

## RIIO-ED2 Cost Assessment Working Group (CAWG) – 23<sup>rd</sup> June 2020

From: Ofgem

Date: 23<sup>rd</sup> June

Time: 10am to 1pm

Location:  
Teleconference

### Present

Ofgem  
UK Power Networks (UKPN)  
Western Power Distribution (WPD)  
Northern Powergrid (NPG)  
Scottish Power Energy Networks (SPEN)  
Electricity North West (ENWL)  
Scottish and Southern Energy Networks (SSEN)  
Centrica

### 1. Review of cost assessment working group discussions / position

- 1.1. Ofgem presented slides on the high-level building blocks of cost assessment for ED2 including a breakdown on what composed the econometric approach and aggregated analysis building blocks. Ofgem confirmed that the SSMD would be in December, rather than November 2020.
- 1.2. ENWL asked if there would be an open question in the SSMC on what estimation techniques should be explored or specific comments on particular techniques. Ofgem replied that the question would have to be quite broad, given the number of estimation techniques available. Ofgem noted that they would have to take into account the data available, and the minded-to positions of the other sectors.
- 1.3. ENWL stated that the CAWG had not discussed these estimation techniques in detail. Ofgem made the point that this could be touched on in future CAWGs. UKPN asked how open Ofgem are about what was done in GD2. Ofgem replied that GD is an example, as is ED1. For ED2, we have better historical data, but we will have a minded-to position based on experience. Some of the arguments for some of the estimation techniques are quite strong. Fourteen DNOs does not tend to lend itself to DEA, but these things are being developed; we have strong RIGs and will have strong BPDTs going forward.

### 2. SPEN presentation on Uncertainty Mechanisms for RIIO-ED2

- 2.1. SPEN presented slides on Uncertainty Mechanisms (UMs) noting the role of flexibility in ED2, and the potential uncertainty surrounding this. SPEN suggested that flexibility solutions might become available when the solution was not available at the Business Plan submission stage and the price of flexibility may be subject to some variability. ENWL questioned whether the proposed flexibility UM would sit alongside the proposed volume driver for Low Carbon Technology (LCT) uptake.

- 2.2. WPD highlighted that the importance of this interaction as the Overarching Working Group (OAWG) have tabled five different options for a Load Related Expenditure (LRE) UM and therefore a discussion is required on whether this proposal sits alongside these options. SPEN stated that the reason the issue was raised is because they have identified a gap in the conversation and the issue is not solely focused on the LV network.
- 2.3. WPD noted the challenge for Ofgem in terms of Cost Assessment. Unless Ofgem had visibility on the assumptions behind DNOs' flexibility solutions, it would be difficult to assess the volume of flexible solutions in respective areas. DNOs should be revealing more information on their flexibility assumptions in their Business Plans. WPD noted that depending on the EJPs, justification at scheme level would be needed to justify the choice of flexibility versus traditional solution.
- 2.4. UKPN commented that this also depends on how much flexibility was currently used by each DNO. NPg added that uptake and usage may vary by region and questioned how this would be taken into account.
- 2.5. UKPN further commented that there would need to be an assessment of the capacity of each network to use flexibility as an alternative to conventional solutions. UKPN questioned how to develop a methodology outlining an assessment framework to treat this issue in a consistent way, ahead of the business plan submission. One option discussed would be for all DNOs to assume a similar percentage of flexibility solutions versus conventional, for benchmarking purposes. Ofgem commented that costs could be looked at aggregated as well and discussion is required on what information is required in BPDts.
- 2.6. SPEN stated that due to a high level of LCT uptake in ED2, there could be an increased discovery rate of end-of-life cut-outs and would require service and upgrades. SPEN suggested a volume driver might be required as there will be uncertainty on the amount of work needed. Several DNOs discussed the interaction between the proposed volume driver and the smart meter programme.
- 2.7. SPEN continued the presentation and discussed the uncertainty surrounding Black Start in ED2. Increased resilience requirements could lead to a significant increase in costs. SPEN suggested that a reopener UM is used if Black Start requirements change in ED2. Ofgem noted that it would be useful for DNOs to collaborate to submit a common approach for black start.
- 2.8. **Action: DNOs to provide feedback on SPENs UM proposals by Thursday 2nd July.**

### 3. Forecasting and Scenarios

- 3.1. Ofgem and stakeholders discussed early forecast requirements, for which template proposals had been provided by Ofgem prior to the meeting. Ofgem started the discussion by reiterating the benefits of early forecasting for ED2, which had been covered in previous CAWG sessions.
- 3.2. Ofgem mentioned that the commentary template would be used to understand the assumptions behind the Excel forecast document. UKPN asked for clarifications on the

purpose of the two text boxes under each cost category in the commentary template. Ofgem explained that, for each cost category:

- The first text box would be used to comment on the results of the forecast; and
- The second text box would be used to comment on the assumptions made.

