

Mark Hogan
OFGEM
10 South Colonnade
Canary Wharf
London
E14 4PU

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

Web: www.enwl.co.uk

Direct line: 07879 115204

Email: paul.auckland@enwl.co.uk

Sent by email to RIIO-ED1@ofgem.gov.uk

1 May 2019

Dear Mark

Electricity North West response to Ofgem's consultation on the closeout methodologies for RIIO-ED1

Thank you for the opportunity to respond to your consultation on the closeout methodologies for RIIO-ED1.

DNOs have been fully involved in the various working groups and we have provided our input and views throughout this process. As a result of the positive engagement during the working group process we have limited comments on this consultation.

We are pleased that Ofgem has been able to dedicate the time to the development of these methodologies ahead of 2023, learning from the experiences of DPCR5. We urge Ofgem to build on this progress and propose that closeout process for RIIO-ED2 is undertaken at the same time as the RIIO-ED2 licence is developed in order that clearly defined methodologies are created that are in alignment with policy intent whilst stakeholders are fully engaged in the process.

Our response consists of answers to each of your consultation questions, general comments and some further detailed comments on the document drafting.

Consultation Questions

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?

There is little detail provided on how Ofgem will assess the impact of demand changes with the majority of the onus put on the licensee through the Performance Assessment Submission.

We welcome Ofgem's clarification in A10 that efficiency assessment will be restricted to scope only and not unit cost analysis and support Ofgem's recognition of the role of Innovative Solutions to ensure that DNOs are not discouraged from carrying out such activities to drive efficiency for consumers.

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, we agree with the proposed approach, however would highlight that, in accordance with the definition for Load Related Expenditure, New Transmission Connection Charges are also included in this expenditure category as they are not explicitly listed in paragraph 2.4 of the consultation document.

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

Yes, we agree with the proposed role of LIs as part of the assessment of efficient LRE. We recognise that LIs only cover a part of companies' reinforcement expenditure on the higher voltage networks and only focus on demand constraints and therefore, in isolation, do not provide a complete picture of network performance and/ or capacity.

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

Yes we agree with the proposed development from the DPCR5 close out methodology, although we note that the DPCR5 equivalent scheme was punitive only and did not result in any revenue adjustments being made.

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?

Broadly yes (we assume the question relates to ED1 not DPCR5); we agree that the manner in which the proposal has been developed from the DPCR5 process is an appropriate approach. We would however note that both the materiality threshold and the opening allowance values have not been calculated and are 'to follow'. We are committed to continue to work with Ofgem on these aspects, without which the mechanism will be incomplete.

On a point of detail, we would like to highlight an error in 3.2 – the text should read 'The Health Index (HI) is a composite measure of the age, condition and duty of an asset which is then correlated to its associated failure probability.' PoF is not an input in itself to the HI calculation.

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

Yes we agree with the approach to the close out of HVPs. It is appropriate to review the expenditure and outputs associated with these high value projects.

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?

Yes we agree this is an appropriate manner to make adjustments to the NASD where output gaps are identified.

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

We note that this is a volume-driven mechanism hence subtly different in its operation to the others, with no precedent set during DPCR5 closeout. However, we agree it is reasonable to assess delivery of this programme of work for the two licensees who were within the 2017 reopener decision.

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

Again whilst being different to other closeout mechanisms and with no precedent in DPCR5, the approach proposed appears appropriate.

We do note that the window for the licensee to propose a relevant adjustment is September 2023 for both Shetland Extension Fixed Energy Costs and the Shetland Enduring Solution Process Costs, whilst the window for the Shetland Extension Battery Costs is July 2023. We question whether there is merit in aligning all three together to provide efficiency for both the licensee and Ofgem in reviewing all aspects together. We also note the drafting in sections vi, vii and viii of Technical Appendix 1 do not show any determination dates.

General Comments

Asset Management and Network Planning

Paragraph 1.9 makes reference to the potential of future review of processes and data. We do not believe this to be a matter related to closeout and await further details as to this programme of work being undertaken by Ofgem.

