are excluded from the modelled component of Totex. See Chapter 7 of the Core Methodology Document for details.

[19] IRM Decision Document: ENWL Smart Street (ofgem.gov.uk)

were assessed the EJPs in accordance with paragraph 2.23 of the Engineering Justification Papers for RIIO-ED2 Guidance document.[20]

3.7 As discussed in Chapter 7 of our Core Methodology Document, our assessment provided a view on each EJP that was assigned one of three outcomes: Justified, Partially Justified or Unjustified.

3.8 Our review of the EJPs is one of several assessment tools that has contributed to our overall assessment and proposed costs and volumes. The positions set out in this specific section should be considered in the wider context of the cost assessment methodology set out in Chapter 7 of the Core Methodology Document.

3.9 ENWL submitted a total of 49 EJPs to substantiate their RIIO-ED2 submission.

3.10 We consider ENWL has demonstrated the needs case for investment for the majority of proposed investment areas. ENWL have, in the majority of cases, considered and assessed an appropriate range of options when selecting the proposed investments.

3.11 However, we do not consider that the proposed volumes across a wide range of ENWL's Non-Load Related Expenditure (NLRE) EJPs have been sufficiently justified, and therefore we have deemed a number of these EJPs to be Partially Justified.

3.12 A summary of our review assessing ENWL's EJPs as Justified, Partially Justified, or Unjustified is presented in Table 25. We have provided more detail on EJPs of significant value where our review determined the EJP to be Partially Justified or Unjustified in Appendix 2.

Table 25 – Summary of the ENWL EJP Review

EJP review outcome	No. of EJPs
Justified	18
Partially Justified	28
Unjustified	3
Total EJPs	**49**

[20] https://www.ofgem.gov.uk/sites/default/files/docs/2021/02/riio_ed2_engineering_justification_paper_guidance.pdf

Load Related Investment Proposals

3.13 We consider that the majority of ENWL's Grid and Primary reinforcement papers are Justified. We note the difficulties ENWL are experiencing in coordinating works with National Grid Electricity Transmission (NGET) at two sites (Harker and South Manchester). We expect licensees to work in a coordinated manner but appreciate the differences in regulatory timescales for respective works.

3.14 Our review concludes that the predominant factors in the changes to Harker and South Manchester are generally driven by NGET and as such we have deemed the relevant EJPs to be Partially Justified.

3.15 We consider ENWL to have provided sufficient evidence to demonstrate a need for investment in relation to secondary reinforcement, and at a basic level, the investment types proposed by ENWL appear appropriate. However, the volumes and costs are highly dependent on actual demand and generation development and the unavoidable use of forecasts naturally creates a degree of uncertainty. On this basis, we consider that ENWL have not provided sufficient justification and evidence to justify the deliverability and accuracy of the proposed investment in this area.

3.16 Our LRE engineering review and recommendations have helped inform the LRE Draft Determinations proposals. The overall Draft Determination proposals reflect the wider assessment undertaken, including the processes described in Chapters 3 and 7 of the Core Methodology document.

Non-Load Related Investment Proposals

3.17 Generally, we consider ENWL has provided sufficient evidence to demonstrate the needs cases for investment for the proposed condition-based asset replacement and refurbishment EJPs. However, we identified numerous examples where the methodology for determining volumes was unclear or not sufficiently evidenced. In these instances, we note that there was insufficient data presented to demonstrate that the volumes proposed by ENWL can be delivered in the RIIO-ED2 period and that they deliver a net risk reduction.

3.18 We would have expected further evidence to have been provided to demonstrate how ENWL determined the proposed volumes. This is particularly important in asset categories where ENWL have proposed volumes that exceed previous run

rates without also providing sufficient explanation as to what justifies this step change in requirements, and how ENWL will deliver the increased workload.

3.19 In addition, we note that in some instances ENWL's submission includes insufficient detail on specific assets that it proposes to intervene on during RIIO-ED2, in particular for assets with significant unit costs (e.g. Transformers Intervention Programme). Based on this, we have classified a number of these EJPs as Partially Justified.

