

RIIO-ED2 Cost Assessment Working Group (CAWG) – 9th June 2020

From: Ofgem

Date: 9th June

Location:

Time: 10am to 1pm

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 reviewing working group discussion and proposals for the approach to cost assessment in RIIO-ED2.
- 1.2. SPEN commented on cost exclusions, asking how they were different from company specific factors. ENWL agreed that there was a need to define these more broadly. Ofgem clarified that we will have a minded-to position on some of the exclusions, but will need to be live to this up to Draft Determinations (DDs). ENWL noted that special factors tend to be cost factors or multipliers to account for certain issues, whereas cost exclusions are costs for which the assessment is separate.
- 1.3. ENWL also noted that model interactions with other parts of the cost assessment toolbox (EJPs, CBA etc.) should be discussed, questioning how Ofgem would consider a scenario where different assessment methods produce different results. ENWL stated that the Sector Specific Methodology Consultation (SSMC) should set out the principles for cost assessment in ED2, as opposed to setting out three broad options i.e. Totex, Middle-Up, or Bottom-Up modelling.
- 1.4. WPD highlighted the importance of cost driver selection, with Ofgem noting that this should be covered in more detail in future working groups, following publication of SSMC.
- 1.5. Ofgem presented slides summarising the discussion, proposals and next steps on ongoing efficiency. ENWL stated that if a hybrid approach between the options was possible, it should be listed as an option in the SSMC.
- 1.6. Ofgem presented slides summarising the discussion, proposals and next steps on RPEs. ENWL and WPD stated that there was a read-across from GD and T and that they expect the GD DD on indexation would apply to ED sector. Ofgem stressed that nothing has yet been decided on RPEs for ED2.

1.7. Ofgem gave a summary of regional / company specific factors, as well as highlighting the main points that had been discussed in CAWG-5. Ofgem presented the different options on the table for ED2, including on the submissions of regional factors and on how they are accounted for in the cost assessment (pre, within, and post adjustments).

2. WPD presentation on interaction with BPDTs

2.1. WPD presented slides on the interaction between the BPDT WG and the CAWG, with the hope of clarifying the roles and responsibilities of each group. WPD summarised that up until now:

- the CAWG focused on discussing higher level elements of cost assessment, without yet discussing data requirements; and
- the BPDT WG was tasked to design the BPDT tables for SSMC, thinking about the data requirements for cost assessment.

2.2. WPD argued that the BPDT WG was leading decisions, instead of following the lead of the CAWG. WPD provided examples such as the proposals around disaggregating LIDAR tree cutting costs, or regional land variations in wayleaves, driven by cost assessment considerations.

2.3. WPD outlined a few questions on the governance arrangements between the two working groups:

- How should the CAWG approach BPDT issues that need decisions?
- What is the sign-off process for these decisions?
- Does the BPDT WG have autonomy over some decisions?

2.4. Ofgem stated that the BPDT WG had been useful at isolating issues and driving forward consistency concerns, as well as linking with other areas of ED2 such as the DSO subgroup. The work driven by the WG at this stage is important to be able to use the SSMC as an opportunity for feedback.

2.5. Ofgem also noted that the work carried out in the BPDT WG should be fed back to the CAWG, as the BPDT WG sits below the CAWG. Ofgem pointed out the importance of consistency of cost reporting and of not overlooking the rationale for the existing cost disaggregation in the RIGs.

2.6. WPD highlighted further interdependencies, such as NARMs and CNAIM changes feeding into the RIGs, and eventually into the BPDTs. WPD also asked for clarification on the purpose on consulting on the BPDT in the SSMC. Ofgem advised that the SSMC will include an informal consultation on the BPDT, to ensure alignment with the CAWG, other working groups, and areas such as the EJPs and CBAs.

2.7. Ofgem mentioned that the BPDT log of proposed changes had been circulated alongside the slidepack with the proposals, giving visibility to the CAWG. Answering WPD's previous question, Ofgem stated that the CAWG should set the high level policy direction for cost assessment, and that no policy changes should be made in the BPDT WG without discussion in the CAWG. Ultimately, positions that influence cost

assessment should come to the CAWG. Ofgem welcomed any feedback from other DNOs on this issue.

3. ENWL presentation on how it all fits together

- 3.1. Ofgem presented a proposed forward work plan for the working group, on the run up the sector specific methodology decision (SSMD), and welcomed feedback on the proposal.
- 3.2. Ofgem recognised that August will be a busy period for all stakeholders, and stressed the need to carefully manage the summer period due to the high volume of work to be done.
- 3.3. **Action: Ofgem to send updated CAWG timelines to the working group.**
- 3.4. WPD called for a regular item to be added to the CAWG agenda to cover BPDT WG issues.
- 3.5. **Action: Ofgem to add a recurring agenda item to future CAWG meetings to cover BPDT WG issues.**
- 3.6. ENWL also highlighted the importance for the CAWG to keep aligned with the OAWG.

4. Engineering Justification Papers (EJPs) for ED2

- 4.1. Ofgem presented slides on Engineering Justification Papers (EJPs) for ED2 and outlined a high level proposal on the use of EJPs. The presentation ran through:
 - What had been published thus far on EJPs;
 - Proposed EJP general principles; and
 - Proposed EJP aggregation.
- 4.2. Ofgem noted the principle that EJPs are an essential document and any proposals will try to avoid duplication already found in other documentation (e.g. Business Plans). EJPs should be additional information providing clarity. ENWL highlighted that there could be similarities to the EJP proposal to commentary provided in the data tables.
- 4.3. SPEN asked what the difference was between high level and low level EJPs. Ofgem stated that this level of detail had not yet been finalised and reiterated the principle on the avoidance of duplication across papers.
- 4.4. Ofgem also noted that the process is to provide transparency and not a description of the Business Plans or the Business Plan Data Template.
- 4.5. **Action: DNOs to provide feedback to EJP questions for discussion at the next working group.**
- 4.6. One DNO questioned the information required within the EJP paper using 132kV transformers as an example. Ofgem suggested that DNOs would need to provide the narrative as to how the DNO got to the decision and what data was used to inform the decision making process. Ofgem continued and outlined that in this example it would

expect DNOs would need to provide a small sample of the data including the following examples:

- List of main assets that require replacement;
- Dataset used to inform decision; and
- Health indices for health related assets.

4.7. Ofgem stressed that if DNOs think that data is not required to be sent in the EJPs, DNOs should provide feedback and outline explanations as to why some data should not be included. ENWL highlighted that existing documentation already covers some aspects of the EJPs (i.e. CBA) and important to note interactions.

5. Actions, Next steps, AOB

5.1. Ofgem asked DNOs to review the action log as there were some outstanding items.

5.2. On the early forecast submission, Ofgem stated the reason for this is to unify the assumptions being made by DNOs, and to start building a common approach. Ofgem would like to keep the scenario sub-groups going, to ensure that we have the right approach for the business plans next year. Ofgem will respond more formally to the ENA on this imminently.