

## BEAMA Response to Ofgem RIIO-ED2 Draft Determinations Consultation

### About BEAMA

BEAMA represents manufacturers of electrical infrastructure products and systems from transmission through distribution to the environmental systems and services in the built environment, with over 200 members ranging from SMEs to large multinationals.

We work with our members to ensure their interests are well represented in the relevant political, regulatory and standardisation issues at UK, EU & international levels.

BEAMA member products provide a sustainable, safe, efficient and secure UK electrical system. We support our members in ensuring that the UK has a strong electrotechnical industry which is recognised as an essential part of modern society and brings invaluable economic, social and environmental benefits.

### 6. Adjusting allowances for uncertainty

Q1. Do you agree with our proposal to introduce a new funding mechanism for PoLR [Provider of Last Resort] activities?

No comment.

Q2. What are your views on our two proposed options, and do you agree with our preferred option of a DRS?

Prefer DRS as more option to incentivise and punish DNOs for good or poor service.

Q3. Do you agree with our proposal to introduce a re-opener to deal with recommendations from the Storm Arwen review, our proposed trigger and re-opener window?

In general, yes, BEAMA agrees with this approach. We note, however, that disruption to the supply chain is not recognised as being a possible threat to network resilience. Ofgem should consider more widely on the risks to address rather than simply address the last incident.

Q4. Do you agree with our proposal to maintain the RIIO-ED1 High Value Project mechanism and focus it on non-load related HVPs in RIIO-ED2?

Yes.

Q5. Do you agree with our proposal to remove the RIIO-ED1 smart meter volume driver?

Yes.

Q6. Do you agree with our proposed approach for a common materiality threshold being applied to RIIO-ED2?

No comment.

### 9. Approach to the Totex and Business Plan Incentive Mechanisms

Q7. Do you agree with our view that all the DNOs have passed Stage 1 of the BPI?

This is for Ofgem to assess.

Q8. Do you agree with our overall approach regarding treatment of CVP proposals?

No comment.

#### 10. Increasing competition

Q9. Do you agree with our proposed position on early and late competition?

BEAMA acknowledges the practicalities that lie behind the decision but encourage Ofgem and the ESO to bring forward proposals for the ED sector as soon as possible.

#### 11. RIIO-ED2 in the round, post appeals review and pre-action correspondence

Q10. Do you have any views on the proposed scope of the FDQ process and pre-action correspondence, including on the proposed timing for sending such to Ofgem?

No comment.

#### 12. Access and Forward-looking Charges Significant Code Review

Q11. Do you agree with our proposal to not introduce a specific uncertainty mechanism to manage the impact of the Access SCR (and address it through the LRE mechanisms instead)? Please explain why.

No comment.

#### Core Methodology

##### 2. Embedding the consumer voice in RIIO-ED2

Core-Q1. Do you agree with our proposals for the enduring role of the CEG?

No comment.

Core-Q2. Do you see value in the CEGs working together to deliver more coordinated and comparative reporting on some of the DNOs' Business Plan commitments?

No comment.

##### 3. Networks for Net Zero

Core-Q3. Do you agree with our proposal to adjust allowances to £2.68bn to account for the concerns highlighted by our assessment?

BEAMA Report<sup>1</sup> sets out volumes required to meet CB6. These exceed the ED2 allowances which seem insufficient according to our modelling. Reducing the baseline allowances and moving these to uncertainty mechanisms may be seen as reducing risks for consumers but the underlying risk remains and is being transferred from consumers to the supply chain which must decide whether to invest in meeting uncertain future demand. Ofgem must have a concern about whether the supply chain will be able to respond to the future demand and with the speed required. Specifically, Ofgem must address whether the complete process from DNO submission to Ofgem, Ofgem approval, orders to supply chain, deliveries to DNO's based on normal or extended lead times will meet increases in demand for more LCT within the necessary timeframes. It should be noted that the

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<sup>1</sup> [Growing the supply chain for a Net Zero Energy System \(beama.org.uk\)](https://beama.org.uk/growing-the-supply-chain-for-a-net-zero-energy-system)

modelling used by the ESC in the BEAMA report was also based on the CCC Balanced Pathways Scenario.

Core-Q4. Do you agree with our proposed secondary reinforcement volume driver and LV services volume driver and the associated controls?

The metrics seem sensible but will always lag. The key question is when the metric triggers investment. The avoidance of risk by Ofgem tends to push this towards demonstrated need, not forecast need.

