

Anna Rossington
The Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

25 February 2015

Dear Anna

Response to consultation on the regulatory instructions and guidance for the next electricity distribution network operators' price control, RIIO-ED1

This letter and its attachments constitute the response of Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc to the informal consultation on the draft regulatory instructions and guidance (RIGs) and the associated reporting pack templates for RIIO-ED1.

At the time of writing this letter, we continue to engage with you on the development of the RIGs and reporting pack templates through the various subject area working groups. As a number of areas of the draft RIGs are at present incomplete, it is important to note that unless specifically stated otherwise, our response in this letter is based on the RIGs and reporting pack templates that were published as part of the informal consultation on 28 January 2015.

A key principle underlying a number of our responses to this informal consultation is that we believe all information captured in the 'Cost and volumes' annex of the RIGs and reporting pack templates should be capable of being data assured as 'actual' information. In our view, if this is not the case for example where estimates or counter factual information is involved, the data should be captured separately and subject to different data assurance guidance (DAG). Further information on this issue is captured in our responses to questions 1 and 4 of this letter.

Appendix I of this response sets out our comments on the five specific questions posed in your informal consultation letter. Detailed comments on the RIGs and reporting pack templates are attached to this letter in the format of the response template requested by you along with an updated versions of Annex C 'Revenue Reporting Pack' and 'Financial Issues Reporting Pack Table F5'.

I hope you find our comments useful. If you have any questions arising from this response, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Mark Drye".

Mark Drye

Director of Asset Management

NORTHERN POWERGRID

is the trading name of Northern Powergrid (Northeast) Ltd (Registered No: 2906593) and Northern Powergrid (Yorkshire) plc (Registered No: 4112320)

Registered Office: Lloyds Court, 78 Grey Street, Newcastle upon Tyne NE1 6AF. Registered in England and Wales.

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Attachments:

Response template

Updated Annex C – Revenue Reporting Pack and Financial Issues Reporting Pack Table F5

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Appendix I

1) *What are your views on the proposed structure? Does the proposed structure appropriately split reporting between different annexes?*

We are broadly comfortable with the reporting pack structure and the split between the different annexes. We would however like to raise the following points.

- We believe the information contained in a number of tables within Annex B, 'Costs and volumes' should be included in the Environmental Report or as a minimum in a separate Annex. These tables are M7 'Smart Meters', M10 'Innovative Solutions', M11 'LCTs' and M13 'BCF'. Unlike all other tables in the pack, these will be completed by DNOs using estimated or forecast information and hence should be subject to separate DAG requirements. This is best achieved by moving them into a separate Annex and drafting specific DAG requirements for them. As an alternative suggestion and subject to the outcome of the Environmental Report consultation, it may be more appropriate for this information to simply be captured in the report, in which case no DAG would be required. Our comments around these tables are developed further in our response to question 4.
- The use of the terms 'Smart' and 'Innovation/innovative solutions' has the potential to be misleading to users of the reporting pack templates as they are not clearly defined and will be used interchangeably and inconsistently. We feel it is essential to include a clear definition of these terms (and the boundary between them) in the RIGs to avoid confusion.
- As a general observation the tables could be made easier to read and more user-friendly. In many of the spreadsheets a large number of the rows are empty and will not be used. This means the user has to scroll down and across a number of blank or unused rows and columns to view the required information. For example, table CV10 'Refurbishment SDI' has 55 empty rows and 19 empty columns embedded in the middle of the table which are not intended to be used. It would help users and reduce the risk of errors if any unnecessary rows and columns were removed from the templates.
- In order to assist DNOs in completing the reporting pack templates each table should include a purpose statement. This would help those completing the tables to understand how the information in the tables will be used and therefore assist all users in their understanding of the requirements.

2) *What are your views on the information we are asking the DNOs to forecast? (See the F1 – Forecasts worksheet in the Costs and Volumes Reporting Pack.)*

We note that the table 'F1 – Forecasts' is still to be finalised and we are therefore unable to confirm whether we are comfortable with the final requirements. However, based on the current draft table we are broadly comfortable with the level of detail that is being requested for forecast information.

By definition, forecasts are unlikely to predict precisely and accurately the actual out-turn of a given data set. In addition, forecasts themselves will change over time as updated knowledge gets built into re-forecasts at each planning round. It is therefore important that any data assurance processes applied to forecast or estimated data are designed to assess the reasonableness of the underlying assumptions rather than the forecast or estimated figures themselves.

