



Whether or not to have an ED1 mid-period review

Northern Powergrid's response to Ofgem's consultation dated December 1, 2017

KEY POINTS

Obviously, Ofgem should consider any genuine candidates for a mid-period review but it should act properly as an economic regulator and immediately dismiss any changes to the scope of the review. Such changes would represent a re-opener of the price control, undermine confidence in the regulatory regime and not be in the interests of current and future consumers.

- When Ofgem set the mid-period review framework for RIIO-ED1, it gave itself scope to trigger a mid-period review, and make the required changes to cost allowances, if it needed to:
 - Add an entirely new output, based on network user needs; or
 - Change an existing output, where justified by a clear change in government policy.
- The first half of the consultation includes several issues that could justify new outputs.
 - We can see how some stakeholders might judge that some of the issues – like DSO or electric vehicles – give rise to the need for a new output. But we do not believe there are any cases that are sufficiently strong at this point in time for a new, formal output.
 - Moreover, the terms of the mid-period review also require Ofgem to make full allowance for any incremental costs. As yet, we do not think any of the candidates have been shown to justify incremental costs beyond those covered by the existing price control.
 - Overall we believe that these emerging issues, whilst very important, remain within the scope of the risk that companies bear when they take on a price control. Accordingly, Ofgem should err on the side of consumers and rule them out.
- There also are a number of clear changes in government policy set out in the consultation:
 - Most of these would also require extra cost allowances.
 - They also have a relatively weak link to the existing outputs. And so here, again, we think Ofgem should err on the side of consumers and rule out any changes.
- The consultation goes on to raise serious questions about widening the mid-period review beyond the type of issues it was designed to address.
- Regardless of its decision on any other items, Ofgem should clearly and decisively confirm – as soon as practicable – that any changes in scope, especially the additional issues considered in section 3, will not be considered.
- Any changes to financial parameters and incentive targets would be contrary to explicit commitments made in Ofgem's RIIO-ED1 strategy decision, and represent a wholesale re-opener of the price control.
- The act of consulting on an option to set aside clear commitments is itself damaging to investor confidence and so to customers' long-term interests. If a u-turn on previous commitments by Ofgem were to raise the cost of capital by just one percentage point, it would cost consumers in excess of £800m **per annum** from the early 2020s onwards – the costs to future consumers would outweigh any short-term benefits to current consumers.

1. Overview

1. When Ofgem set the RIIO-ED1 price control, it recognised that the arrangements must be responsive to certain changes, and made allowance for a potential mid-period review of outputs (ED1-MPR).
2. The scope of the ED1-MPR was tightly defined, and Ofgem made many statements in its RIIO-ED1 strategy decision to this effect.
3. Ofgem is now going through the process of determining whether it ought to undertake an ED1-MPR. In mid-2017, it published a call for evidence, and in December 2017 it published its 'Consultation on a potential RIIO-ED1 Mid Period Review' (the consultation). If it does decide to hold a mid-period review, and make changes to RIIO-ED1, these will come into effect from April 2019.
4. This document sets out Northern Powergrid's response to the consultation. In short:
 - a. There are several candidates that could fit within the scope of the RIIO-ED1 mid-period review, but which presently lack clarity over the impact on outputs in the ED1 period.
 - b. Ofgem should not broaden the scope of the ED1-MPR beyond the tight scope it emphasised it was adopting in its RIIO-ED1 strategy decision. To do so would be highly damaging.
5. Since none of these items meet the high bar that Ofgem established in its strategy decision for an ED1-MPR, Ofgem should not hold one.
6. The rest of this document sets out our response to Ofgem's individual questions.

2. Responses to Ofgem's consultation questions

Ch 2 Question 1: Do you agree with the initial view we set out in this section [2] against each individual issue?