Further, our concern is that individual metrics are taken in isolation and do not give a clear understanding of the total need for investment across a DNO network. As you sum the investment across the network the issues of deliverability become more critical and may be missed if there is no overview. Ofgem appears to believe that the supply chain and the skilled resource for installations is completely elastic but this is not the case, especially when other countries are likely to be purchasing similar equipment from international markets and will respond best to countries providing long term signals. Note, we cannot find the UKPN proposal and, hence, cannot comment on it.

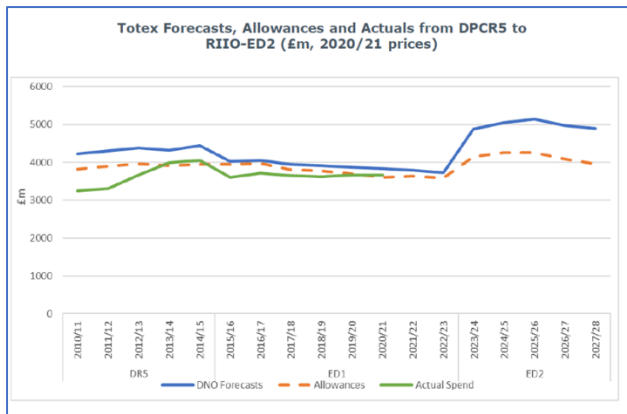
Ofgem is placing a lot of trust in the ability of flexibility to offset the need for reinforcement. BEAMA supports the use of flexibility and is working with industry to develop supporting standards, products and platforms. However, BEAMA notes two concerns with this approach; there are many enablers that need to be put in place before flexibility can be fully utilised, including network charging and commercial models and secondly that flexibility cannot be used as a stop gap to defer reinforcement for a few years. There is little incentive for companies to establish a local flexibility market and recruit customers for a short-term opportunity. There needs to be an on-going (more than a few years) financial basis for flexibility that would justify companies offering the service and customers investing in taking up the option.

Core-Q5. Do you agree with our proposed LRE re-opener?

No comment.

Core-Q6. Do you agree with our proposed approach to the Net Zero re-opener?

BEAMA members consider the use of a re-opener a necessary mechanism but would strongly prefer that BEIS, Ofgem and the DNOs form a clear view of how they intend to meet CB6 so that all parties could make clear investment decisions to meet the coming demands. BEAMA has argued that, even if Ofgem continue to hold back investment in ED2, there must be a significant increase in investment in ED3 and that Ofgem and the DNOs should be working with the supply chain to prepare for this. The figure below shows a declining spend through ED2 followed by a significant ramp up in demand, This represents a poor management of the supply chain.



Core-Q7. Do you agree with our proposed approach to the value of the SIF?

No comment.

Core-Q8. Do you agree with our proposed approach to weighting SSMD criteria and benchmarking RIIO-ED2 NIA requests against RIIO-ED1?

Core-Q9. Do you agree with our proposed approach to setting NIA allowances?

Aside from the general approach set out, BEAMA members recognise the value of the research funded by the SSMD and would recommend rewarding the DNOs for actively sharing the results of the projects where they overlap (such as understanding of network headroom) so as to build up the national 'body of knowledge'.

Core-Q10. Do you agree with our proposal to allow DNOs to carry over any unspent NIA funds from the final year of RIIO-ED1 into the first year of RIIO-ED2?

No comment.

Core-Q11. Do you agree with our proposed approach for the Annual Environmental Report ODI-R?

We support this but call on Ofgem and the DNOs to agree on a common format for vendors to report their products' embodied carbon so as to minimise costs, improve product comparison and ensure fairness in any procurement process. BEAMA notes that DNOs are also calling for the supply chain to meet Sustainable Supplier Codes or codes of practices. As with Embodied carbon a common approach to a supply chain code would aid in the reduction of costs.

Core-Q12. What are your views on the proposed mid-period review on DNO environmental performance and their progress to targets?

We support this but would expect the reviews to be public and for Ofgem to seek the views of stakeholders when they review the reports.

Core-Q13. Do you agree with our consultation position for the DNOs' EAP proposals in RIIO-ED2 as set out in this document? (Further detail included in Appendix 1 of this document)

We note the proposals on PCB reopener but should point out that some clarity is required on expected volumes as these could be high and the supply chain will be required to respond by 2025.

Core-Q14. Do you agree with our proposal to withdraw the Environmental Scorecard ODI-F for RIIO-ED2?

No comment.

Core-Q15. Do you agree with our proposed approach to design of the Environmental Re-opener?

No comment.

Core-Q16. Do you agree with our proposal for addressing PCB contamination in PMTs through a volume driver in RIIO-ED2?

BEAMA members point out that some clarity is required on expected volumes as these could be high and the supply chain will be required to respond by 2025.

4. Supporting a smarter, more flexible, digitally enabled energy system

Core-Q17. Do you agree with our proposal for implementing a Digitalisation Licence Obligation?

