

Jane Dennett-Thorpe and Gavin Knott  
Ofgem  
10 South Colonnade  
Canary Wharf  
London  
E14 4PU

10 May 2023

**Electricity North West**  
Hartington Road, Preston,  
Lancashire, PR1 8AF

**Power cut? Call 105**  
General enquiries: 0800 195 4141  
Email: [enquiries@enwl.co.uk](mailto:enquiries@enwl.co.uk)  
Web: [www.enwl.co.uk](http://www.enwl.co.uk)

Email: [paul.bircham@enwl.co.uk](mailto:paul.bircham@enwl.co.uk)

Sent by email to: [FutureNetworkRegulation@ofgem.gov.uk](mailto:FutureNetworkRegulation@ofgem.gov.uk)

Dear Jane and Gavin,

**RE: Consultation on frameworks for future systems and network regulation: enabling an energy system for the future**

We welcome the consultation process and broad stakeholder engagement that is being undertaken. However, whilst we understand that the focus is naturally on sectors other than Electricity Distribution given that ED2 has only started in recent weeks, **it is vitally important that the specific attributes, needs and challenges of the Electricity Distribution sector are considered on their own merits** and not **unduly bound by decisions** made for other sectors with a fundamentally different makeup. We strongly support Ofgem's own stance that decisions on the form of the ED3 price control should be made at a more appropriate point. Indeed, **the characteristics of Gas and Electricity are diverging more than ever and there is a risk aligning within the same regulatory period confounds rather than enables effective, sector-specific regulation.**

**Incentive based regulation and RIIO has and is working incredibly effectively** for customers over the years, driving significant benefits in service improvements and cost savings. In the case of ED2, the regulatory framework has been carefully designed by Ofgem, informed by stakeholder input to meet the unique challenges the sector faces. Ofgem has delivered an adaptive regime with agile uncertainty mechanisms that can be flexed to deliver investment, whilst ensuring consumer protections are in place.

Price controls are onerous and complex, and in many cases, with very good reasons, however the process to reach a final determination can and should be simplified. To achieve this, we support simplification and transparency remaining as objectives but set within the context of **price controls should avoid unnecessary complexity.**

Good regulation should have a **range of tools** that drive the best outcomes for customers. There is no case for change away from RIIO in the Electricity Distribution sector. Archetype 1 and 3 are just extremes of some of the risk transfer mechanisms contained within archetype 2. All three options must remain core to future price control approaches. **Our proposal is that Ofgem develops a set of principles as to when archetype 1 and 3 are likely to be used, with archetype 2 remaining the core building block.** We support greater use of competition from **a much lower threshold value of £25m per project which would apply to archetype 1** alongside retaining the existing criteria of new, separable and where a timing / deliverability consideration are included.



Effective change will be well served by maintaining clear and transparent accountabilities for decisions in future price control setting. **Time is short for substantial change.** There is a significant risk of unintended consequences.

We **support Net Zero and decarbonisation at pace** with stakeholders having a stronger voice. There is uncertainty over how Net Zero will be delivered, but it is important that any regulatory framework does not pre-empt a specific delivery route and itself become a blocker. It is clear that significant new investment will be required in the electricity sector, so it is vital that a stable and predictable regulatory regime is maintained.

**Ofgem has taken steps to embrace regional and national voices in setting the ED2 price control which must not be lost.** Our engagement as part of our RIIO-ED2 business plan cemented our understanding of the unique requirements of customers and stakeholders in our region, leveraging the special relationship we have as a single licensee area DNO.

**Place-based development of the price control framework and of business plans are crucial to regulatory legitimacy and meeting customer's needs.** Detailed understanding of the 'consumer voice' at a local level ensures that place-based issues and legitimate differences in requirements and expectations are reflected in investment plans and delivery. We are uniquely able to have the most effective consumer relationships and insights to shape business plans. **Place-based planning should continue to reside with local actors such as DNOs.** The proposed implementation of the Regional System Planner (RSP) will allow regional co-ordination including a perspective of multi-vector dynamics to allow better understanding of trade-offs for Net Zero delivery across wider geographic regions. By working with **local elected governments who can convene relevant stakeholders under a democratic mandate, the RSP can ensure local ambitions are reflected in the regional whole energy system plan.**

RIIO (substantially Archetype 2) has led the way in supporting a stable, predictable and therefore financeable regulatory framework that attracts low cost, patient capital. Ofgem must carefully consider the impact of any change on investors' confidence. **We urge Ofgem to adopt the default position of maintaining the current balance and suggest Ofgem must do a detailed assessment of any changes as well as applying a high bar to proving any alternative regulatory approach is better.**

Should any material changes to the regulatory approach be found necessary for other sectors then it is vital these enable continued investment. **Further, if a change in regulatory approach has different impacts on different companies due to historic financing decisions then Ofgem must take these company specific matters into account.**

On the matter of **shorter price controls for Gas sectors, in principle, less than five years is too short for a new price control.** However, if Ofgem is contemplating extending the current five-year controls by 2 years, the key consideration should be whether this approach can retain consumer benefits from the incentive based ex-ante regulatory approach already in place.

**In considering whether Gas sector price controls could be aligned with Electricity Distribution we recommend Ofgem also assesses the practical requirements it would be placing on itself,** clearly understanding the very different characteristics of the Electricity Distribution and Gas sectors. Sector differences unobjectively merit their own thorough consideration with truly sector specific decisions being implemented.

Yours sincerely

**Paul Bircham**  
**Safety, Compliance and Markets Director**

Enclosures: 'Annex 1: ENWL consultation response'