

Network Price Controls
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

Electricity North West
Linley House, Dickinson Street,
Manchester, M1 4LF

Power cut? Call 105
General enquiries: 0800 195 4141
Email: enquiries@enwl.co.uk
Web: www.enwl.co.uk

Sent by email only: RIIO3@ofgem.gov.uk

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Dear Akshay

ENWL response to the RIIO-3 Sector Specific Methodology consultation

Electricity North West (ENWL) appreciates the opportunity to respond to this important consultation on the application of the RIIO-3 framework to those sectors whose price controls are due to commence in 2026. We have a legitimate interest in these matters because our consumers, stakeholders and shareholders could be significantly affected by the outcomes of this consultation.

In this letter we specifically address the five key matters most important to Electricity North West, which have the biggest effect on our consumers. These are:

1. Undertaking separate, unfettered consideration of RIIO-ED3 is essential to enable electrification to achieve Net Zero;
2. Maintaining the stability of core regulatory principles in the face of significant change;
3. Ensuring that each sector has a financeable and investable framework calibrated to the requirements of that sector;
4. Protecting consumer interests by incentivising the behaviours consumers prioritise at the levels at which consumers value them; and,
5. Accelerating the levels of innovation and digitisation that will improve the affordability of delivering the Net Zero transition.

Ofgem has sensibly and effectively equipped itself with the toolkit to undertake these four independent sectoral reviews¹ through the conclusions of the FSNR process. For instance, Ofgem concluded correctly when making the FSNR decision that ex-ante incentive-based regulation, as practised in GB, is one of the leading global approaches and should be maintained but adapted where necessary.

Our detailed response to this cross-sector methodology consultation and the accompanying sector-specific materials is provided in four appendices to this letter.

¹ Gas Transmission, Electricity Transmission, Gas Distribution and Electricity Distribution



**INVESTORS
IN PEOPLE**



1. Separate, unfettered consideration of RIIO-ED3 is essential to enable electrification to achieve Net Zero

We believe that the significant changes in energy infrastructure, essential for responding to the challenges presented by the transition to Net Zero, require the independent and separate consideration of the regulatory regime for each sector uniquely. The contrast between the investment requirements to expand the Electricity Transmission network and the end-of-life considerations for the Gas Distribution network highlight the fundamental differences. Similarly, the challenges in Electricity Distribution are unique and changing rapidly. The two-year time difference between price controls for different sectors will exacerbate the differences. Therefore, we believe it is essential that as part of these Sector Specific Methodology Decisions Ofgem confirms (a) the unique consideration of each sector (Electricity Transmission, Gas Transmission, and Gas Distribution) and that (b) the approach to ED3 will be a stand-alone process that is:

- not fettered by precedent determined for the Electricity Transmission, Gas Transmission, or Gas Distribution sectors;
- based on specific consideration of how RIIO-ED2 has performed for consumers;
- informed by Electricity Distribution consumer needs and willingness to pay; and,
- allows plenty of consultation time in which to develop an ED3 specific methodology. In this we support the Ofgem plan shared with us to issue the ED3 open letter in Summer 2024.

2. Maintain the stability of core regulatory principles in the face of significant change

Regulatory certainty and stability are critical to maintain the benefits to consumers through providing investors with a stable regime in which to invest. We welcome the Ofgem decision not to take retrospective action concerning the treatment of inflation within current and historic price controls. To have done so would have certainly undermined investor confidence. Inflation linked returns are a cornerstone of the GB regulatory regime and future price controls need to preserve this principle, particularly if changes are made to how inflation adjustment mechanisms operate.

We agree Ofgem should, at a high-level, look beyond RIIO-3 in setting that price control. We support the Ofgem time horizon out to 2050, as suggested in the Finance Annex, as we anticipate this will positively inform decision making and lead to improved outcomes for consumers. For example, managing asset stranding risk in the gas sectors needs to be done over longer than just one five-year price control. Equally in the electricity distribution sector capital projects are increasing in value and their duration is increasing as well. Stability is critical for ensuring the commercial risks of these are maintained. Transparently demonstrating how the longer time horizon is considered will positively support investor confidence, enabling consumers' needs to be met at lower cost.