Yes, in principle. BEAMA would stress, as they are the major source of digitalisation innovation, the need to include the supply chain in the list of stakeholders to be consulted.

Core-Q18. Do you agree with our proposal to have staggered publications of Digitalisation Strategies between RIIO-ED2 and RIIO-2 licensees?

The argument for this is accepted but should they over time be brought into line? Ofgem acknowledges that there are benefits to having the strategies published together and some month forward and back for the GT and ED respectively would allow this with minimal negative impact.

Core-Q19. Do you agree with our proposed Digitalisation re-opener?

Yes.

Core-Q20. Do you agree with the proposed enhanced reporting framework associated with IT/OT Data and Digitalisation spend and DSAP investment proposals?

Yes.

Core-Q21. Do you agree with our proposal to adopt TBM as part of the RIGs/RRP?

This is a sound tool but it would be good to see it mapped to the IEC SGAM model, which is the foundation of smart grids standardisation and product design.

Core-Q22. Do you agree with our intention to modernise the regulatory reporting process?

BEAMA agrees with the objective? BEAMA notes that in ED1 there was no consistency in reporting through the regulatory period and the data demonstrating how DNO's were performing against their allowances and outputs changed, it became less transparent and more inconsistent over the review period. BEAMA proposes that there should be some form of tracking of spend linked to network reinforcement and connection of LCT. How will tracking of spend and delivery against the CCC 6th Budget measured, how do we know if performance is above or below plan?

Core-Q23. Do you agree with the proposed timeline for implementation of this modernisation?

No comment.

Core-Q24. Do you agree with our proposed design of the DSO incentive?

No comment.

Core-Q25. What are your views on the outturn performance metrics and RRE we are proposing to include in the DSO incentive? If you do not support their inclusion, please outline which alternative outturn performance metric(s) or RRE you think should be included in the framework instead.

In general, and subject to further clarification from Ofgem, BEAMA members support the metrics. We have concerns about the ability of Ofgem to actively check the DNO figures and, for network visibility, it will require clear and non-ambiguous definitions of 'visibility'.

Core-Q26. Do you agree with our proposal for the DSO re-opener?

BEAMA has no view on this and note that it has not been fully decided by Ofgem yet.

Core-Q27. Do you agree with our proposal to introduce a new whole system strategic planning Licence Obligation?

We agree on the need for this and would welcome a wider review of the practical application of whole system thinking and how all stakeholders can be actively and appropriately engaged in this.

Core-Q28. What are your views on the digital tools that could be used to support this?

There must be shared whole system models that different participants can access to understand the impact changes can have on them and other stakeholders. We will need a common basis for reaching whole system decisions.

5. Meet the needs of consumers and network users

Core-Q29. Do you agree with our proposed target and thresholds for the deadband, maximum reward and penalty?

No comment.

Core-Q30. Do you agree with our proposed approach to working with DNOs to implement Strom Arwen actions related to customer satisfaction?

No comment.

Core-Q31. Do you agree with our proposed target and maximum penalty score?

No comments.

Core-Q32. Do you agree with our proposal to remove the activities proposed from DNOs' baseline allowances?

No comment.

Core-Q33. Do you agree with our proposals for the Consumer Vulnerability ODI-F?

No comment.

Core-Q34. Do you agree with the performance metrics we are proposing to include in the incentive and the approach to setting targets and associated deadbands, performance caps and penalty collars? If not, please explain why and give details of your preferred alternative.

No comment.

Core-Q35. Do you agree with our proposal for the Annual Vulnerability Report ODI-R?

No comment

Core-Q36. Do you agree with the proposed content of the annual report? If not, please explain why and give details of your preferred alternative.

No comment.

Core-Q37. Do you agree with setting the maximum reward and penalty limit at +/- 50% of the target?

No comment on penalty limits but we consider that there should be some consideration of the quality of the connection process. DNOs should be expected to adopt digital processes to facilitate the connection process, such as using manufacturer supplied open data for the assets being connected. This will speed the process so that the DNO will potentially be rewarded but it will also improve the quality of data held by the DNO (and possibly made available to other parties at a later date).

Core-Q38. Do you agree with setting a deadband of +/-20% of the target?

No comment.

Core-Q39. Do you agree with our proposed design of the Major Connections incentive?

BEAMA supports this but it raises a question of what customer satisfaction should look like? Is this defined by the DNO?

Core-Q40. Do you agree with our proposed approach to target setting and applying the penalty?

No comment.

Core-Q41. Do you agree with our proposal to require reputational reporting of timeliness metrics for all RMS?

No comment.

