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Dear Louise,

Call for input on 2019-20 ESO regulatory and incentives framework

Thank you for the opportunity to respond to the call for input on the ESO regulatory and incentives framework. The ESO has a key role in the energy system and so we are pleased to be supporting and shaping its development through Peter Emery, our CEO who is a member of the ESO User Group.

We are the Distribution Network Operator for the service area that serves 2.4 million customers in urban Manchester, Lancashire and rural Cumbria to the Scottish Border through our grid supply points.

It is important for stakeholders to be able to feed-in to the development of the regulatory and incentives framework, particularly as we approach the start of the first of the ESO's independent price controls following legal separation.

As we explained within our recent response to your call for evidence on the ESO's 2018 performance, we would like to reiterate our thoughts on the direction of ESO regulation and our belief that given the growing significance of the interface between ESO and DSO/DNOs in ED2, there will be increasing importance in ensuring regulatory arrangements are aligned, particularly between these parties. We can already see evidence of opportunities for consumer benefit through whole system thinking and believe that aligning these particular controls will support the increasingly interactive whole system thinking and solutions that are currently being developed and ensure they become fully embedded in RIIO-2.

We therefore propose a 2+5yr Price Control Review period is considered for the ESO. How this is implemented needs to be worked through but the benefits of this approach for consumers are likely to be material compared to any incremental costs.

By creating an alignment opportunity for ESO and DSO/DNO controls this can also allow more time for current experience to be fed into the development of the regulatory regime for the ESO and to allow customers and stakeholders to more fully engage with this and be responsive to change.

In response to the particular aspects of your call for input on proposed changes to the 2019-20 year:

ESO Roles and Principles

We support maintaining the four roles and seven principles as they are now, however would agree that clarity within the supporting guidance would help to be clear on the behaviours expected and that this guidance is published in a timely manner to allow the ESO to act accordingly. We would encourage Ofgem and the ESO to ensure that there is sufficient focus on the medium/long term issues. The ESO's vision is for an ESO which collaborates across networks with the DSO/DNO and others, plays a more active part in the energy system and helps to shape frameworks for markets. Whilst it is understandable that the first plan would focus on shorter term deliverables, future work-plans should also introduce activities which start to develop this long term vision.

The ESO's role should focus on Electricity Transmission and collaboration with other networks and stakeholders. DSO's are now being developed by all distribution companies so the ESO needs to place more emphasis on how they will collaborate with the DSO to work together to benefit all customers.

The Forward Plan process

Our understanding is that the final forward plan is published on the 31 March having published an initial draft on 31 January. As this forward plan has a start date of 1 April we suggest that this whole process should be brought forward by three months so it is complete before the plan starts for the next available cycle.

We support additional reporting on the ESO's internal expenditure and how they are allocating internal resources.

Following review, we do consider some of the year ahead Principles to be loosely defined and quite subjective and would therefore expect to see the clear and transparent performance panel assessments in order to improve the evaluation criteria as we move into the next years plan.

Within-year reporting requirements

We agree with Ofgem's view that no formal change is necessary at present as it is too early in the process to comment.

The Mid-Year Review and Performance Panel processes

We agree with Ofgem's view that any changes should only be considered after a full year's process has been completed. We would however suggest that there is much greater emphasis on the ESO providing robust supporting evidence which can be shared with stakeholders for feedback to justify its performance claims.

The evaluation process and financial incentive parameters

We believe it remains too early in the evaluation process to draw any strong conclusions on the process and financial parameters. We support maintaining the current equal weighting across all 7 principles as the incentive should remain on the ESO to fully consider all aspects of its responsibilities. Changing the fundamental framework of the financial mechanism so early in the process with limited notice to the ESO would undermine regulatory stability and confidence in the regime and therefore we would agree to maintain the existing arrangement for the 2019/20 year with any future changes subject to early engagement.

Yours sincerely



Paul Auckland
Head of Economic Regulation