

The Voice of the Networks



Mick Watson
Senior Advisor, RIIO Finance
Office of Gas and Electricity Markets
9 Millbank
Ofgem
London
SW1P 3GE

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Dear Mick,

Statutory Consultation on a Proposal to Modify the Price Control Financial Handbook held by Network Operators

1. Please find below the response from Energy Networks Association to the above consultation on proposals to amend the Price Control Financial Handbook held by Energy Networks Association (ENA) electricity and gas transmission and distribution network operator members.

About ENA and our Members

2. Energy Networks Association (ENA) represents the “wires and pipes” transmission and distribution network operators for gas and electricity in the UK and Ireland. This response comes on behalf of a number of our members¹ who control and maintain the critical national infrastructure that delivers these vital services into customers’ homes and businesses.

3. ENA welcomes the opportunity to respond to the proposals set out in the consultation. ENA members are generally supportive of the proposed modifications to the Financial Handbook and the underlying policy intent. Our response therefore is focused on the approach that has been taken in a number of areas in order to achieve the policy intention.

Pensions Handbook

4. We have set out some specific areas that Ofgem may wish to take into account when considering next steps and which we believe will give greater clarity to this process and balance the interests of existing and future consumers. For ease of comprehension our response is aligned with and corresponds to the relevant sections within the Financial Handbook. This response does not address the work ongoing in relation to the RIGs development which is being discussed with the ENA and its members.

¹ National Grid is not a signatory.

Ofgem Approach to Reasonableness Review

5. The proposed drafting of the Financial Handbook does not include details of matters Ofgem will consider in its review or how its assessment will be translated into financial adjustments. We would therefore like to understand Ofgem's approach to the reasonableness review more explicitly. In the absence of this information there is a degree of uncertainty particularly given Ofgem's intention not to benchmark actuarial assumptions or apply hindsight bias in their assessment.

Process for Revising Pension Allowance Values and for a Reasonableness Review

6. The timing of submissions is currently under consideration within the ENA's RIG's Working Group. Our current view is that there is a need for some revision of the 'due dates' and these will be communicated to Ofgem in due course as part of that process. Any changes will naturally need to align with the relevant chapter of the Financial Handbook.

Definition of ABV and ABC – Paragraphs 3.36 and 3.41

7. We consider that the phrase "*funding by the licensee out of negative cumulative payment history variances*" in the definition of ABV (similarly repeated for ABC) can be misleading. For instance, it could suggest that ABV could not be bigger than the cumulative payment history variance (D-E) calculated in paragraph 3.38, whereas this might be the case.

8. In order that ABV and ABC are not constrained by the value of the payment history calculation in 3.38, we would suggest that the phrase referring to negative cumulative payment histories is deleted. The licensee would then agree the valuation method in writing with Ofgem as per the note in paragraph 3.36.

Payment History Allowances – Paragraph 3.38

9. In line with previous feedback, we believe that payment history variance value (V_{rr}) should, where possible, take into account the latest available information. Specifically, based on the current drafting, the cumulative pre-valuation payment history variance value at the end of the Reasonableness Review year 'rr' does not include the variance in the two years between valuation date and date of reset of base allowance.

10. We accept that when combined with the PBAPA formula, it would appear to give the same overall answer as the alternative method proposed and we also appreciate the additional guidance in 3.42 that indicates that the overall revenue profile should be considered. We would appreciate further reassurance by additional words in (a) paragraph 3.42 to make it clear that licensee may take into account expected changes to payment history allowances at next reasonableness review in proposing profiles and (b) in paragraph 3.49 the authority must consider all of the factors that the licensee considered relevant in making its proposal in deciding whether to superimpose its own profile.

Option to present a truncated Vrr - Paragraph 3.40

11. Consistent with our comments on paragraph 3.38 we also find this paragraph unclear. For example, the meaning and intention of “*and rolled forward for payment history variances arising since the valuation date relevant to that earlier review*” is particularly unclear. It could be helpful if Ofgem were to provide an example of the truncated Vrr formula that it would accept under this paragraph.

Clarity of algebra an interpretation risk

12. The algebra used under Chapter 3 of the Handbook is complex and may give rise to unwanted risk of varying interpretations across licencees. We appreciate the work that has already been carried out in providing us with example workbooks. However, anything further that Ofgem may be able to do to give greater clarity and certainty with regard to the proposed formulae would be appreciated.

13. One option could be to provide each licensee with a workbook containing their individual data to 2015-16 populated at the same time as issuing the modification notice. This will help to ensure consistency of interpretation between individual licencees and Ofgem and would be helpful to the acceptability process.

14. Finally, ENA would like to thank Ofgem for its positive engagement with our members throughout this process. We would also welcome the opportunity to engage prior to the conclusion of the matters raised in this response. If you would like any additional information in relation to this letter, please contact John.Spurgeon@energynetworks.org.

Yours sincerely,



David Smith
Chief Executive