



## **Price Control Review Forum: summary of proceedings**

**Date: 10 September 2014, 10.00 – 12:30**

**Venue: Church House**

On 10 September 2014 Ofgem held the fifth Price Control Review Forum (PCRF) for the electricity distribution price control (RIIO-ED1). We summarise the main points arising in the meeting below.

The attendees are listed in Appendix 1. Presentations given by Ofgem and the DNOs are attached as associated documents to this summary.

### **Overview of draft determinations**

Ofgem presented an overview of the draft determinations it published on 30 July 2014. It noted that this is a consultation and that the team is eager to get stakeholder views. The consultation closes on 26 September 2014.

Key points raised during the presentation are noted below.

- Impact on customer bills.
  - The FSB representative asked if Ofgem can express the impact on small businesses as well as typical households? (*Ofgem will look at the feasibility of this and speak to FSB for typical usage*)
  - The Centrica representative noted that Ofgem presents bill impacts net of inflation, whereas the bills and estimates that suppliers provide will include it.
- Attendees felt that the benefits that WPD has gained from being fast-tracked need to be clearly articulated, and compared with the benefits of the fast-track process.
- Real price effects (RPEs). Ofgem flagged that it is consulting on whether an index would give better value than the current ex ante forecast. There is a workshop on 16 September, and the consultation closes on 26 September. The National Grid attendee noted that Ofgem rejected a proposal for an index in RIIO-T1. The Centrica representative asked whether, if an index was adopted, the cost of equity would be reduced to reflect a reduction in risk. Ofgem didn't agree – and noted that this is discussed in the RPE consultation.
- Smart grids. Several attendees asked, especially after the Public Accounts select committee report on smart meter benefits, if Ofgem is confident of the benefits that will be realised. It was also noted that Ofgem needs to flag that the majority of benefits from smart meters are realised by other

entities, as well as the DNOs. Ofgem noted that majority large proportion of the smart meter benefits for DNOs will arise in RIIO-ED2. A DNO representative noted that they have only recently received the detail of the basis of Ofgem's assumptions regarding smart meter benefits in RIIO-ED1. They are discussing with Ofgem differences over what elements are amenable to "smart", and the level of benefits that DNOs have already included in their plans.

- Finance. The Centrica representative asked why, when the strategy decision said Ofgem would only consider DNO specific requirements for alternative to the 10 year cost of debt index, Ofgem has now applied a new index to all the slow-track DNOs. Ofgem responded that looking at the stated criteria for introducing a cost of debt index in light of the evidence provided by the DNOs, it recognised there was a problem for the sector as a whole. It therefore identified a mechanism that better covered the potential interest scenarios over the RIIO-ED1 period. The National Grid representative asked what this means for RIIO-T2. Ofgem responded that the intention is not to arbitrarily change the indices at reviews. Ofgem is open to working through the implications of its findings for RIIO-ED1 with transmission and gas distribution companies.

The CAB representative provided his feedback on the draft determinations. Overall his views are mixed. They build on the objectives for RIIO-ED1 that Ofgem stated in the strategy decision and also build on his comments at the previous PCR5 on the slow-track plans.

- Draft determinations provided clarity on some of the work happening in parallel to RIIO-ED1, such as the Christmas storms and guaranteed standards of performance. However new issues have emerged, such as RPEs.
- He still has some outstanding concerns about the enforceability of some of the outputs proposed by the companies.
- The infographic published alongside the draft determinations was a very effective way of communicating to stakeholders. The challenge is how to translate this to other elements of the price control.
- Cost savings and cost of equity are moving in the right direction, although it is hard for other parties to say if the quantum is right. There is clearly a difference of opinion on smart savings.
- Disappointed to see Ofgem's view that the majority of the DNOs' losses strategies are poor. This is particularly frustrating for consumers given that the cost of losses is passed through to customers. He wants to understand how progress on losses will be judged.
- With respect to the RORE chart, if the central point of 6% cost of equity is equivalent to a £12 reduction in bills, what does the high point of 10% translated to in terms of money?
- There is very little information available to assess how DNOs have performed in DPCR5 and therefore to judge whether the RIIO-ED1

proposals are appropriate. If DNOs are consistently out-performing on RORE, does this mean that incentives have been designed wrongly?

