



Making a positive difference
for energy consumers

To generators, suppliers, network companies, consumers and their representatives, the sustainable development community, and other interested parties.

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Dear colleague,

RIIO-ED1: Electricity Distribution Networks Operators' (DNOs) business plans – publication, views and next steps

The electricity distribution networks operators (DNOs) have submitted their business plans to Ofgem for the next electricity distribution price control (RIIO-ED1). They have also published the plans on their websites. This letter seeks stakeholder views on these plans, which we will use to inform our assessment. The closing date for responses is **2 August 2013**, and responses should be sent to RIIO.ED1@ofgem.gov.uk.

DNOs that we assess to have submitted very high quality plans could have their price control agreed early.

Background

RIIO-ED1 will set the outputs the DNOs need to deliver for their consumers and the associated revenues they are allowed to collect for the eight-year period from 1 April 2015 to 31 March 2023. It is the first price control review in the electricity distribution sector to be conducted under our new RIIO model (Revenue = Incentives + Innovation + Outputs).

A core part of RIIO is the network companies' well-justified business plans. Each DNO is required to submit to Ofgem a detailed plan which demonstrates how they will deliver in the interests of both existing and future consumers and how they will meet the challenges associated with the transition to a low carbon energy sector. These plans should take into account the needs and views of the company's stakeholders.

In March 2013 we published our Strategy Decision¹ on the key elements of the regulatory framework for RIIO-ED1, including the outputs that we would require companies to deliver, the incentive framework, and financial parameters. We also provided business plan guidance and described the tools we would use for assessing the DNOs' plans.

Under RIIO we are taking a proportionate approach to our scrutiny of companies' plans, ie that the level of our regulatory scrutiny will vary according to the quality of their plans. DNOs that submit very high quality plans will be offered the option of agreeing their price control early – termed fast-tracking.

¹ See Ofgem (4 March 2013, ref: 26/13) Strategy decision for the RIIO-ED1 electricity distribution price control <http://www.ofgem.gov.uk/Networks/ElecDist/PriceCntrls/riio-ed1/consultations/Documents1/RIIOED1DecOverview.pdf>

Effective stakeholder engagement is an important element of RIIO; we encourage stakeholders to review these business plans and provide us with feedback.

Business plan publication

The six DNO groups have published their RIIO-ED1 business plans on their websites at the links set out below. A map of the DNO location and ownership groups is included in Appendix 1.

- Electricity North West Limited: <http://www.enwl.co.uk/businessplan>
- Northern Powergrid: <http://www.yourpowergridplan.com/>
- Western Power Distribution:
<http://www.westernpower.co.uk/About-us/Stakeholder-information/Our-Future-Business-Plan>
- SP Energy Networks:
http://www.spenergynetworks.co.uk/serving_our_customers/business_plan.asp
- Scottish & Southern Energy: <http://www.yourfutureenergynetwork.co.uk/>
- UK Power Networks:
<http://www.ukpowernetworks.co.uk/internet/en/about-us/business-plan/>

Specific areas where we seek views

While we welcome views on any aspect of the DNOs' plans, there are a number of specific points on which we particularly seek feedback. These are set out below.

Overall quality of the plans

- Do you consider that the plans are comprehensive and well-justified? Do they provide a clear understanding of what the DNO will deliver over the price control period?
- Do the plans include all relevant information necessary for you to understand the impact of those plans on your interests?

Reflecting what customers value/ stakeholder engagement

Under RIIO stakeholders have a greater opportunity to inform our, and network companies' decisions during the price control review process.

- Have the views you provided to the DNOs been reflected in their plans? If not, has the DNO explained why?
- Do you consider that the plans reflect the interests of both existing and future consumers?

Expenditure proposals

We require DNOs to set out the operating and capital investment expenditure they require to deliver the outputs required by customers.

- Do you consider that the DNOs have clearly identified and justified their operating and capital expenditure requirements to deliver the required outputs?
- Do you consider that the DNOs have adequately considered the potential efficiency gains from:
 - learning arising from the Low Carbon Networks Fund
 - future innovation
 - adoption of smart solutions (including Demand Side Response)?

Financial proposals

We put forward proposals in our Strategy Decision to ensure efficient DNOs would be able to raise finance and to ensure they would be remunerated appropriately.

- Do you have any views on the package of finance measures proposed by the DNOs?

Uncertainty and risk

DNOs are required to demonstrate that their proposals take account of the various risks and uncertainties they face and in light of these provide a strategy to deal with them efficiently.

- Do you consider that the plans present a comprehensive consideration of the sources of uncertainty they face, including uncertainty in relation to the low carbon future?

Views welcome and next steps

We welcome views on these issues or any other aspects of the business plans. We will use the responses to inform our assessment of the plans.

Please submit any written comments to RIIO.ED1@ofgem.gov.uk by 2 August 2013. Unless clearly marked as confidential, we will publish responses on our website.