7. In short, if Ofgem maintains the pre-defined tight scope of the ED1-MPR (which we believe it should), then we agree with Ofgem's initial view as set out in section 2.
8. However, we also agree with Ofgem that several of the issues would have the capacity to fall within the scope of a mid-period review, but for a lack of clarity on the requirements at present. Electric vehicles (issue 1), the clean energy package (issue 2), cyber-security (issue 4) and DSO requirements (issue 6) are the strongest candidates, as they each have several of the properties required for a mid-period review, in most cases to introduce new outputs. For all of these, new information may come to light over time. Therefore if a tightly defined ED1-MPR proceeds on any issue, all these of these issues should be kept in scope for the time being, so they can be included in the outcome of the review should sufficient clarity emerge during the course of the review.
9. In taking its decisions on whether or not to rule out any particular issue, Ofgem should also be very clear about which limb of the test for an ED1-MPR is not being met. To aid this clarity, we set out further comments on these tests in the context of individual issues below.

Ch 2 Question 1: Do you agree with the initial view we set out in this section [2] against each individual issue?

10. Before responding to this question, we find it helpful to be clear on the test that Ofgem must apply under the pre-defined scope of the ED1-MRP set out in the ED1 strategy decision.

'The scope of the mid-period review of output requirements will be restricted to cover:

- *material changes to existing outputs that can be justified by clear changes in government policy (e.g. if government policy on climate change changes, a higher or lower level of delivery or performance may be needed) [and]*
- *introducing new outputs that may be needed to meet the needs of consumers and other network users'.¹*

11. There are therefore two tests that could justify an ED1-MPR, one of which relates to changing an existing output, and one of which relates to adding a new output.

¹ Ofgem, 2013, RIIO-ED1 Strategy Decision, Uncertainty Mechanisms, page 41, para 5.2

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12. These tests each have multiple limbs. There are three limbs to the test for an ED1-MPR to modify an existing output.
- a. First, there must be a clear change in government policy.
 - b. Second, this must justify a change in an existing output.
 - c. Third, the change must be material – although Ofgem explicitly retained flexibility over what constitutes material (instead setting out a list of relevant factors it would consider)².
13. There are also three limbs to the test for an ED1-MPR to create a new output.
- a. It must be the case that consumers or other network users **may** require a change.
 - b. The requirement must be for a new output.
 - c. The new output must be in the interests of consumers (i.e. the benefits must exceed the costs)³.
14. It makes policy sense that the test for modifying an existing output has a high bar and is tough to meet. Ofgem explicitly intended that the ED1-MPR not be used as an excuse for a mini-price review and therefore ruled this out.⁴
15. The test for adding a new output based on the requirements of consumers is perhaps easier to meet than the test for changing an existing output, since there is no materiality threshold except that the output must be in the interests of consumers. Again this makes policy sense – when Ofgem identifies that a new output would be in the interests of consumers, it is reasonable for Ofgem to add it to the price control provided that it provides funding. This would not damage regulatory certainty and investor sentiment, especially since the scope of the ED1-MPR so explicitly requires that funding be provided for the new requirements on an incremental basis (i.e. not treating this additional funding as being fungible with any existing under-spends).⁵

Issue 1 – Electric Vehicles. *Ofgem's initial view is that there is currently not enough clarity around the changes in outputs required to accommodate EVs to justify an MPR.*

16. Issue 1 relates both to a change in government policy and to changing requirements of energy consumers; therefore it could justify an ED1-MPR to modify existing outputs or to add a new output.

² Ofgem, 2013, RIIO-ED1 Strategy Decision, Uncertainty Mechanisms, page 41, para 5.6

³ Ofgem refers to this additional limb in the Strategy Decision Uncertainty Mechanisms document, when it refers to adding 'new outputs that are in the interest of consumers and other network users' (para 5.9).