3.20 ENWL's other non-load related EJPs provide for the most part sufficient evidence of the requirement for intervention. We consider ENWL has provided sufficient evidence to support both the needs case and the proposed solution, based on options presented. A common theme throughout these EJPs is the uncertainty in deliverability of proposed volumes. We have therefore provisionally deemed the majority of these papers to be Partially Justified.

TIM

3.21 Our cost confidence assessment results in a proposed Totex Incentive Mechanism (TIM) incentive rate for ENWL of 50.0%. For further details on the TIM, see Chapter 9 in the Overview Document.

BPI Stage 3

3.22 We propose that ENWL does not incur any penalty following our BPI Stage 3 assessment as we do not consider ENWL to have submitted any lower confidence costs.

BPI Stage 4

3.23 We propose that ENWL will earn no reward following our BPI stage 4 assessment.

3.24 Table 26 sets out our proposals on high confidence cost categories and allowances (before the application of RPEs and ongoing efficiency).

Table 26: Draft Determination on Stage 4

Cost category	ENWL's view (£m)	Ofgem view (£m)	BPI reward
Modelled costs	1,935.4	1,692.5	N/A
Smart Street	78.0	76.1	N/A

Consultation questions

ENWL-Q5. What are your views on our proposals for the outcome of Stages 3 and 4 of the BPI for ENWL?

4. Adjusting baseline allowances for uncertainty

Introduction

4.1 In this chapter we set out our consultation positions on the bespoke UMs that ENWL proposed in its Business Plan.

4.2 We set out more detail on the common UMs in our Core Methodology Document and Overview Document, including the broader consultation position and rationale.

Bespoke UM Proposals

4.3 We invited the DNOs to propose bespoke UMs with suitable justification in our SSMD[21]. We have considered the extent to which the supporting information justifies the key criteria outlined in the BPG[22]:

- materiality and likelihood of the uncertainty
- how the risk is apportioned between consumers and the network company
- the operation of the mechanism
- how any drawbacks may be mitigated to deliver value for money and efficient delivery.

4.4 We also considered whether the uncertainty was regionally specific, or sector wide, to assess whether a common UM could be more appropriate. You can find the background and our assessment approach in Chapter 6 of our Overview Document.

4.5 Table 27 below summarises the bespoke UM proposals that ENWL submitted and outlines our consultation position.

4.6 For full details on the bespoke UMs, refer to ENWL's Business Plan.

[21] Paragraph 5.37 of our SSMD https://www.ofgem.gov.uk/publications/riio-ed2-sector-specific-methodology-decision.
[22] Paragraph 5.44 of our BPG https://www.ofgem.gov.uk/publications/riio-ed2-business-plan-guidance.

Table 27: ENWL bespoke UM

UM name	Consultation position
LRE: A reopener for managing load related expenditure.	**Reject:** We consider this is addressed by our common LRE UMs. Please refer to Chapter 3 of the Core Methodology Document for more information.
LCT LV service solutions: A volume driver for LCT services	**Reject:** We consider this is addressed by our common LRE UMs. Please refer to Chapter 3 of the Core Methodology Document for more information.
Wayleaves and Diversions: Volume drivers and annual logging-up for different wayleaves and diversions activities (Wayleaves and Easements compensation claims and Diversions for wayleaves terminations).	**Reject:** We find insufficient justification for ENWL's proposed UM, or a common UM for wayleaves and diversions more broadly. We consider the forecasting risk that this UM seeks to address should be managed by DNOs through their business plans and the proposed ex ante diversions allowances. We do not consider the forecasting risk for diversions to be materially different enough from other cost activities to require a re-opener. We also want to ensure that DNOs are incentivised to minimise diversions costs, and we consider ex ante funding to be the best approach to do this.
Ash Dieback: A volume driver for Ash Dieback affected trees (Class 4 only).	**Reject:** We provide baseline allowances for tree cutting to enable the DNOs to adapt to the changing nature of the challenges associated with vegetation management. This includes risks associated with new or emerging challenges such as Ash Dieback. We think a volume driver would create challenges in setting a unit price and in verifying the felling of only class 4 trees.
Polychlorinated Biphenyls (PCBs): To address the uncertainty and risk that the volumes of PCB-contaminated assets may be significantly higher or lower than currently expected.	**Accept as common UM:** With adjustment to form a common volume driver design for all DNOs with an overhead network. Additional detail can be found in Chapter 4 of the Core Methodology Document.
Net zero and reopener development Fund: To enable net zero related development work, small value net zero facilitation projects, and local area energy plan support.	**Reject**. We found insufficient justification for the needs case due to lack of robust evidence for why this fund is required for ENWL. We consider the scope of proposed activities to be BAU and ENWL can

