

RIIO Team
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU
Ofgem

Electricity North West
Hartington Road, Preston,
Lancashire, PR1 8AF

Email: enquiries@enwl.co.uk
Web: www.enwl.co.uk

Direct line: 07879 115204

Email: paul.auckland@enwl.co.uk

Sent by email only to: RIIO2@ofgem.gov.uk

23 August 2019

Dear RIIO Team,

Electricity North West (ENWL) response to consultation on RIIO-2 tools for cost assessment

Thank you for the opportunity to respond to your consultation on the tools for cost assessment consultation. We note that this consultation “*primarily discusses issues relevant to... gas distribution cost assessment*” however given the importance of the process of cost assessment to RIIO-2 for all sectors, including electricity distribution (ED), we feel it prudent and beneficial to offer some high level input at this early stage.

Firstly, and for clarity, we are not seeking to influence the sector specific issues for gas distribution, electricity system operator, and gas/electricity transmission. As such we are not offering comment on the specific consultation questions, other than we agree that **the broad topic areas that the questions are addressing are likely to require consideration for ED** as well.

We support the collaborative process that has been run prior to this consultation release where companies have been able to work with Ofgem to ensure cost assessment methods and issues are clearly set out. We would expect a similar but independent process be conducted for ED thereby reflecting sectoral differences without prejudice from decisions made as part of this process. Key differences between sectors, such as the speed and degree of change in ED2, necessitate different approaches and will give rise to different outcomes. **Therefore the process, methods and tools of cost assessment needs to be considered on a standalone basis for ED.**

These differences are central to the narrative set out in the Open Letter released in early August in which it is stated that “*In many ways, the electricity distribution sector is likely (though it is not certain) to be the most dynamic of all the regulated energy sectors. We expect the electricity distribution networks to see the greatest impact arising from the forces of decarbonisation, decentralisation, and digitalisation*”.¹ All these **themes, changes and drivers need to be considered carefully when determining the tools for assessing costs for the next price control period**. It is not always going to be relevant that historic costs (observed) are appropriate for future activity given the change and increase in the role that DNO’s will play in the future.

¹ https://www.ofgem.gov.uk/system/files/docs/2019/08/open_letter_consultation_on_the_riio-ed2_price_control.pdf

We expect that although change to the existing process for ED1 is likely, that this would be the starting point for industry consultation through working groups. Using ED1 as a starting point should allow activity and intervention to be targeted to those areas requiring change very early in the process. Targeting the areas that require reform will allow effort and resources to be utilised more effectively, avoiding wasted time and effort on elements that are fit for purpose for ED2 as they were in ED1. This is crucial to allow early decisions and clarity to be provided to all companies given the timescales to business plan submission for ED2. We see this approach as providing a better overall outcome for consumers.

Additionally, it is important that the tools for cost assessment be focused on the outcomes of the work rather than the process and theoretical consideration. **Good cost assessment tools consider both engineering and economic logic where the final suite of tools makes sense on both fronts.** This will ensure legitimacy and trust, but should also deliver an optimal outcome for consumers as part of the wider price control process as long as the tools for cost assessment also consider the significant and differential forward looking drivers and policies for ED.

Further it is our firm position that any **engagement and working groups for RIIO-ED2 cost assessment start as early as possible and without delay.** Cost assessment is crucial for ensuring that customers, companies and other stakeholders have confidence in the outcome of a price control determination process.

I trust our response is helpful to you, and should you wish to discuss any aspect of our response further, please do not hesitate to contact me or my colleague Dave Darley (Regulation Manager, 07825 899363). We look forward to working with you and other stakeholders constructively on the tools for cost assessment for RIIO-ED2 presently.

Yours sincerely,

A handwritten signature in black ink, reading "Paul Auckland". The signature is written in a cursive, flowing style.

Paul Auckland
Head of Economic Regulation