

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

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Date: 31 March 2014

Dear colleague,

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

Five of the six electricity distribution networks operator (DNO) groups have resubmitted 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 **12 May 2014**, and responses should be sent to RIIO.ED1@ofgem.gov.uk.

We will publish the outcome of our assessment (draft determinations) in July.

Background

RIIO-ED1 will set the outputs the DNOs need to deliver for their consumers and the associated revenues they are allowed to collect. It covers the eight years 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).¹

A core part of RIIO is the network companies' well-justified business plans. The DNOs were required to first submit these in July 2013. The plans had to demonstrate how the DNO would run its network to serve existing and future consumers and how it would address the challenges associated with the transition to a low-carbon energy sector. It also had to show how the DNO had considered the needs and views of its stakeholders.

The plans were based on the strategy decision² we published in March 2013. This described the key elements of the regulatory framework for RIIO-ED1, including what the DNOs have to deliver, their incentives and their financial parameters. It also provided business plan guidance and described the tools we would use in our assessment.

Under RIIO the level of our regulatory scrutiny varies according to the quality of the companies' plans. This encourages companies to submit their best view upfront. Companies that submit high quality plans may be fast-tracked.

¹ More information on the RIIO model can be found at <https://www.ofgem.gov.uk/network-regulation-%E2%80%93-riio-model>

² See Ofgem (4 March 2013, ref: 26/13) Strategy decision for the RIIO-ED1 electricity distribution price control <https://www.ofgem.gov.uk/ofgem-publications/47067/riioed1decoverview.pdf>

The potential to be fast-tracked inspired all DNOs to raise their game. However we set a high hurdle for fast-tracking, which only Western Power Distribution (WPD) cleared. The other DNOs' plans showed areas of strength, but all had scope for improvement. We decided to fast-track WPD³ and required the remaining DNOs to resubmit their plans in March. We expected the revised plans to show improved value for consumers.

This letter is consulting on these revised plans.

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 five DNO groups in the slow-track process have published their revised RIIO-ED1 business plans on their websites at the links set out below. They include an explanation of what has changed from the business plans they published in July 2013.

- Electricity North West Limited: <http://www.enwl.co.uk/businessplan>
- Northern Powergrid: <http://www.yourpowergridplan.com/>
- SP Energy Networks: http://www.spenergynetworks.co.uk/serving_our_customers/business_plan.asp
- SSE Power Networks: <http://www.yourfutureenergynetwork.co.uk/>
- UK Power Networks: <http://www.ukpowernetworks.co.uk/internet/en/about-us/business-plan/>

WPD has also published an updated version of its plan at the link below. We note this for reference, but are not seeking views on WPD's plan, since its price control has been finalised.

- Western Power Distribution: <http://www.westernpower.co.uk/About-us/Stakeholder-information/Our-Future-Business-Plan>

Specific areas where we seek views

While we welcome views on any aspect of the DNOs' plans, we are particularly interested in views on the changes that have been made since July. We also welcome views on the following:

- the overall quality of the plans
- whether the plans reflect what customers value and stakeholder engagement
- whether the DNOs have clearly identified and justified their operating and capital expenditure requirements to deliver the required outputs
- whether the plans demonstrate 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)

³ <https://www.ofgem.gov.uk/publications-and-updates/decision-fast-track-western-power-distribution>

- the package of finance measures proposed by the DNOs
- whether the plans present a comprehensive consideration of the sources of uncertainty they face, including uncertainty in relation to the low carbon future.

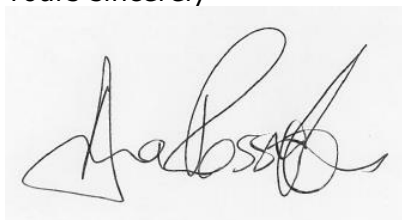
Views welcome and next steps

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 12 May 2014. Unless clearly marked as confidential, we will publish responses on our website.

In July we will publish the draft determinations for the slow-track DNOs – consulting on their potential price control settlement. We include the RIIO-ED1 timetable as Appendix 1.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Anna Rossington', is centered on a light gray rectangular background.

Anna Rossington
Head of RIIO-ED1

Appendix 1: RIIO-ED1 timetable

Phase	Year	Month	Milestone	
Business plan assessment and fast-track decision	2013	November	22nd – published business plan assessment and fast-track draft determinations	
		January	22nd – consultation closed	
		February	28th – published fast-track decision and final determinations for WPD	
Draft and final determination and launch	2014	March	17th – slow-track business plan resubmissions 28th – statutory consultation on fast-track licence modifications 31st – last date for DNOs to publish updated business plans on their websites 31st – publish invitation to comment (six week consultation)	
		May	issue fast-track licence	
		July	publish slow-track draft determination (eight week consultation)	
		September	consultation closes	
		November	publish slow-track final determinations	
		December	statutory consultation on slow-track licence modifications	
		2015	April	1st – new price control commences