3.3. Ofgem stated that forecast results would be fed back to the OAWG, to assist their work on scenario development. UKPN pointed out the importance of DNOs using the early forecasting commentary consistently.

3.4. UKPN also asked whether forecast data would be shared among DNOs. Ofgem assured that DNOs' agreement will be sought before sharing forecast data. DNOs will have the option to signal if they want their results to remain anonymous for other stakeholders.

3.5. Ofgem welcomed further comments from DNOs on the topic of early forecasting.

3.6. UKPN urged that dates for future WGs to be secured as soon as possible, to allow for better forward planning.

#### 4. Incremental Costs and interactions with BPDs

4.1. ENWL presented on areas where incremental costs could occur in ED2. Whether it becomes an issue would depend on how DNOs handle these costs, and also on the materiality of these costs. ENWL identified two options, either splitting costs at the source or having memo tables showing the percentage split for incremental versus core costs.

4.2. WPD stated that there was a difficult balance to strike between policy and practice in relation to the treatment of incremental costs, and that there was a risk related to the benchmarking of these costs. UKPN stated that they would envisage DNOs working out what is the base and what is incremental.

4.3. ENWL asked in relation to the early forecasts if DNOs were of the view that there was an incremental cost effect in their forecasts. Ofgem noted this point and commented that they would look to add this to the commentary.

4.4. WPD stated that there are not just internally driven incremental costs; areas like street works are externally driven. Ofgem noted this and commented that we would need to be clear on the boundaries.

4.5. **Action: DNOs to review ENWLs list of areas where incremental costs could occur, and to provide feedback on treatment of incremental costs generally in ED2.**

#### 5. Engineering Justification Papers (EJPs) in RIIO-ED2

5.1. Ofgem presented slides on the Engineering Justification Papers (EJPs). The aim was to discuss the EJP principles; mainly on whether the principles presented gained stakeholder agreement, and on the materiality threshold.

- 5.2. Ofgem mentioned a high volume of EJP submissions would be undesirable in ED2. Ofgem also stressed the need to further clarify certain areas with stakeholders, namely the interactions between EJPs and the Ofgem CBAs and NARMs, as well as the need-case for EJPs.
- 5.3. Ofgem signalled that its early view is that such a threshold would be required, but the threshold itself had yet to be determined. This threshold could be a nominal amount, or also expressed as a percentage of total expenditure for instance. Ofgem clarified that if expenditure could be justified through benchmarking or NARMs, an EJP would not be expected.
- 5.4. ENWL indicated that business plan commentaries had been significant in ED1, and that this had to be discussed in the context of EJPs. Ofgem assured that business plan guidance would be updated to mark a clear delineation between business plan commentaries and EJPs. EJPs should be concisely explaining DNOs' decision-making process.
- 5.5. Ofgem noted that further discussion was necessary on how NARM replacement volumes would be covered, commenting that EJPs could be useful for transparency purposes.
- 5.6. UKPN asked whether projects classified as high value projects (HVPs) would have a similar materiality threshold as for EJPs. Ofgem replied that alignment was possible and up for discussion.
- 5.7. Ofgem asked for stakeholder feedback on materiality thresholds, and on whether EJP triggers could be identified in asset categories.
- 5.8. **Action: DNOs to provide feedback on EJP proposal.**
- 5.9. Ofgem and stakeholders discussed the interaction between EJPs and the rest of the cost assessment toolbox. EJPs will be useful to explain cost variations from the norm, as the other cost assessment tools can explain the 'vanilla' costs in the assessment.

## 6. Actions, Next Steps, AOB

- 6.1. Ofgem asked DNOs to review the action log, as there were some outstanding issues. Ofgem will circulate notes from previous WG meeting.
- 6.2. Ofgem to organise a call on forecasts on W/C 6th July and to send finalised forecast templates by Friday 10th July.