Whilst the forecasts table has been drafted, the underlying assumptions upon which these forecasts are to be prepared have not yet been confirmed. If forecasts are to be prepared on a consistent basis across all DNOs, particularly in areas of greater uncertainty (for example low carbon technology uptake and smart meter roll-out), we suggest that Ofgem provide a set of consistent base assumptions to be applied. If consistent base assumptions are not provided, forecasts will be prepared on different bases and will not be capable of being easily compared.

We look forward to receiving the final requirements in this area.

3) *We and DNOs may publish information contained in the RIGs. What information would you like to see published? What format would you like to see it published in and how often?*

We are committed to the principles of openness and transparency in line with the RIIO model.

In line with our licence conditions, we will prepare an annual report for stakeholders. In order to be as clear as possible for our stakeholders our report must align with our business plan. This will mean that each DNO will have different content requirements for their Annual Stakeholder Reports.

In addition to our Annual Stakeholder Report, it is likely that some stakeholders may find an amount of high level comparable information across DNOs useful. In our view it makes sense that all DNOs should publish some high level information tables in a consistent format alongside their annual reports. This information should be extracted from the reporting pack templates which will have been subject to data assurance. We have studied the reports and associated information published by the gas distribution network companies as part of their first submission in ED1. In our view these reports have made good progress in this direction but we would stress the need to ensure greater consistency in approach and presentation across all DNOs. As part of RIIO ED1, we produced a 'plan on a page' document which gave a good insight into the challenges behind ensuring consistency across DNOs. We understand that further consultation will take place on this matter and we look forward to engaging with you and other DNOs to agree the requirements for the Annual Stakeholder Report and the associated data tables.

Once the reporting structure has been decided it is our view that, as far as possible, the format should remain the same for the full eight years of the price control to ensure consistency and comparability year on year.

In addition to information published by DNOs, we understand that Ofgem may wish to produce a report to compare the performance of DNOs on an annual basis. We are supportive of this approach in principle as it will focus attention on ensuring that information is provided on a consistent basis across all DNOs. We believe Totex is the appropriate measure for comparison as it allows for trade-offs to be made in decision making by DNOs. We look forward to working with Ofgem's cost assessment team as part of the reconvened cost assessment working group to develop these approaches further and to understand what can be drawn from the results as the ED1 price control period progresses.

4) *We are consulting in parallel on the Environment Report. Information included in the Environment Report will be collected in the RIGs. What are your views on this approach? Do you think some or all of the data in the Environment Report should be collected separately?*

It is important to understand where the Environmental Report sits within the overall reporting structure to avoid any duplication with other reports. By way of example, there appear to be

several areas where the Environmental Report potentially crosses over with the Losses Report and the Innovation Report. We note that the environment report proposes cross-referencing between reports to reduce duplication and we support this approach wherever possible.

As stated above in our response to question 1, with reference to tables M7, M10, M11 and M13, our view is that some of the information currently requested in the reporting pack templates would be better captured in the environment report or as a minimum in a separate annex to the RIGs. This includes information that is either:

- Not easily quantifiable;
- Not easily comparable between DNOs;
- Based on estimates and/or assumptions; and/or
- Not possible to assure according to the DAG.

For example, table 'M10 – Innovative Solutions' in the cost and volumes pack captures examples of innovative solutions deployed on the network. While we agree with the need to collect this information we do not think that a reporting pack template is the place where this data should be captured as it is not easy quantifiable and the data will be largely based on assumptions. As a result we would not be able to data assure this information in the same way as we would for 'actual' data. Further details around this area are highlighted in the response template attached to this letter.

In general we fully support the use of CBA as a way of planning investment on our network. However, given the resource cost of producing CBAs we would encourage a strategic approach, with CBAs produced when there is a clear need (such as a policy change) rather than as a matter of routine.

5) *Specific comments on individual tables and their associated guidance and definitions?*

We have provided detailed comments on the reporting pack templates using the response template that you provided. It is important to note that we have commented on the RIGs and reporting pack templates by exception and therefore have not included responses where we are comfortable with the content as currently drafted.

We would like to bring to your attention a number of key issues included in our response template.

Smart meter rollout

The smart meter rollout table and supporting guidance is still under development however we have concerns around whether the total smart metering interventions data, and the process by which it is collected, would pass a rigorous data assurance process. This is mainly due to the lack of a formally governed route by which DNOs are informed of intervention requests from suppliers. The absence of a formal governance process leads to there being no requirement for suppliers to provide consistent data in regard to the drivers behind an intervention request. This means that DNOs are unable to reliably and consistently identify specific categories of smart meter related interventions (in the case of Category B & C defects notified to DNOs via the D0135 DTS data flow).

