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Our ref

Your ref

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Date

11th April 2019

Dear Mark,

RIIO-ED1 Closeout Methodologies

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc in relation to Ofgem's consultation on RIIO-ED1 closeout methodologies published on 20 March 2019.

There are no major issues that have been identified with the proposed methodologies. We provide answers to the specific questions posed within the consultation document in appendix A. We make a small number of specific points in appendix B. We also provide a track changed version of the methodology picking minor typos and proposing some changes for clarification.

We are pleased that Ofgem has taken a positive step towards defining the closeout methodologies ahead of the end of the ED1 price control. This should reduce delays and provide greater clarity on what data may be required to support the close out analysis.

Looking forward to RIIO-ED2, it is important to recognise the additional complexity that close out mechanisms introduce and therefore their use should be carefully considered and only applied where uncertainty has a material impact. Proliferation of numerous closeout methodologies and adjustment mechanism should be avoided.

Should you wish to discuss any aspects of this response please contact amichalowski@westernpower.co.uk.

Yours sincerely

ANDRZEJ MICHALOWSKI
Planning and Regulation Special Projects Manager

Appendix A

Question 1: What are your views on our proposed approach to assessing the impact of demand changes, and the cost of reinforcement or alternative solutions?

It is important to recognise that changes to patterns of demand or generation can have an impact on what parts of the network require reinforcement and what work is required.

It is also important to recognise the drive to develop innovative alternative solutions and provide credit for the application of these techniques for provision of capacity or demand reduction.

Question 2: Do you agree with our proposal to build on the approach taken at DPCR5 Closeout for load? Do you agree with our proposed approach?

Yes. The methodology developed for DPCR5 provides a good foundation for the assessment of RIIO-ED1 close out.

Question 3: Do you agree with our approach to load indices (LIs)? Is there an alternative you believe we should use?

Load Indices provide an indication of network investment need, but do not cover all situations where reinforcement is required. In particular they are focussed primarily on substations and therefore investment requirement on circuits is not fully represented.

We support Ofgem's proposal to use LIs as one of the sources of data to assess the efficiency of DNOs decisions.

We also agree that, due to their susceptibility to external influences and limited scope, they should not represent a specific outputs target.

Question 4: Do you agree with our proposal to build on the approach taken at DPCR5 Closeout for NASD?

Whilst the metrics are different in RIIO-ED1, the process of assessment should follow similar principles used in DPCR5 processes.

Question 5: Do you agree with the manner in which we have developed the DPCR5 approach? Is there an alternative approach you believe we should use?

We note that, in the second bullet of paragraph 3.9, Ofgem has proposed to spread adjustments in line with allowances. This is different to proposals made by Ofgem's cross-sector team where they proposed the use of actual expenditure in the Network Output Measure Incentive Methodology published on 6 Dec 2018.

The approach to spreading adjustments should reflect the difference between allowances and actual expenditure and therefore ideally would be applied by considering the difference between allowance and actual expenditure.

Ofgem's proposal in the close out methodology consultation (i.e. to use allowances) is more appropriate than the cross-sector proposal to use actual expenditure.

Question 6: Do you agree with our proposed approach to HVPs?

Yes

Question 7: Do you agree with our treatment of the interaction between HVPs and NASD for assessing an outputs gap for non-load related HVPs?

It is important to recognise that double counting may arise and introduce processes to avoid penalising DNOs twice.

Looking forward to RIIO-ED2, the overlap of uncertainty mechanism should be considered at the time of setting targets and where possible designed out when close out proposals are being established. For example the overlap between HVP and NASD could have been avoided if the activities in the HVPs had not been included in the NASD targets.

Question 8: Do you agree with our proposal for assessing link box volume delivery?

Yes

Question 9: Do you agree with our proposal for assessing Shetland costs?

Yes. Keeping the Shetland process aligned to the principles in other methodologies makes sense.

Appendix B

Derivation of NASD Incentive Rates

DNOs have been working in parallel with the consultation to derive the values required for ED1 NASD Opening Allowances.

The methodology and associated calculation spreadsheets are being finalised and will be submitted for Ofgem review.

It would seem appropriate to include the incentive rate values in the final version of the close out methodology.

NASD deadband

No time period is given for the determination of the deadband for NASD. The consultation states that this is dependent upon the investigations into data robustness.

We understand that the Ofgem Engineering Hub is aiming to have bilateral meetings with DNOs in June to discuss the findings of their site visits. There is no indication of when the investigations will be concluded.

We would appreciate Ofgem providing an indication of when the deadbands will be defined.

NASD penalty/reward

We have proposed a simplification of the process in X15 of the NASD methodology.

At present the reward and penalty has a separate financial treatment. Our proposal suggests that the reward and penalty can be treated the same way as all other adjustments (via processes specified in Annex E).