Consistency of referencing and wording

We note that there are a number of inconsistencies in referencing to the relevant paragraphs and /or licence conditions and that these would need to be cross-checked for final version to be published for ultimate inclusion in the RIIO-ED2 handbook. We have highlighted those we have identified within the detailed section of our response. There are also a number of areas which would benefit from consistency. For example Technical Appendix 1, follows a sequence of Overview, Calculation, Determination, but this is not consistent across all six methodologies which would be beneficial. The wording around determination dates would also benefit from being consistently applied.

Consultation on adjustments

Reference to consultation for adjustments differs throughout the mechanisms or is omitted on some, for example Technical Appendix 1 states that consultation on LRE adjustments will take place in paragraph X.6, however there is no reference to consultation on Net to Gross adjustments in paragraph X.10. We would expect Ofgem to be consistent and follow the set consultation process on such adjustments across all closeout mechanisms.

Tests and Materiality

The wording of the tests, threshold and materiality differs in the document for some of the mechanisms and we would suggest this is consistent and cross-referenced to the relevant licence condition.

Timing of PAS

The drafting of the PAS (Annex F) implies that Ofgem will issue a bespoke scope to each licensee depending on what additional information Ofgem feels it needs to conduct the assessments at the time, after completing its initial High Level Analysis (HLA). The HLA is to be completed by September 2023 (eg CRC3G.16) and the PAS by 31 December 2023 and therefore companies will need Ofgem to identify the relevant PAS scope as soon as possible following completion of the HLA in order to give licensees reasonable time to complete.

Detailed Drafting Comments

Annex	Para	Existing Text	Revision proposed/comments
Technical Appendix 1	X.9	.. in evaluating the licensee's justification is set out in Annex A	Replace Annex A with Annex B
Technical Appendix 1	X.12 is set out in Annex B	Replace Annex B with Annex C
Technical Appendix 1	X.13	CRC 5G.13	Should be CRC 5D.13
Technical Appendix 1	X.30/X.37 /X.38it will, by 30 November 2024	We believe this should be 2023 rather than 2024
Technical Appendix 1	Table X.1	SPMW Volumes – 6,073	The Ofgem decision document ¹ stated volumes of 4,137 to be delivered during RIIO-ED1 and 1,936 for RIIO-ED2. However it also stated that these were additional volumes above those specified in SPMW business plan, and therefore we would expect that the volumes in table X.1 should be the existing volumes committed in SPMW ED1 business plan, plus the 4,137 for ED1.
Technical Appendix 1	Table X.2	Unit cost £5,700	It is unclear what the source is of this cost, suggest a source is provided

¹ https://www.ofgem.gov.uk/system/files/docs/2017/10/open_consultation_letter_link_boxes.pdf

Annex A	A.6	... is set out in Annex E	Replace Annex E with Annex F
Annex A	A.15	...in accordance with steps 4 and 5 above.	...in accordance with steps 3 and 4 above.
Annex C	C.28	...is covered in Annex E of this document.	Replace Annex E with Annex F
Annex D	D.3 & D.6	Annex E	Replace Annex E with Annex F
Annex E	E.1	...for any of the relevant values specified in Table 1,...	Replace Table 1 with Table E1
Annex E	E.1 (i)	Calculate the value of the adjustment to the relevant value, as specified in Table E1, where a positive value specifies an increase, and a negative value specifies a reduction, ensuring the value of this adjustment meets the requirements of the relevant licence reference, as specified in Table 1. For UCSEFEC, UCSEBC, and UCSESPC, the adjustment will be the sum of the adjustments determined for each year of the ED1 Price Control Period.	Calculate the value of the adjustment to the relevant value, as specified in Table E1, where a positive value specifies an increase, and a negative value specifies a reduction, ensuring the value of this adjustment meets the requirements of the relevant licence reference, as specified in Table E1. For UCSEFEC, UCSEBC, and UCSESPC, the adjustment will be the sum of the adjustments determined for each year of the ED1 Price Control Period.
Annex E	E1 (iii) & E1 (vi)Table D1	Replace with Table E1

I hope these comments are helpful. Please do not hesitate to contact me if you would like to follow up on any particular aspect of our response.

Yours sincerely

Submitted by email

Paul Auckland
Head of Economic Regulation