⁴ Ofgem, 2013, RIIO-ED1 Strategy Decision, Uncertainty Mechanisms, page 43, para 5.19

⁵ Ofgem, 2013, RIIO-ED1 Strategy Decision, Uncertainty Mechanisms, page 41, para 5.9

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17. There has been a clear change in government policy in relation to electric vehicles, which is likely to require electricity distributors to provide additional capacity in order to accommodate more home car-charging, and still meet reliability and availability targets. At present the timescales are relatively long and the extent of the work required by distributors remains unclear. It is therefore not yet clear that the impact on existing outputs within the RIIO-ED1 period will be material relative to the forecasts used in setting the price control.
 18. On the test for whether existing outputs should be modified, we therefore with Ofgem that there is currently no basis on which to modify an existing output. We do however consider that the issue should be kept under review (and retained in the process) for as long as the mid-period review process continues progressing, in case new information emerges.
 19. Turning to whether the test for a new output is met, there certainly may be a requirement of consumers for a new output. There has been a major change in the road transport sector. Diesel vehicles have become suddenly unpopular and further local and/or national regulation of their use is very likely, even in the short term (for example in responses to EU pressure over the current levels of city centre pollution). This leaves petrol, electric and hybrid as the main commercially available alternatives to take up diesel's lost share. In this environment, there could be a consumer need for a new output. Whether or not this is in the interests of consumers will depend on the costs relative to the benefits.
 20. At present Northern Powergrid believes that it is too soon to say. We have not seen enough demand from our end-users through our stakeholder engagement to suggest that the benefits of a new output would outweigh the costs within the ED1 period. This is more likely to be the case at RIIO-2.
 21. We therefore think that Ofgem should decide not to hold an ED1-MPR on this ground. However, if Ofgem does progress a tightly-defined ED1-MPR on any issues, it would make sense to retain 'electric vehicles' in the process in order to fully explore what new output might be required, and in case further information comes to light during the course of the process.

Issue 2 – Implementation of the European Clean Energy Package. *Ofgem's initial view is that there is currently not enough clarity around any changes in outputs required to accommodate the implementation of the European Clean Energy Package to justify an MPR.*

22. The European Clean Energy Package is a major piece of EU legislation that will affect the energy sector and how it conducts its business. The EU states that it has 'the goal of providing the stable

legislative framework needed to facilitate the clean energy transition'.⁶ The legislation will come into force in the relatively near term, and since it will apply to the UK it will start to impact upon UK energy networks thereafter.

23. There has been a clear change in government policy (since EU law automatically becomes UK law). However, the exact impact on UK energy networks within the ED1 period is not yet known, and therefore we lack certainty over which existing outputs it could justify a change to. Moreover any change may not pass a materiality test (at least within the ED1 period).
24. At present we therefore agree with Ofgem that there is a lack of clarity over the exact impact on outputs within the ED1 period, and therefore this issue does not provide a reason to hold an ED1-MPR. It is however possible that at some point sufficient clarity may emerge that the clean energy package does justify a material change to an existing output. If Ofgem does progress a tightly-defined ED1-MPR on any issues, it would make sense to retain the 'clean energy package' in the process in order to fully explore what adjustments to existing outputs (and associated additional funding) might be warranted, in case further information comes to light during the course of the process.

Issue 3 – National Flood Resilience Review. *Ofgem's initial view is that there has not been a material change in outputs because DNOs should accommodate any required changes within their existing programmes. Ofgem therefore considers that the issue is out of scope.*

25. Following the storms and flooding of December 2015, the government set up the National Flood Resilience Review in January 2016, which published a report in September 2016. This report shows that there was a clear change in government policy.
26. In order to justify an ED1-MPR, this change in government policy would need to justify a material change to one of the existing outputs. Since the RIIO-ED1 suite of outputs does not contain a specific 'flooding' output, instead encompassing the issue within the much broader reliability and availability outputs, it is difficult to see how this policy change could justify a **material** change to any of the outputs. Ofgem should therefore discount this issue as a reason for an ED1-MPR.