	manage the associated costs within its Totex baseline. Additionally, there will be a common Net Zero Re-opener to address uncertainty related to the achievement of net zero.
Distribution Net Zero Fund: Proposal to create a community energy fund and provide decarbonisation support.	**Reject.** ENWL has provided insufficient evidence to justify the need for this fund. Additionally, ENWL has not provided sufficient information to understand how this funding will be used beyond their baseline expectations in RIIO-ED2.
Moorside - Nuclear development on the west coast of Cumbria: Proposal to continue RIIO-ED1 re-opener for the uncertain costs associated with the potential for new nuclear generation seeking to connect in Cumbria and subsequent network investment required.	**Accept**: Please see paragraphs 4.7 to 4.11 for more information.
Access SCR reform: A regulatory driven changes proposal	**Reject:** we consider this is addressed by our common LRE UM. Please refer to Chapter 12 of the Overview Document and Chapter 3 of the Core Methodology Document for more information.

Moorside – Nuclear development on the west coast of Cumbria

Table 28: Moorside Re-opener Description

Moorside – Nuclear development on the west coast of Cumbria	
Purpose	To manage the impact of major changes required to ENWL's network should new nuclear generation connections take place near Sellafield in Cumbria.
Benefits	Ensures the best protection for consumers and risk balance given there are no baseline allowances for this activity and costs will only be requested should the need arise in period.

Background

4.7 ENWL has a bespoke mechanism in RIIO-ED1 to manage the impact of major changes required to their network should new nuclear generation connections take place near Sellafield in Cumbria. This is known as the 'Moorside condition' reflecting the likely geographical location of the development on the west coast of Cumbria.

Consultation position

Table 29: Consultation Position on Moorside Re-opener

UM parameter	Consultation position
Type of UM	Re-opener
Trigger event	A Large Onshore Transmission Investment (LOTI) application, or distribution connection application, whichever occurs first in the RIIO-ED2 period.
Authority or licensee triggered re-opener	Licensee triggered
Materiality threshold	In line with the common reopener parameters, set a materiality threshold such that we will only adjust allowances if the changes to allowances resulting from our assessment, multiplied by the TIM incentive rate applicable to that licensee, exceeds a threshold of 1% of annual average base revenue (as set out in Final Determinations).

Rationale for our consultation position

4.8 The current re-opener has not been used in RIIO-ED1 to date. In RIIO-ED2 there continues to be the potential for new nuclear generation to be developed in this area, which by its nature is large and complex, even if made up of one or more small modular reactors (SMRs) instead of a single, larger power station. Either scenario would necessitate major works on ENWL's network to facilitate the connection.

4.9 It is not certain that this will occur in RIIO-ED2 so we think that it is more appropriate to manage this uncertainty outside of baseline allowances – and a continuation of the existing RIIO-ED1 mechanism is an appropriate means of doing this. This is largely because the uncertainty associated with Moorside is best managed through a re-opener UM as the need for the work, the type of work and cost is uncertain.

4.10 We think the trigger event needs to be updated from RIIO-ED1 to recognise that any new nuclear development could be connected at either transmission or distribution level (compared to RIIO-ED1 where the expectation was a transmission connected solution). Our proposal that the re-opener can be triggered by a LOTI or distribution connection application reflects this change. We also therefore consider that the licensee is best placed to be the party who triggers any re-opener as they will have sight of any connection application.

4.11 Finally, we have not seen any evidence to suggest that the materiality threshold for Moorside should be different to what we have proposed as a common parameter for other re-openers.

Consultation questions

ENWL-Q6. What are your views on our proposals for ENWL's bespoke UM?