We are aware that there are two proposed, albeit temporary, solutions to mitigate this issue.

- UKPN have suggested an approach that assumes all supplier callouts are smart meter related. This approach would eventually reconcile the meter types once the data flow becomes available. As there is a revenue stream associated with this type of work we don't think this appropriate.
- WPD's methodology would compare the supplier callouts data with the MPANs data to identify the smart meter related callouts. It is unclear how well this will work in practice.

Furthermore the long term solution (changing the content of the D0135 data flow via an industry change) will be difficult to secure in practice because such changes need to be approved and accepted by all affected industry participants including suppliers and their contractors for example. Suppliers may be reluctant to change their systems and processes if there is no perceived benefit to them. In addition, they will be relying on contractors to provide the information needed to comply with any such change.

Clearly there is still a lot of work left to do in this area over the next couple of months and we will be fully engaged in the discussion to make this a workable process.

Asset replacement

The asset register in the reporting pack templates contains a row for overhead line poles. Where our asset investment programme involves the replacement of a Woodhouse mast line with the modern equivalent wood pole alternative, benchmarking of replacement costs for this line item based on additions would not take into account the relative expense of removing a Woodhouse mast as opposed to a like-for-like wood pole replacement. We note that the split between woodhouse masts and wood poles is shown as a memo item to all affected tables. We are satisfied that this enables the discrepancy to be represented adequately in the tables. Clearly we would expect that such memo items will be included as an integral component of Ofgem's cost assessment so that the specific cost data they contain is used, and adjusted for, in any benchmarking calculations performed in the future.

Another issue with the asset register concerns transformers. While transformer size is important, a consideration of the average size of installed units might be more helpful in understanding costs, for example an indication as to whether the replacement is like-for-like or the average percentage increase in size. We believe that separating transformers into sizes classes is not necessary.

Reinforcement

We have a specific concern relating to the tables in the 'Cost and volumes' pack related to primary reinforcement (CV2).

We believe that there should be a distinction between reinforcement to address security of supply issues (and potentially capacity issues at the same time) and reinforcement to address simple capacity issues. This would provide for greater insight into and better benchmarking of EHV and 132kV related reinforcement.

A DNO acting in the best interests of customers will defer major upgrades, taking actions to mitigate the loading of plant in the short term. Going forward, smart solutions including demand side response would be examples of this; however they only form a subset of the techniques available. Conscientious DNOs have utilised, and will continue to utilise, load transfers and minor lower voltage upgrades to achieve the same effect. This will continue until

such time as a higher voltage upgrade is unavoidable or more economical than these lesser actions.

The driver at this time will typically be security related rather than simply capacity related, as the use of such techniques consumes the abnormal running capacity that security of supply depends upon. Furthermore, the costs involved can be high relative to actual LI improvement or capacity increases at the time of reinforcement because the action is simply being taken to address the final marginal increase in load, but the costs are commensurate with the threshold being crossed. Additionally because the cost of a small higher voltage reinforcement is not proportionately lower than that of a large higher voltage reinforcement, at this time it is normally economically wise to reverse some of the load transfers used previously to allow their future use for managing loading issues in the locality. Doing so reduces the long term reinforcement costs, but current regulatory reporting does not capture the earlier benefits of avoided reinforcement over a period that might encompass several regulatory periods.

Given that these costly upgrades will generally be undertaken to avoid upcoming issues involving both security and capacity, rather than simply capacity, then splitting capacity driven and security driven reinforcement costs would assist in fully understanding this area of expenditure.

Drivers

In respect of table D1 'Drivers' and in line with our response to question 3 above, we would welcome further engagement on the area of benchmarking as part of a re-convened cost assessment working group. We understand table D1 is aimed at collecting only a limited amount of high level cost driver information as the ED1 period progresses. It is important that the decisions around cost assessment benchmarking are not constrained by this table and the approach can be refined and developed throughout the ED1 period.

We have some thoughts on how this table could be developed and we would welcome the chance to share and discuss these with you in March 2015.

Time to Connect Incentive

Although we are involved in ongoing discussions as to how the Time to Connect Incentive will function, we would like to clarify a number of concerns we have around the current drafting of the incentive. We are aware of a number of areas where we believe clear guidance needs to be provided in order to allow this incentive to work. In order for Ofgem to provide this guidance, a number of decisions need to be made in cooperation with DNOs.

The areas that we have identified as being particularly important to resolve are

- when to start the clock;
- the minimum information requirements; and
- the reliance placed upon customers to respond.

These areas are discussed in more detail in Annex G of our response template. We would welcome the opportunity to further engage with Ofgem in this key area.