⁶ <https://ec.europa.eu/energy/en/topics/energy-strategy-and-energy-union/clean-energy-all-europeans>

Issue 4 – Resilience of Networks and Information Systems. *Ofgem's initial view is that the implementation of the NIS Directive will not require material changes to existing outputs and is therefore not within scope of an MPR.*

27. The consultation refers to the EU Network and Information Systems (NIS) Directive, which was passed in July 2016 and comes into force in May 2018. Any piece of legislation introducing new requirements is by definition a clear change in government policy, and therefore this issue could potentially meet the test for a change to an existing output. However, since there is no information systems resilience output, there cannot have been a material change to any of the existing outputs. The issue can therefore be discounted as a basis for a change to an existing output.
28. But new legislation is not the only way in which cyber risk has become more of an issue since the start of the RIIO-ED1 period. Consumers have undoubtedly become more aware of the risk of information loss to cyber-attack, while the perceived risk of attempts to access network control systems has increased. Cyber-security **could** be seen as a bit like the safety output – it's about how we do business, rather than the electricity supply that we actually deliver to consumers. There **may** therefore be a consumer requirement for a new output, and so this issue **could** meet the threshold for an ED1-MPR to set a new output – provided that a new output would be in the interests of network users.
29. However, we do not think that the analogy to the safety output is strong enough to justify a new cyber-security output. The safety output is one where we have prominent role interacting with the public, raising awareness of safety risks associated with electricity assets, as well as meeting our obligations to our staff by ensuring they can work safely. Cyber security for a network company is much more something that companies need to take care of in the background, as a back-office function, without the need to interact with the public.
30. At present we have not identified strong evidence from our stakeholder engagement that consumers believe an output is necessary. Consumers are also protected by the relevant legislation, again weakening the case for a new output.
31. What certainly is that case is that the cost of running our business has increased, through a combination of greater external threat and also tougher legislation ensuring stronger protections are put in place. This is just another of the risks that companies take on under the price control framework that Ofgem has established. The fact it happens to have cut against electricity distributors doesn't justify a mid-period review.

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32. Overall we therefore think that Ofgem should decide not to hold an ED1-MPR on this ground. However, if Ofgem does progress a tightly-defined ED1-MPR on any issues, it could make sense to retain 'cyber' in the process in order to fully explore what new output might be required, and in case further information comes to light on it being cost benefit justified during the course of the process.

Issue 5 – Black Start. *Ofgem considers the issue to be out of scope as it does not constitute a change in outputs and because the RIIO framework allows any impacts to be addressed through other means.*

33. Black Start refers to a long-standing programme to enhance the ability of networks to re-start in the event of a complete power system failure.
34. The consultation states that '*Two stakeholders referred to potential changes that may require network assets to maintain resilience beyond the levels set out for RIIO-ED1.*⁷ The consultation provides no further details, so we cannot comment on whether these changes represent a clear change of government policy. However, since there is not a specific 'black start' output in the RIIO-ED1 package, it is difficult to see how any such change could justify a material change to the existing suite of outputs. Instead black start is just one of many factors that contribute to the reliability and availability outputs.
35. From our point of view, we are on track to deliver our business plan in this area at a cost that is broadly in line with our allowances. Even if some external factors increase our costs of delivering this plan, this may still not justify an ED1-MPR – risks like this can and do go against us in the ordinary course of business, delivering our existing outputs.
36. We therefore think that Ofgem should discount this issue as not justifying an ED1-MPR.
37. Ofgem also states that black start requirements can be addressed through the RIIO-ED1 close out. We were not aware of this being the case so it would be helpful if Ofgem could cite the relevant references on which it is basing its view. If there is an alternative uncertainty mechanism to the ED1-MPR, then the scope of the ED1-MPR would explicitly exclude issues that can be adjusted for through other mechanisms.⁸ This would reinforce our view as stated in the previous paragraph, that this issue should be discounted whether or not a tightly-defined ED1 MPR progresses.