3. Ensure that each sector has a financeable and investable framework calibrated to the requirements of that sector

We remain concerned that the Ofgem proposals, set out in the Finance Annex, do not go far enough to attract the private sector investment needed to meet government policy outcomes for consumers in the Electricity Transmission and Electricity Distribution sectors.

We support Net Zero delivery at pace, and therefore welcome Ofgem raising "investability", which we consider applies to both equity and debt financing and considers both actual and notional structures, as a critical consideration. Ensuring investability requires a dual focus on ensuring financeability for debt by looking backward, and by ensuring attractiveness for new equity by looking forward. We look forward to working with Ofgem and other stakeholders to understand what "investability" means and how this concept is best implemented, as we believe it could be well aligned with delivering on the new Net Zero and Growth duties alongside Ofgem's existing duties. RIIO-3 is a key opportunity for Ofgem to demonstrate boldness to ensuring the unprecedented levels of investment needed can be attracted to lead the way to Net Zero.

4. Protect consumer interests by incentivising the behaviours consumers prioritise at the levels at which consumers value them

Ofgem should maintain and strengthen the incentive-based regime because this is a proven way to drive consumer value in key areas. In some areas, Ofgem is consulting on the potential to move current incentivised areas to baseline expectations or Ofgem may be tempted to tune down incentives (such as has been done for the interruptions incentive in ED2). We recognise that as performance matures some incentives should be moved to baseline expectations but we believe these should be replaced by new incentives to encourage DNOs to continue to evolve their businesses in line with regulatory and consumer needs. We urge caution in further weakening the incentive regime overall and on individual incentives, because this will slow down innovation and the pace of improvement in key aspects of customer experience. There also should continue to be a place for well developed, strongly evidenced and consumer supported bespoke incentives. There is already a high bar, which was met by ENWL with the new ED2 bespoke Dig, Fix and Go incentive, which is a regulatory innovation that otherwise would not have emerged and is now potentially applicable to other licensees and sectors.

We also view the incentivised rewards (or penalties) as a key part of the regulatory proposition for investors. We suggest Ofgem should look both at individual incentives, and at the incentives package in the round to ensure there are attractive opportunities for consumer benefit and for companies to earn rewards. We find it hard to understand why incentive packages are getting weaker when they really should be increasing, reflecting an overall growing consumer need.

5. Accelerating the levels of innovation and digitisation that will improve the affordability of delivering the Net Zero transition

We are the most digitally advanced network in Europe through our Network Management System and our network connectivity model. The current RIIO-3 proposals for digitalisation appear to be too limited, focussing on digitalisation as a way to streamline regulatory processes. That approach may risk consumers missing out on the wider opportunities and benefits delivered through greater digitalisation, which we anticipate could be available in Electricity Transmission and Gas. For example, digitalisation means greater automation, fewer manual interventions, new energy efficiency products and services. Digitalisation is a key enabler for us during our ED2 price control and we expect to accelerate digitalisation in RIIO-ED3. We believe more emphasis and ambition on digitalisation is merited in the RIIO-3 proposals.

Finally, we have showcased to Ofgem, and Government and wider stakeholders, several of our digital and network innovations such as CLASS (providing services to the ESO), Smart Street (lowering energy bills through network actions) and LineSIGHT (safety innovation) all of which we are rolling out at scale with Ofgem support. It is vital for consumers that the Ofgem reforms to innovation mechanisms continue to enable highly beneficial innovation programmes, such as those we have delivered. In particular, we welcome the Ofgem consideration of a mechanism to enable rollouts of innovative solutions during price controls rather than having to wait until the next fixed price control process, ensuring consumer benefits are not delayed.

If you have questions on any element of the response, please do not hesitate to contact myself, Ben Grunfeld (Strategy and Growth Director, benjamin.grunfeld@enwl.co.uk) or Paul Auckland (Head of Economic Regulation, paul.auckland@enwl.co.uk). I look forward to the process beginning for the ED3 price control in a few months' time.

Yours sincerely



Chief Executive Officer

Encs: Appendix 1 – Response to Overview, Appendix 2 – Response to Finance Annex with 4 supporting annexes (a-d), Appendix 3 – Response to ET Annex, Appendix 4 – Response to GD Annex