5. Innovation

5.1 Our SSMD and the Core Methodology Document set out the criteria that we have used to assess NIA funding requests. The Core Methodology Document also details our proposals for the RIIO-ED2 NIA Framework and extension of the existing Strategic Innovation Fund to the DNOs.

Network Innovation Allowance

5.2 ENWL proposed it should be awarded £25m of NIA over 5 years, equivalent to £5m per year, which it stated was approximately £2m more annually than it had access to in RIIO-ED1. It justified this increase with reference to the need to accelerate the transition to a net zero energy system.

5.3 ENWL also committed to making a 15% compulsory contribution towards NIA projects in RIIO-ED2, instead of the minimum 10% required by the NIA licence and governance in RIIO-ED1.

5.4 We set out below our Draft Determinations on ENWL's RIIO-ED2 NIA funding.

Consultation position

Table 30: Summary of proposed ENWL BPI performance

Name of the measure	DNO proposal	Consultation position
Level of NIA funding	£25m over 5 years	£6m initial allowance, to be reviewed in 2025.

Rationale for consultation position

5.5 We propose that ENWL should be awarded £6m (see Core Methodology Document, Paragraph 3.131 on our proposal to review in 2025 whether more NIA funding is required). This is an initial 3-year allocation of NIA allowances, calibrated based on assessment against the NIA criteria and the subsequent benchmarking of allowances (see Core Methodology Document paragraph 3.133 on our approach to benchmarking NIA).

5.6 In ENWL's case, our methodology for benchmarking ED2 NIA against RIIO-ED1 leads to a reduction in annual NIA levels relative to RIIO-ED1 because ENWL's cap on NIA in RIIO-ED1 was 0.7% of base revenue. This was based on Ofgem's

assessment of ENWL's RIIO-ED1 business plan innovation strategy as having exceeded expectations. ENWL's RIIO-ED2 business plan submission on innovation was as strong as the other high-quality submissions against RIIO-ED2 SSMD criteria, so we propose that the best performing companies' benchmark should be the same, 0.5% of average RIIO-ED1 base revenue to-date. This maintains fairness between consumers in each licensee's area.

5.7 We consider that ENWL satisfactorily met our five NIA criteria.

- ENWL proposed areas in which to target its innovation spending which we agreed carry risk and are suitable for ringfenced innovation stimulus funds. ENWL's CEG also said that these target areas were arrived at with the support of robust and extensive stakeholder engagement, carried out using a range of methodologies and fora.
- ENWL has shown that it is planning to undertake innovative initiatives using BAU funds.
- It also showed that its proposals incorporate best practice.
- ENWL provided evidence that it has in place a process to monitor innovation spend.
- It also showed that it has in place procedures for innovation to be rolled out into BAU, including a process to monitor benefits from innovation projects. ENWL was able to supply us with supporting evidence, including detailed models which it claimed support its estimates of innovation benefits. This demonstrates that ENWL is tracking these. ENWL's CEG also noted that ENWL had "clearly developed pathways for development and adoption of innovation ideas coming from different avenues into BAU, as well as evidence of continuous development of learning through a series of related successive projects to deliver benefits to customers over a prolonged period of time".

5.8 We do not agree that the need to reach net zero targets requires awarding ENWL with additional NIA relative to RIIO-ED1 levels. In our view, the additional network innovation required to accelerate decarbonisation can be undertaken using SIF funds and DNO BAU funding.

Consultation question

ENWL-Q7. What are your views on the level of proposed NIA funding for ENWL?

Appendix 1 - Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest ie a consultation.

4. With whom we will be sharing your personal data

No personal data will be shared with any organisations outside Ofgem.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for twelve months after the project is closed.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure Government IT system.

10. More information

For more information on how Ofgem processes your data, click on the link to our "Ofgem privacy promise".

Appendix 2 - Key Engineering Recommendations

A1.1 This appendix provides additional details regarding our assessment of specific EJPs.

A1.2 Due to the high number of EJPs presented within the submission, we have not provided our view on each of ENWL's EJPs within this document. Instead, this appendix focuses on EJPs of significant value where our review determined the EJP to be partially justified or unjustified.