Core-Q42. Do you agree with our proposal to launch a wider review of the Connections GSoP (that is, beyond updating the payment amounts for inflation and incorporating standards for DG customers)?

Yes but this will need to seek and include the views of customers.

Core-Q43. Do you have any views on what else could be done to help speed up connections to the distribution network and or develop a standard for the overall (ie, end to end) time to connect?

Use of digital product data to gather and store asset data.

6. Maintain a safe, resilient and reliable network

Core-Q44. Do you have evidence that customers would be willing to face an increase in their bills to also receive an increase in their reliability, including that they understand the actual cost and how this translates into average power cuts?

No.

Core-Q45. Do you have evidence of the cost of reliability improvements and the impact that lowering the revenue cap will have on them being achieved?

No.

Core-Q46. What are your views on moving to an asymmetric cap and collar?

No comment.

Core-Q47. Are there alternatives to reducing the revenue cap that you think would better balance increases in reliability and the cost to consumers than reducing the revenue cap?

Is it not possible to find a mechanism that provides a market value for reliability improvements such that the DNOS will find their balance point where further improvement does not provide sufficient value to justify it?

Core-Q48. Do you agree with how we have characterised the operation of the current CML methodology and our reasons for changing to setting targets in line with our CI methodology?

No comment.

Core-Q49. Do you agree with our rationale for retaining our RII-ED1 position on QoS funding? Can you provide any evidence that an alternative approach would not result in double rewarding alongside the IIS?

No comment.

Core-Q50. Do you have any examples of situations where fault-related interruptions could be genuinely “exceptional” and how these could be separately identified from those that occur during planned works?

Exceptional fault related interruptions are usually more related to Force Majeure events but even then you could argue that with predicted environmental conditions resulting from global warming, network design should now be such that resilience is being baked in, however it will take a considerable period of time and investment before the whole network is upgraded.

We believe that it should be very easy to separately identify planned work interruptions against fault interruptions, exceptional or not. Whether interruptions are planned or unplanned the issue will be on communication with customers on restoration times and the management of vulnerable customers.

Core-Q51. Do you agree with our assessment of the OEE thresholds and the financial impact on each DNO?

No comment.

Core-Q52. Do you agree with our proposal not to have an end-of-period adjustment mechanism? If not, what criteria should we use to determine whether a DNO has used its allowance for WSC, without it creating uncertainty?

BEAMA members note the significant increase in the volume of SIs through ED1 and note that the rapid deployment of network monitoring equipment should mean that the DNOS are much better equipped to monitor the number and causes of SIs and that Ofgem should aim to introduce an output based on SIs as soon as possible. It is not obvious that customers recognise the distinction between CI, CLM and SIs and in terms of disruption to customers, SIs can be just as disruptive. This should be a key consideration of the review of VoLL.

Core-Q53. Are there any other areas or metrics that we should include in our governance framework?

No comment.



Core-Q54. Do you agree with our proposed approach on NARM?

BEAMA members support the use of the NARM mechanism to provide a rational and cost justified approach to asset maintenance. However, BEAMA members have a concern that, as they understand the NARM analysis, the reliability of the LV network will tend to be underestimated as each line only supplies a small number of customers and cannot easily reach a high risk level. There is a danger that, as the LV networks age, there could be a very large number of high risk LV supplies that are hidden by the NARM methodology. Ofgem should consider requiring the DNOs to aggregate risks associated with LV lines, where there is evidence that a wide area of the LV network in an area that was installed at a similar time is suffering from a common failure mode.

Core-Q55. Do you agree with our proposal to pass through SW 1-in-20 costs as a variant totex allowance rather than a fixed allowance in RIIO-ED2?

No comment.

Core-Q56. Do you agree with our proposal to not set a cap for the amount that DNOs can adjust their allowance by, in the event they experience a SW 1-in-20 storm?

No comment.

Core-Q57. Do you agree with our proposed approach to the physical site security reopener?

No comment.

Core-Q58. Do you agree with our proposed approach to the ESR re-opener?

Yes.

Core-Q59. Do you agree with our approach to fund DNO telecoms resilience activities through baseline allowances?

BEAMA notes ongoing work in government to decide on access to communications bandwidth and allowances should be linked to the decisions arising from this work.

Core-Q60. Do you agree with our proposal to assess the cyber resilience IT and OT plans against our BPG and RIIO-2 re-opener guidance?

BEAMA cannot comment as the detailed discussion is confidential.

Core-Q61. Do you agree with our proposed re-opener windows for cyber resilience OT and IT?

Yes.

Core-Q62. Do you agree with our proposal to apply a UIOLI allowance to cyber resilience OT to manage the uncertainty around costs?