⁷ The consultation, para 2.12

⁸ Ofgem, 2013, RIIO-ED1 Strategy Decision, Uncertainty Mechanisms, page 42, para 5.11

Issue 6 – Whole-system outcomes and the transition to Distribution System Operator. *Ofgem's initial view is that this does not require material changes to outputs for ED1, and that these issues are therefore out of scope.*

38. The DNO's role is changing to one where networks are actively managed. We are already moving incrementally towards a DSO role, through an £83m investment in operational IT, communications and network equipment across our two licensees.
39. This process of change towards a DSO role has been anticipated for some time. Indeed, Northern Powergrid structured its RIIO-ED1 business plan to recognise the process and take incremental steps towards the end goal. But the RIIO-ED1 settlement itself does not include any associated primary outputs, and any impact on consumer outcomes would be implicit in the reliability and availability and environment outputs.
40. However, this issue remains one where consumers and other network users 'may require' a new output. We think that through our RIIO-ED1 business planning process we have put ourselves in a robust place relative to any such requirements. And we have not seen evidence from our own stakeholder engagement that consumers and end users do require a new output beyond those put in place in the RIIO-ED1 price control, at least in the near term.
41. We do think that this position may change with time, and the longer that goes on the more likely it will be that a new output will be required. We expect this to be a factor worth considering in the context of the RIIO-2 framework and RIIO-ED2 strategy decision, and even there we recognise that the existing framework may be sufficient, perhaps with some evolutionary modifications.⁹
42. At present, however, our view is that the role needs to evolve incrementally, and therefore we do not think it is possible yet to formalise a new output. We therefore think that Ofgem should decide not to hold an ED1-MPR on this ground. However, if Ofgem does progress a tightly-defined ED1-MPR on any issues, it would make sense to retain 'DSO' in the process in order to fully explore what new output might be required, and in case further information comes to light during the course of the process.

Issue 7 – Smart Meters. *Ofgem's initial view is that this is beyond the scope of MPR.*

43. The consultation states that one stakeholder has raised the issue of smart meters, and service level agreements for dealing with defects. The issue relates to commercial and contractual arrangements between DNOs and energy suppliers and therefore is not due to a change in government policy, so it

⁹ Northern Powergrid, August 2017, Response to Ofgem's RIIO-2 open letter dated 12 July 2017, pages 4-5, paras 15-19

is outside the scope of the mid-period review. Ofgem should therefore discount it from the process on this basis.

44. Indeed, this issue is certainly outside the scope for the ED1-MPR because the stakeholder was particularly concerned to ask '*what would what would happen if DNOs failed to meet the terms of the SLA, given that they have received funding for this work*'¹⁰ The RIIO-ED1 strategy decision stated that '*the mid-period review is not an opportunity to penalise companies for non delivery*'¹¹, instead highlighting that any issues would be addressed through the mechanisms in place as part of the price control arrangements. Ofgem should therefore decide that this stakeholder's issue is out of scope for the ED1-MPR and instead refer the stakeholder to the RIIO-ED1 strategy decision, along with the commercial and contractual arrangements which govern the relationship between energy suppliers and electricity distributors on the smart meter roll-out.
45. The consultation also notes that electricity distributors have highlighted the slow progress of the roll-out, and also the higher than expected rate at which distributors' have needed to undertake work on their assets to facilitate the roll-out. This is being accommodated through the uncertainty mechanisms in place under RIIO-ED1.
46. For completeness we note that there has been a change in government policy relating to smart meters since the RIIO-ED1 period began, since the government has softened its ambition for smart meter installation to being one whereby every household will be **offered** a smart meter by 2020, and also introduced the possibility of an extended timeframe for the roll-out beyond this¹². This means the roll-out may be substantially incomplete come 2020, whereas aspects of the design of the RIIO-ED1 price control (in particular, the end-date on some of the smart meter uncertainty mechanisms) were predicated on the assumption the roll out would be complete by 2020.
47. As we highlight at paragraph 53 below, we believe this issue would fall within the slightly extended scope that Ofgem has consulted on in relation to the WPD rail electrification issue. So if Ofgem does widen the scope in that way, an extension of the end-date of certain smart meter uncertainty mechanisms should also be included within that wider scope.