Table 31: Load Related Expenditure (LRE) - Key engineering recommendations

Paper	Comments	Identified Risks
LRE EJP 15 motorway service area EV enablement - North	**Unjustified.** The options analysis is detailed with sufficient evidence to provide comfort that despite the detailed assessments due during RIIO-ED2, there is confidence in the development to approve. However, we have deemed these works unjustified as there are multiple funding streams likely to be available for these works which causes a risk of double funding.	Office for Zero Emission Vehicles (OZEV) have developed an intervention scheme in electrifying the motorway network - the Rapid Charging Fund (RCF), therefore there is a risk that these EJPs may be funded through RIIO-ED2 as well as the RCF.
LRE EJP 16 motorway service area EV enablement - South and Central	**Unjustified.** The options analysis is detailed with sufficient evidence to provide comfort that despite the detailed assessments due during RIIO-ED2, there is confidence in the development to approve. However, we have deemed these works unjustified as there are multiple funding streams likely to be available for these works which causes a risk of double funding.	
LRE EJP 8 service unlooping programme	**Partially justified.** We believe that the EJP provides sufficient justification for the needs case and optioneering, with initial concerns resolved through supplementary questions (SQs). However, there remains significant uncertainty in the deliverability of the proposed scheme in relation to customer behaviour, as acknowledged by ENWL.	Due to uncertainty in relation to consumer behaviour, there is a volume and deliverability risk associated with this proposal.
LRE EJP 9 Monitoring Programme	**Partially Justified.** This is a continuation of the ongoing RIIO-ED1 programme. The EJP presents several credible drivers for the installation of the LV monitoring devices, as well as associated benefits. The lower certainty scenarios within the EJP are indicative of the uncertainties in	Due to the uncertainty in relation to LCT uptake, there is a volume and deliverability risk associated with this proposal.

	LCT uptakes and especially around the electrification of heating.	
LRE EJP 4 Northern Gateway / South Heywood	**Partially justified.** The proposal is for a new primary substation to feed a planned development on the Greater Manchester Strategic Plan for homes, jobs and the environment. Existing infrastructure cannot meet the development needs and to comply with Security of Supply a new substation and underground cable network is required.	There is a risk that the Greater Manchester Strategic Plan will change, leading to uncertainties in the volumes and deliverability.

Table 32 Non-Load Related Expenditure (NLRE): Non-NARM - Key Engineering Recommendations

Paper	Comments	Identified Risks
NARM EJP 1 Transformers intervention programme	**Partially justified.** Initial concerns regarding the delivery of the proposed volumes were largely addressed through SQ responses. However, insufficient justification has been provided for the efficiency of the proposed volumes to fully justify.	Due to the lack of justification for the specific volumes, there is a risk that the out-turn volumes will differ from the volumes that ENWL have proposed in their submission.
NARM EJP 7 Oil assisted cables (EHV and 132kV)	**Partially justified.** The EJP provides sufficient justification for the needs case, as well as the proposed optioneering. However, we do not believe that volumes have been sufficiently justified at this stage.	Due to the lack of justification for the specific volumes, there is a risk that the out-turn volumes will differ from the volumes that ENWL have proposed in their submission.
NARM EJP 5 Overhead lines (towers)	**Partially justified.** Replacement programme to refurbish or replace ageing EHV and 132kV overhead towers. Justification is based on NARM targets and uses the Common Network Asset Indices Methodology (CNAIM) model to determine Health Indices. In summary, both the needs case and the proposed solution based on options presented are justified. However, we do not believe that volumes have been sufficiently justified at this stage.	Due to the lack of justification for the specific volumes, there is a risk that the out-turn volumes will differ from the volumes that ENWL have proposed in their submission.
NARM EJP 4 Overhead lines (woodpoles)	**Partially justified.** The selection for intervention appears appropriate at a high level, but it is unclear why there is a disproportionally high volume of HV HI5 poles being replaced against other voltage levels. Broadly, the control measure appears appropriate in future, but the limited detail on optioneering suggests that this has	Due to the lack of justification for the specific volumes, there is a risk that the out-turn volumes will differ from the volumes that ENWL have proposed in their submission.