- How will Ofgem ensure that DNO performance is fair and visible during RIIO-ED1? He showed the Ofwat website as a useful example of what information Ofgem might want to provide.

The FSB representative asked what DNOs are doing to improve the quality of service and appropriateness of cost for new connections. He noted that the DNOs adopt assets that have been paid for by connecting customers, although a DNO representative clarified that the DNOs do not receive a return on these assets. He also challenged the DNOs to offer more innovative financing solutions for connecting customers.

The Centrica representative noted that Ofgem has changed the break-even point on the Information Quality Incentive (IQI), and that this is a change to what was stated in the strategy decision. He questioned why Ofgem has changed elements of the strategy decision. Ofgem responded that the strategy decision was the intention for the structure of the price control, however if further evidence is provided before the end of the review, it is obliged to consider it.

### **Electrical infrastructure development**

UKPN presented a status report on work on considering how to fund strategic investment, without risking customers paying for assets that aren't needed. Some of UKPN's stakeholders – GLA, major developers, are keen that UKPN develops proposals – and to this end UKPN has been liaising with Ofgem, DECC, No 10 and Treasury. UKPN presented an option it has developed, though it recognised that Ofgem has stated that it does not think the current framework needs to change. It flagged that it requires further work to ensure that the risk would be appropriately mitigated. Ofgem noted that there are other options also being discussed, and that the UKPN proposal only works where there is a customer ready to connect. The representative from the MEUC raised concern that the proposal would pass additional costs onto other users of the network. The CAB representative noted that it appeared that stakeholder engagement undertaken to date had focussed on the stakeholders listed above, and had not captured the views of other consumers. The DECC representative said that DECC is very involved in the conversations, but that the work is ongoing with no final agreed position and that, for example, more work is required to understand what the specific cause for delays are and how the proposals would address them.

### **Reporting, monitoring and compliance**

Ofgem presented an update on its work on monitoring and compliance, and its thoughts on improved regulatory (RIIO) accounts. It recognised the need to ensure the different streams of work, including what is published by Ofgem, the presentation of data on its website, and what it requires the companies to

publish, needs coordinated design and development. There was a lot of interest from attendees, and Ofgem committed to looking at how best to involve stakeholders in this work going forwards.

Several attendees noted that information published by companies needs to be in a consistent format so that stakeholders can easily compare them. It was recommended that the focus is more on numbers, rather than companies writing pages of self congratulations or excuses.

## Annex 1: List of attendees

Name	Organisation
Andy Manning	Centrica
Chris Alexander	Citizen's Advice Bureau (CAB)
Robert Kinnaird	Department for Energy and Climate Change (DECC)
Sarah Walls	Electricity North West Ltd (ENWL)
Paul Bircham	Electricity North West Ltd (ENWL)
Allen Creedy	Federation of Small Businesses (FSB)
Ian Burkett	GMB
Hugh Conway	Major Energy Users Council
Paul Whittaker	National Grid
Keith Noble-Nesbit	Northern Powergrid (NPg)
Maxine Frerk	Ofgem
Anna Rossington	Ofgem
James Veaney	Ofgem
Dora Guzeleva	Ofgem
Ian Rowson	Ofgem
Iain Morgan	Ofgem
Louisa Coursey	RenewableUK
Robert McNamara	Smart Grids GB
Jim McOmish	SP Energy Networks (SPEN)
Aileen McLeod	SSE Power Distribution (SSE)
Keith Hutton	UK Power Networks (UKPN)
Alex Wilkes	Western Power Distribution (WPD)