In principle, but note that cyber resilience is an essential requirement of the networks and the failure of a DNO to manage its projects and use up the UIOLO allowance, might leave the DNO and their customers exposed to unacceptable risk. Could there not be a way to extend the funding but with the DNO incurring a penalty?

7. Delivering at lowest cost to energy consumers

Core-Q63. Do you agree with our proposed approach to pre-modelling normalisations and adjustments?

BEAMA members are uneasy with a process where necessary network investment might not be funded simply because the justification has been done poorly and customers suffer the consequences.

BEAMA members are also concerned that Ofgem is using a scenario with mostly hydrogen home heating. If government meets its intended targets for Heat Pump roll out, this would leave the networks poorly prepared for the necessary reinforcement and increase the use of re-openers and, as has already been stated, push risk away from the customers (in the short term) and towards the supply chain.

Core-Q64. Do you agree with our approach to totex benchmarking?

We note that Ofgem has chosen always to adopt the benchmarking tool that gives the lowest cost. This may be a desirable outcome for customers now but there is no clear engineering justification of this choice and real costs may well be higher, as may have been indicated by other tools.

BEAMA members also have concerns that the cost impact of Covid, the war in Ukraine and the likely ramping up in international asset volumes will make historical cost data highly unreliable.

Core-Q65. Do you agree with our proposed assessment approach for primary reinforcement?

Modelling done by the ESC for BEAMA<sup>2</sup> suggests higher volumes for primary reinforcement than identified by Ofgem. BEAMA strongly recommends that Ofgem works with all stakeholders to develop a comprehensive and widely agreed set of forecast volumes so that the deliverability of this investment can be fully understood.

Core-Q66. Do you agree with the application of a volume adjustment based on the industry average ratio of forecast capacity added relative to the forecast demand growth above firm capacity? If not, what do you consider to be a better approach to assessing the efficiency of a DNO's proposed workload for primary network reinforcement?

See above.

Core-Q67. Do you agree with our proposed assessment approach for secondary reinforcement?

See above.

Core-Q68. Do you agree with the level of disaggregation and period of data used to calculate the unit costs listed in the table above for transformer reinforcement, circuit reinforcement and proactive service reinforcement?

See above.

Core-Q69. Do you agree with our proposed assessment approach for fault level reinforcement?

See above.

Core-Q70. Do you agree with our proposed adjustments to account for outlier volumes data for ENWL and SSES? Core-Q71. Do you agree with our proposed assessment approach for connections?

No comment.

Core-Q72. Do you agree with our proposed assessment approach for NTTC expenditure?

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<sup>22</sup> [Growing the supply chain for a Net Zero Energy System \(beama.org.uk\)](https://beama.org.uk)

No comment.

Core-Q73. Do you agree with our proposed assessment approach on asset replacement?

BEAMA members note that the methods being used can hide potential large increases in necessary replacement volumes where a large part of the system is approaching its end of life. Care must be taken with this because, aside from the costs associated with this, there are question of deliverability, is there sufficient supply chain capacity and skill resource to meet the demand. BEAMA recommends that Ofgem works with the DNOs and the ENA to collect and share equipment end of life data. BEAMA also notes that (almost) uniformly, Ofgem has reduced the DNO forecasts, which suggest that they have a poor understanding of their system requirements or that Ofgem is in danger of underfunding a critical network activity.

Core-Q74. Do you agree with our assessment approach to refurbishment?

BEAMA supports the use of refurbishment in line with the principles of the circular economy. BEAMA refers to the answer to Core-73.

Core-Q75. Do you agree with our proposed assessment approach for asset replacement driven civil works?

No comment.

Core-Q76. Do you agree with our proposed assessment approach for Condition Based Civil Works?

No comment.

Core-Q77. Do you agree with our proposed assessment approach for diversions?

No comment.

Core-Q78. Do you agree with our proposed approach for Rail Diversions?

No comment.

Core-Q79. Do you agree with our proposed approach to assessing Non-Operational, Operational and Business Support IT&T costs?

No comment.

Core-Q80. Do you agree with our proposed assessment approach for Legal and Safety?

No comment.

Core-Q81. Do you agree with our approach to assessing Overhead Line Clearance costs?

No comment.

Core-Q82. Do you agree with our proposed approach to assessing ESR costs?

No comment.

Core-Q83. Do you agree with our proposed approach to assessing QoS and NoSR costs?

No comment.

Core-Q84. Do you agree with our proposed assessment approach for Physical Security?

No comment.

Core-Q85. Do you agree with our proposed assessment approach for Flood Mitigation?

No comment.

Core-Q86. Do you agree with the proposed approach to assessing Rising and Lateral Mains costs?

No comment.