	been the only option considered when there are multiple options present. There is insufficient data within this proposal to suggest that the volumes are fully justified. The deliverability section is light in detail, relying it appears on the RIIO-ED1 run rate being consistent.	
NARM EJP 2A HV switchgear	**Partially justified.** Replacement programme to refurbish or replace ageing HV Switchgear under NARM. Justification is based on NARM targets and uses CNAIM model to determine Health Indices. There is insufficient data within this proposal to suggest that the volumes are fully justified.	Due to the lack of justification for the specific volumes, there is a risk that the out-turn volumes will differ from the volumes that ENWL have proposed in their submission.
PRO EJP 2 Harker	**Partially justified.** Both the need and solution are justified. However, the nature of the interactions with NGET and SP Transmission mean that it would not be efficient to provide a full up-front allowance for the EJP.	There is a deliverability risk in relation to this EJP due to the uncertainty associated with the whole system solution.

Table 33 Non-Load Related Expenditure (NLRE): NARM - Key Engineering Recommendations

Paper	Comments	Identified Risks
NNARM EJP 6 Protection refurbishment	**Partially justified.** Replacement programme to replace protection equipment due to deteriorating condition and performance. Justification is based on asset age and deterioration as well as failures resulting in CIs and CML. It is noted that run rates are higher in RIIO-ED2 than in RIIO-ED1. K-series relays are indicated as able to be delivered at higher run rates that RIIO-ED1 protection equipment due to the simplicity in replacing these assets; however, PBO relays make up a significant part of the population of relays to be replaced and no similar indication is given to the ability to deliver against these targets.	Due to the lack of justification for the increased volumes, in particular the PBO relays, there is a deliverability risk associated with the EJP.
NNARM EJP 4 Cables (HV)	**Partially justified.** Replacement programme to replace ageing and unsafe plain lead cables. Justification is based on cable age and deterioration as well as unsafe laying protection conditions of cables when excavating.	Due to the lack of justification for the specific volumes, there is a risk that the out-turn volumes will differ from the volumes that ENWL have proposed in their submission.

	In summary, both the needs case and the proposed solution based on options presented are justified, however uncertainty remains regarding the proposed volumes.	
ENV EJP 1 PCB removal programme	**Partially justified.** We generally agree with the original assessment as there is a statistically relevant volume derived from an agreed model. However, the additional testing may highlight deviations from the modelled volumes. Information is relatively light and additional detail could have been provided to give further assurance for the proposed solution.	Due to the lack of justification for the specific volumes, and the uncertainty associated with the outputs from the additional testing, there is a risk that the out-turn volumes will differ from the volumes that ENWL have proposed in their submission.
QOS EJP1 Vulnerable customer improvement programme	**Partially justified.** The EJP demonstrates the benefits to consumers from the proposed solution, including reduced duration of an unplanned interruption, improved quality of supply to vulnerable customers, and reduced likelihood of a loss of supply.	Due to the lack of justification for the specific volumes, there is a risk that the out-turn volumes will differ from the volumes that ENWL have proposed in their submission.
TREE EJP 1 Tree management	**Partially Justified.** The needs case for these works is clear. However, we do not believe that sufficient justification has been provided within the EJP for the proposed volumes.	Due to the lack of justification for the specific volumes, there is a risk that the out-turn volumes will differ from the volumes that ENWL have proposed in their submission.

Appendix 3 - Consultation questions

1. Introduction

2. Setting Outputs

ENWL-Q1. What are your views on the company specific parameters we have proposed for the common outputs that we have set out above?

ENWL-Q2. What are your views on our proposals for ENWL's bespoke ODIs?

ENWL-Q3. What are your views on our proposals for ENWL's bespoke price control deliverables?

ENWL-Q4. What are your views on our proposals for ENWL's CVPs?

3. Setting baseline allowance

ENWL-Q5. What are your views on our proposals for the outcome of Stages 3 and 4 of the BPI for ENWL?

4. Adjusting baseline allowances for uncertainty

ENWL-Q6. What are your views on our proposals for ENWL's bespoke UM?

5. Innovation

ENWL-Q7. What are your views on the level of proposed NIA funding for ENWL?