¹⁰ The consultation, page 16, para 2.19

¹¹ Ofgem, 2013, RIIO-ED1 Strategy Decision, Uncertainty Mechanisms, page 41, para 5.8

¹² The Smart Meters Bill 2017-19, currently progressing through parliament.

Ch 2 Question 2: Have you identified any other issues not covered in this section that should be considered within the scope of the ED-MPR process?

48. Ofgem has followed a robust process for identifying issues that could potentially fall within the scope of an ED1-MPR, and we have not identified any other issues not covered in this section of the consultation.
49. We do not believe that it would be in consumers' interests for Ofgem to alter the scope of the ED1-MPR. If it does, however, we presume Ofgem would consult to identify further issues that may fall within that wider scope. Although some stakeholders have seen fit to offer unsolicited views, this has not yet been consulted on.

Ch 2 Question 3: What are your views on a discrete extension of the ED-MPR scope as described in paragraph 2.30 (rail electrification)?

Issue 8 – Rail Electrification. *Ofgem is seeking views from stakeholders on the merits of a small extension of the ED-MPR scope, limited in a manner consistent with the focus of the Strategy Decision on external factors, enabling Ofgem to consider material changes to discrete projects with clearly defined deliverables, driven by clear changes in government policy. Ofgem invites views on whether customers should be entitled to the same refund where the costs have not materialised at all because of a clear change in government policy.*

50. If the rail electrification issue falls within the scope of the ED1-MPR then it should be adjusted for. If it does not, then it should not. Ofgem should therefore consider carefully the defined scope of the ED1-MPR, as set at paragraph 1.4 of the consultation, and whether this particular issue meets it.
51. We have therefore applied the three limbs of the test for a change to an existing output, set out at paragraph 12 above, to the WPD rail electrification issue:
- a. There was a clear change in government policy when the government announced it would no longer progress rail electrification on several railway lines.¹³
 - b. The change has clearly affected the number of diversions that WPD must deliver – but the test Ofgem must answer is whether this requires a change to any of the existing outputs.
 - c. The materiality test is more subjective since this was defined in terms of issues Ofgem would consider rather a fixed threshold – but the amount of money involved appears as though it

¹³ <https://www.gov.uk/government/speeches/rail-update-bi-mode-train-technology>

would justify the administrative costs of a review, and given that Ofgem is consulting on the issue we presume it must consider it to be material.

52. The first and third limbs of this test are met. But the second is equally important, and if Ofgem cannot identify any outputs linked to the funding, then the issue falls outside the scope of the ED1 mid-period review and should not be taken forwards.
53. We do not believe that it would be in consumers' interests for Ofgem to alter the scope of the ED1-MPR. If it does, however, we presume Ofgem would consult to identify further issues that may fall within that wider scope. We also note the change in government policy implementation noted at paragraph 46 (above) constitutes a very similar issue. Therefore, if Ofgem does decide to widen the scope of the ED1-MPR in the manner described under issue 8, we think Ofgem would at the same time bring into scope the impact of the changes in the smart metering timetable that have not been catered for in the smart meter uncertainty mechanisms built into RIIO-ED1. Ofgem would need to adjust these mechanisms so that they run until the end of the RIIO-ED1 period.

Ch. 3 Question 1: What are your views on a potential significant extension of scope to capture financial and incentive performance and design? Ofgem welcomes views from stakeholders on the analysis presented in the draft impact assessment.

54. If changes were made to financial parameters and incentive targets this would be explicitly contrary to commitments in Ofgem's RIIO-ED1 strategy decision, and represent a wholesale re-opener of the price control.
55. Ofgem was explicit that the scope of the mid-period review was tightly defined, for example saying that it would hold '*a tightly-defined mid-period review of output requirements*'¹⁴ and that '*It is not intended to be an opportunity for either Ofgem or the DNOs to conduct a mini price review. As such we are keeping the scope of the mid-period review tight.*'¹⁵
56. Ofgem also explicitly committed to not allowing the ED1-MPR to be an opportunity to hold a mini-price review or to re-open output targets, incentives or cost allowances that were set at the price review.