Core-Q87. Do you agree with our approach to assessing WSCs?

No comment.

Core-Q88. Do you agree with our proposed assessment approach for Losses?

No comment.

Core-Q89. Do you agree with our proposed assessment approach for environmental reporting?

No comment.

Core-Q90. Do you agree with our proposed assessment approach for PCBs?

BEAMA welcomes the proposed work to disaggregate the PCB replacement activity. BEAMA members will look for as much fore warning as possible to meet the expected increase in demand.

Core-Q91. Do you agree with our proposed assessment approach for Property?

No comment.

Core-Q92. Do you agree with our proposed assessment approach for STEPM?

No comment.

Core-Q93. Do you agree with our proposed assessment approach for Vehicles and Transport?

No comment.

Core-Q94. Do you agree with our proposed assessment approach for HVPs?

No comment.

Core-Q95. Do you see any merit in setting a HVP threshold for RIIO-ED2, and if so should it be based on the RIIO-ED1 threshold?

No comment.

Core-Q96. Do you agree with our proposed assessment approach for faults and ONIs?

BEAMA members note the increase in SIs and regrets significant reductions in allowances for addressing faults and ONIs.

Core-Q97. Do you agree with our proposed assessment approach for Tree Cutting?

No comment.

Core-Q98. Do you agree with our proposed assessment approach for Severe Weather 1-in-20 Events?

No comment.

Core-Q99. Do you agree with our proposed approach to assessing Inspections and Repair & Maintenance costs?

No comment.

Core-Q100. Do you agree with our proposed assessment approach for NOCs other?

No comment.

Core-Q101. Do you agree with our proposed assessment approach for Smart Metering Rollout?

No comment.

Core-Q102. Do you agree with our approach to assessing CAI costs?

No comment.

Core-Q103. Do you agree with the proposed assessment approach for Business Support costs?

No comment.

Core-Q104. Do you agree with our approach to assessing streetworks costs?

No comment.

Core-Q105. Do you agree with our proposal to carry out a demand driven postmodelling adjustment?

No comment.

Core-Q106. Do you agree with our proposal to not carry out any Quality of Service based adjustments?

No comment.

Core-Q107. Do you agree with our approach to combining our totex and disaggregated benchmarking models?

No comment.

Core-Q108. Do you agree with our approach to setting and applying the efficiency challenge using a glide path between the 75th and 85th percentile over a 3-year period?

No comment.

Core-Q109. Do you agree with our proposed RPEs allowances? Please specifically consider our proposed notional cost structure, assessment of materiality, and choice of indices in your answer.

No comment.

Core-Q110. Do you agree with our proposed approach to setting the ongoing efficiency challenge and the level of challenge applied?

BEAMA members note that the level of the on-going efficiency challenge is not even supported by Ofgem's analysis but is a stretch target beyond their analysis. Efficiency improvements are often passed on by the DNOs to their supply chains as an expectation to reduce costs at a similar level.

With the current situation of the supply chain, this will put further stress on vendors and reduce the amount that they can invest in meeting the net zero challenge.

Core-Q111. Do you agree with our proposed disaggregation methodology?

**Finance Annex – BEAMA has not addressed any question from here on.**

Consultation question on allowed return on debt

FQ1. Do you agree with our approach to estimating efficient debt costs and setting allowances for debt costs?

Step 1 - Consultation question on risk-free rate and equity indexation

FQ2. Do you have any views on the model to implement equity indexation that is published alongside this document, (the 'WACC Allowance Model - RIIO-ED2 30th April 2022 update Alternative Wedge')?

FQ3. In light of the upcoming change to the definition of RPI in 2030, should the RPICPIH inflation wedge be based on: a) a single year (as shown in the WACC allowance model when: cell D2 is “year 5 forecast” and cell B5 is “01/04/2022”); or b) should it be based on 20 years of inflation forecasts (as shown in the WACC allowance model when: cell D2 is “20 year geometric” and cell B5 is “01/04/2031”)?

Step 1 - Consultation questions on TMR

FQ4. Is there evidence that suggests we should change our approach to TMR for RIIOED2?

FQ5. Can stakeholders confirm their view on the trade-off between: the objectivity of using outturn averages (even though the results may be materially higher or lower in future price controls than current TMR expectations); versus the benefits of putting more weight on current expectations (noting the evidence from cross-checks and the associated risk of subjectivity)?

FQ6. Do stakeholders agree with our proposal to apply the same TMR for RIIO-ED2 (a mid-point of 6.5% CPIH) as we did for RIIO-GD&T2?

Step 1 - Consultation questions on beta

FQ7. Do you believe that DNOs have a higher or lower level of systematic risk than the GD&T companies during their respective RIIO-2 periods?