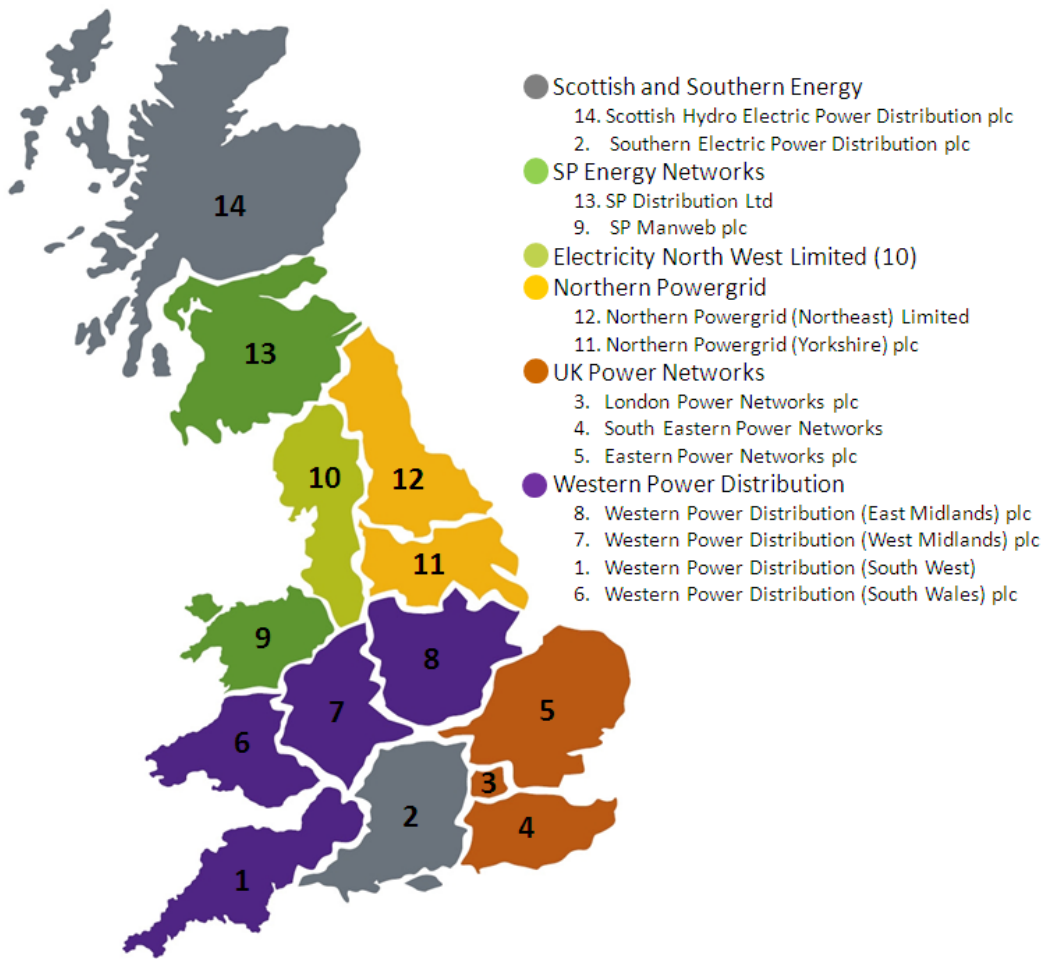
In November we will publish our initial assessment setting out whether we think any DNOs should be fast-tracked. Alongside this assessment we will publish the Draft Determinations for the proposed fast-track DNOs – consulting on their potential price control settlement. The initial assessment was originally scheduled to be published in October. We have moved it to November to provide time for the DNOs to audit the models we are using to assess their costs. We stress that this change of date does not imply any reflections of the submitted plans. The updated timetable is included as Appendix 2.

Yours sincerely



Anna Rossington
Head of RIIO-ED1

Appendix 1: DNO location and ownership



Appendix 2: Updated RIIO-ED1 timetable

Phase	Year	Month	Milestone
Initial Business Plan Assessment and Fast-Track Decision	2013	July	DNOs submit & publish business plans Invitation for comments (4 weeks)
		September	Company bilateral meetings with the RIIO-ED1 Consumer Challenge Group Company bilateral meetings with the RIIO-ED1 Committee of the Authority
		October November	Initial assessment and fast-track Draft Determination published (8 weeks consultation)
	Initial and Final Proposals and Launch	2014	beginning end February
beginning mid March			Non-fast-track DNOs resubmit & publish business plans Invitation for comments (4 weeks)
July		Non-fast-track Draft Determination published (8 weeks consultation)	
November		Non-fast-track Final Determination published	
December		Statutory Consultation (28 days) on licence modifications	
2015		April	1 st - new price control (RIIO-ED1) commences