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Mark Hogan
RIIO Electricity Distribution
Ofgem
10 South Colonnade
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Dear Mark,

Consultation on Methodologies for RIIO-ED1 Closeout

Citizens Advice has statutory responsibilities for representing the interests of energy consumers in Great Britain. This consultation response is completely non-confidential and may be published on your website.

We are broadly supportive of Ofgem's proposed methodologies to closeout these elements of the RIIO-ED1 Price Control (finishing in March 2023). We do have some questions that we have outlined below. If you would like to discuss any matter raised in more detail please do not hesitate to get in contact.

Load Related Expenditure

We are broadly in support of Ofgem's logic and approach to load related expenditure. However, we think it would be helpful if Ofgem were to provide a worked example to explain how the RAV would be adjusted, how the ED-2 revenue would also be adjusted and how the relative portions would be chosen. This should clarify which situations would result in falls or rises in RAV, as well as how this would avoid double counting (e.g. with the Annual Iteration Process).

Similarly, we would welcome clarification from Ofgem on what would constitute an "inefficient investment decision", which is mentioned but not defined in the consultation document.

Network Asset Secondary Deliverables (NASD)

We are broadly content with the approach being suggested by Ofgem. However we also recognise the potential downsides associated with complex calculations of risk where outputs are hard to measure and demonstrate. The proposed approach relies on a complicated set of categories and the scoring system lacks objectivity to some extent. These situations can enable networks to unduly benefit due to asymmetric information and we encourage Ofgem to formally review this risk against the value of such an approach.

We would like to see Ofgem provide further evidence to support the statement (para 3.1) that “as assets age and are subject to environmental conditions, the probability that they will fail increases.” There are a wide variety of assets regulated under RIIO, and the extent to which this statement is true may vary significantly. Allowing new equipment for intended consumer outcomes may not necessarily be the best approach in all situations in order to deliver benefits to consumers.

High Value Projects

The proposed approach appears to be objective and we are generally supportive of it. We would like Ofgem to provide some worked examples as the consultation document does not provide this detail. Further, we would encourage Ofgem to explain what measures they are proposing, to ensure that networks don't simply sub-divide large projects into smaller items, thus avoiding the £25m threshold. This appears to be a real risk, and Ofgem should introduce measures to avoid such incentives.

Link Boxes

These proposals seem reasonable and we offer qualified support for them. We do have a question over the level of funds allowed for this and specifically the basis for SPMW getting funding for it. This should be better explained by Ofgem, including why just the two DNOs made a claim. Most networks are not claiming and it would be helpful if Ofgem could clarify whether this is because they have been better managing their networks or if it is related to something else like the number of link boxes on their networks.

I hope that you find this response clear, and I would be happy to discuss any matter raised within it in more detail if that would be useful.

Yours sincerely

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