FQ8. What are your views on the relative risk comparison shown in Table 10?

FQ9. Do you have any evidence that suggests the beta for GD&T companies has materially changed since RIIO-GD&T2 Final Determinations in December 2020?

Step 2 - implied cost of equity consultation questions

FQ10. Do you agree with our interpretation of the cross-check evidence?

FQ11. Do you agree with our updated MAR and OFTO cross-check techniques, in terms of drawing better inferences for RIIO-ED2?

FQ12. Do you agree with the cross-checks we have used and are there other crosschecks we should consider?

FQ13. Do you consider we should put greater weight on cross-checks or reconsider our CAPM parameters in light of the adjusted cross-check results?

#### Step 3 - allowed return on equity consultation questions

FQ14. Do you agree that we should not adjust for expected outperformance when setting baseline allowed returns on equity?

FQ15. Do you believe there is new evidence which would support an adjustment downwards (eg expected outperformance) or upwards (eg aiming up) that we have not yet considered?

#### Inflation and WACC consultation questions

FQ16. Do you think we should adjust our approach to allowed returns (noting our approach to expected inflation for WACC and outturn inflation for RAV as described above) so that outturn inflation does not permit the notional company to generate real equity returns that are materially higher or lower than our cost of equity allowance? What would be the consequences to consumers and DNOs of doing so?

FQ17. If you believe we should make such an adjustment, what is the best method for making it?

FQ18. If you don't believe we should make such an adjustment, how should we ensure that the fairness of the price control is maintained to prevent ex post returns from deviating from ex ante expectations for both consumers and investors?

#### Consultation questions on financeability

FQ19. Do you agree with our approach to assessing financeability?

FQ20. Do you have any evidence that would enable us to improve our calibration of stress test scenarios?

FQ21. Do you agree with the requirement to provide the Financial Resilience Report within 60 days?

#### Consultation questions on corporation tax

FQ22. Do you agree with our proposals to make allocation and allowance rates variable values in the RIIO-ED2 PCFM?

FQ23. Do you agree with the proposed additional protections? In particular:

FQ24. Do you have any views on a materiality threshold for the tax reconciliation?

FQ25. Do you think that the "deadband" used in RIIO-ED1 is an appropriate threshold to use? If not, what would be a more appropriate alternative?

FQ26. Do you have any views on our proposals relating to the Tax Trigger and Tax Clawback mechanisms? In particular, do you have any views on a proposed "glide path" for the notional gearing levels used in the tax clawback calculation?

#### Consultation question on Return Adjustment Mechanisms

FQ27. Do you agree with our proposals for the RAM thresholds and adjustment rates? Consultation question on indexation of the regulatory asset value (RAV)

FQ28. What are your views on the technical implementation of the switch to CPIH as set out in the attached PCFM?

Consultation question on regulatory depreciation and economic asset lives

FQ29. Do you agree with our proposal to set depreciation policy on RAV additions in the RIIO-ED2 period to 45-years straight line, based on the average economic life of the assets?

Consultation question on capitalisation rates

FQ30. Do you agree with our proposal that we should set different capitalisation rates for ex ante allowances and re-openers and volume drivers?

FQ31. Do you have any evidence that would enable us to improve our estimates of regulatory capitalisation rates?

Consultation question on RAV opening balances

FQ32. Do you have any views on the use of forecast RAV opening balances for the start of RIIO-ED2, which will be trued-up following RIIO-ED1 closeout?

Consultation question on transparency through RIIO-ED2 reporting FQ33. Do you agree that additional corporate governance reporting described (including on executive director remuneration and dividend policies), will help to improve the legitimacy and transparency of a company's performance under the price control? If not, please outline your views in relation to the rationale provided for these additional requirements, including consumer protection.

Questions on consolidated reporting and calculation of allowed revenue

FQ34. What are your views on the proposed consolidation of the revenue RRP and PCFM, or applying a fully dynamic concept of allowed revenue?

Questions on licensee self-publication of allowed revenue

FQ35. What are your views on allowing licensees to self-publish the PCFM with their charging statements, rather than relying on an Ofgem publication or direction to determine allowed revenue?

Questions on best vs reasonable endeavours in charge setting

FQ36. What are your views on having a best endeavours obligation for charge setting: "The licensee must, when setting Network Charges, use its best endeavours to ensure that Recovered Revenue equals Allowed Revenue"?

Consultation questions on the appropriate time value of money

FQ37. What are your views on applying a single time value of money to all prior year adjustments, based on nominal WACC?

Question on forecasting

FQ38. What are your views on our proposed approach to using forecasts within RIIOED2?