*'It is not an opportunity for either us or the DNOs to conduct a mini price review or re-open decisions taken in the RIIO-ED1 review.'*¹⁶

¹⁴ Ofgem, 2013, RIIO-ED1 Strategy Decision, Overview, page 38, para 8.2

¹⁵ Ofgem, 2013, RIIO-ED1 Strategy Decision, Uncertainty Mechanisms, page 43, para 5.19

¹⁶ Ofgem, 2013, RIIO-ED1 Strategy Decision, Overview, page 41, para 8.20

*'the mid-period review will not be used to adjust the output measures or output incentives that were set at the price control review.'*¹⁷

*'The potential adjustment to the revenue allowance from the mid-period review of output requirements will not be used to reduce charges to consumers where a company has delivered at lower costs than expected at the price control review'*¹⁸

57. Indeed, Ofgem anticipated the possibility that wider stakeholders might wish to use the ED1-MPR as an opportunity to re-open price control review decisions, and encouraged them to instead provide views on the DNO plans at the appropriate stages of the price review.

*'The submission of business plans is the key opportunity for DNOs to propose the outputs they believe are required for RIIO-ED1. Stakeholders should provide their views on the DNOs plans and our proposals for each DNO at the appropriate stages of the review. The mid-period review should not be seen as an opportunity to re-open decisions taken at the price control.'*¹⁹

58. If Ofgem were to go back on all of these very clear commitments, investors would have no choice but to conclude that politically driven pressures had given rise to a mis-use of the mid-period review mechanism. That would damage investor confidence in Ofgem and all of Ofgem's RIIO price controls, raising the cost of new equity and debt finance.
59. Indeed, the act of consulting on an option to set aside clear commitments is itself damaging to investor confidence and so to customers' long-term interests. Ofgem has already caused detriment to investor sentiment, and hence consumer interests, and it should be seeking ways to undo this as quickly as possible in order to limit the extent of this damage.
60. We note that the draft impact assessment does not quantify the potential costs to consumers from a significant change in scope to the ED1-MPR. The total RAV of the energy networks regulated under RIIO, at the start of the RIIO-2 price control periods, will be around £80 billion based on the latest price control financial models (in money of the day). So if an Ofgem decision to re-open RIIO-ED1 raised the RIIO-2 cost of capital by just one percentage point, it would cost consumers in excess of £800m per annum over the 2020s. If the act of consulting on setting aside such clear promises has added just a tenth of this amount, the RIIO-2 period cost has already been £80 million per annum.
61. Given the magnitude of these figures, the costs to future consumers caused by increased regulatory risk associated with an economic regulator that does not keep its promises would outweigh any

¹⁷ Ofgem, 2013, RIIO-ED1 Strategy Decision, Uncertainty Mechanisms, page 40, para 5.3

¹⁸ Ofgem, 2013, RIIO-ED1 Strategy Decision, Uncertainty Mechanisms, page 41, para 5.8

¹⁹ Ofgem, 2013, RIIO-ED1 Strategy Decision, Uncertainty Mechanisms, page 43, para 5.19

short term benefits to current consumers. Ofgem's duties are of course to current **and future consumers** taken together, and therefore Ofgem has a duty to take (and announce) an early decision that these out-of-scope items will not be considered further, regardless of its decision in relation to other items.

62. This should not be a difficult decision. The regulatory contract relies on economic regulators keeping their promises.

Ch 3 Question 2: Do you have any views on the other issues raised in this section? [load indices and resetting connection targets]

63. The additional issues considered in section 3 are beyond the scope of the mid-period review as defined by Ofgem in its RIIO-ED1 strategy decision.

64. We therefore note for information that:

- a. Ofgem does not plan to make any changes to the load index targets for the RIIO-ED1 period.
- b. Ofgem expects to set time to quote and time to connect targets for the second half of the RIIO-ED1 period, as was always anticipated, in a process that is separate from any mid-period review.

65. We believe neither of these points are controversial.