Questions on forecasting penalty mechanism

FQ39. What are your views on the proposed charging penalty mechanism?

FQ40. What are your views on the proposed revenue forecasting penalty mechanism?

Consultation question on incentive lags



FQ41. What are your views on removing lags from incentives? Consultation question on baselines for ODI incentive rates, caps, and collars

FQ42. What is your view on using RoRE as a general baseline for describing ODI caps, rather than base revenue?

FQ43. What is your view on fixing the potential £m 20/21 value of incentives using one number for all years, based on a forecast of RIIO-ED2 at Final Determinations (an approach similar to RIIO-ED1)?

FQ44. What is your view on the method of calibrating incentive caps in RoRE terms, or the overall proposed incentive caps?

Consultation question on bad debts

FQ45. What are your views on our proposal to remove the Bad Debt terms from the pass-through licence condition?

Consultation question on revenue profiling

FQ46. Should Ofgem allow proposals to re-allocate or re-profile revenue throughout the RIIO-ED2 period and what profiles could be considered in the customers' interest?

ENWL Annex

## 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?

NPg Annex

## 2. Setting Outputs

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

NPg-Q2. What are your views on our proposal to reject NPg's bespoke price control deliverable?

NPg-Q3. What are your views on our proposals for NPg's CVPs? 3. Setting baseline allowances

NPg-Q4. What are your views on our proposals for the outcome of Stages 3 and 4 of the BPI for NPg?

## 5. Innovation

NPg-Q5. What are your views on the level of proposed NIA funding for NPg?

## SPEN Annex

### 2. Setting outputs

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

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

SPEN-Q3. What are your views on our proposals for SPEN's bespoke PCDs?

SPEN-Q4. What are your views on our proposals for SPEN's CVPs? 3.

### Setting baseline allowances

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

### 4. Adjusting baseline allowances for uncertainty

SPEN-Q6. What are your views on our proposals for SPEN's bespoke UMs?

## 5. Innovation

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

## SSEN Annex

### 2. Setting outputs

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

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

SSEN-Q3. What are your views on our proposals to reject SSEN's CVP relating to Embedded Whole Systems Support Services for Local Authorities and its CVP relating to supporting broadband to island communities through DNO assets?

SSEN-Q4. What are your views on our consultation position to accept SSEN's CVP to protect marine biodiversity (life below water)?

SSEN-Q5. What are your views on our consultation position to accept and partially reward SSEN's CVP for personal resilience plans?

SSEN-Q6. What are your views on our proposal for SSEN's 'Energy Efficiency Accelerator for Smarter Networks' and 'Local and community flexibility market stimulation' CVP?

### 3. Setting baseline allowance

SSEN-Q7. What are your views on our proposals for the outcome of Stages 3 and 4 of the BPI for SSEN?

#### 4. Adjusting baseline allowances for uncertainty

SSEN-Q8. What are your views on our proposals for SSEN's bespoke UMs?

SSEN-Q9. What are your views on our proposal for a re-opener? Do you think this is the most suitable mechanism to mitigate investment decision risks in this area?

SSEN-Q10. What are your views on our proposal for a re-opener to deal with the uncertain costs associated with Shetland? Do you think this is the most suitable mechanism to mitigate investment decision risks in this area?

#### 5. Innovation

SSEN-Q11. What are your views on the level of proposed NIA funding for SSEN?

UKPN Annex

#### 2. Setting Outputs

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

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

UKPN-Q3. What are your views on our proposal to implement a collaborative streetworks ODI-F as set out above?

UKPN-Q4. What are our views on our proposals for UKPN's bespoke PCDs?

UKPN-Q5. What are your views on our proposal to fund investment to release capacity in off-gas grid areas ahead of need via a PCD as set out above?

UKPN-Q6. Which metrics could be used for holding UKPN to account for delivery of its off-gas grid proposal via a PCD and protecting consumers by clawing back allowances?

UKPN-Q7. What are your views on our proposal for UKPN's CVPs?

#### 3. Setting baseline allowances

UKPN-Q8. What are your views on our proposals for the outcome of Stages 3 and 4 of the BPI for UKPN?

#### 4. Adjusting baseline allowances for uncertainty

UKPN-Q9. What are your views on our proposals for UKPN's bespoke UMs?

#### 5. Innovation

UKPN-Q10. What are your views on the level of proposed NIA funding for UKPN?

WPD Annex

#### 2. Setting Outputs

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

WPD-Q2. What are your views on our proposals on WPD's bespoke output delivery incentives?

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

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

### 3. Setting baseline allowances

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

### 4. Adjusting baseline allowances for uncertainty

WPD-Q6. What are your views on our proposals on WPD's bespoke UMs? 5. Innovation

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