

RIIO-ED2 Cost Assessment Working Group (CAWG) – 8th October 2020

From: Ofgem	Date: 8 th October Time: 1pm to 4pm	Location: Teleconference
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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)

1. Uncertainty Mechanisms

- 1.1. Ofgem provided an overview on Uncertainty Mechanisms (UMs) outlined in RIIO-ED2 SSMC. NPG outlined the differences between Ofgem and DNOs triggering a reopener and stated that this can expose DNOs to regulatory and political risk. NPG further noted that certain reopeners have broad definitions where it is easier for Ofgem to trigger the reopener. Ofgem noted the uncertainties linked to Net Zero and noted the use of UMs to mitigate the uncertainty. SSE noted that rights to trigger a reopener should be symmetrical between DNOs and Ofgem.
- 1.2. WPD presented slides from the Overarching Working Group (OAWG), which outlined options to enable strategic investment and how UMs fit together. NPG noted that benchmarking would be easier if a volume driver is measuring the amount of LCT devices being used and network companies receive (£x) per device. This puts the onus on the companies to invest in capacity where it is most appropriate, ultimately making benchmarking easier. ENWL stated that the CAWG needs to think about which elements of the proposals is an ex-ante allowance and what is the UM. WPD

commented that the LCT volume driver seems simple, but complexity increases when going into the details.

- 1.3. WPD questioned what the next steps are and how will this be reflected in the BPDts. Ofgem commented that the team is currently analysing the responses and will raise relevant learnings in the appropriate working groups.

2. Post-SSMC and DDs discussions

- 2.1. Ofgem presented slides on Regional and Company Specific Factors providing a summary of responses received in the RIIO-ED2 SSMC. Ofgem outlined next steps to address and invited further engagement on these points through the CAWG or through bilaterals. NPG questioned whether Regional Factors will be included in the BPI and if so needs to be included in the SSMD. Ofgem presented a summary of SSMC responses on RPE's and Ongoing Efficiency.

3. Forecasting & Scenarios

- 3.1. WPD presented slides on the use of scenarios of forecasts in ED2. WPD talked through the work being undertaken by the ENA Open Networks project to standardise forecasting, including the centralised/decentralised options considered and how DNOs have committed to developing their DFES using a common scenario framework and building blocks. WPD argued that the DFES forecasts could be used to determine which investments would be necessary.
- 3.2. NPG questioned the compatibility of WPD's proposal to use the DFES scenarios with a cost benchmarking approach of setting allowed revenues. WPD clarified that its presentation only showed one suggestion for a way forward. The DFES are seen as the building blocks that can be used to understand how demand growth leads to capacity investments. ENWL pointed out that the need for commonality in how DNOs determine forecasts and scenarios. This should be up for comparison, particularly on the assumptions used.

3.3. Ofgem noted that the centralised/decentralisation approach was being discussed in the overarching section of the SSMC as well. Developing a 'best view' scenario based on a common methodology could be useful, but more thoughts are needed on how we consider the variations from this 'best view'.

3.4. NPG highlighted that costs subjected to an uncertainty mechanism would not need to heavily rely on forecasts and scenarios, as they would depend with what actually happens on the network. SPEN reminded of the importance of forecasting in setting baseline allowances, and agreed in the importance of a Strategic Investment volume driver to adjust costs based on actual outturn LCT impact. NPG also noted that if local authorities wanted to install extra assets on the DNOs' network, they could pay for this separately to the DNO. ENWL echoed NPG's points, noting that the role of forecasting and scenarios needed to be more clearly defined for the cost assessment.

4. Ofgem review of ED2 early forecasts

4.1. Ofgem presented slides showing early insights of the early forecasts submitted by DNOs. Ofgem confirmed that the graph of slide 27 showed the yearly averages across all DNOs.

4.2. Ofgem went through the key messages from the DNO commentaries submitted alongside the forecasts for Load-related expenditure (LRE), stressing the importance of considering flexibility and new solutions consistently in the cost assessment of LRE. ENWL stated that the assumption of >30% increase as a 35% increase in ED2 underplayed the growth in costs for LRE.

4.3. ENWL asked about the appetite for sharing this work among DNOs.

4.4. Action: DNOs to respond by 22nd October on whether they are happy for their early forecasts to be shared.

4.5. Ofgem went through the key messages from the DNO commentaries submitted alongside the early forecasts for non load related expenditure (NLRE), Network Operating costs, CAIs and Business Supports. Ofgem confirmed that they would ask

some questions on these. Ofgem stated that there were some elements which may be taken to the BPDTWG due to possible inconsistencies in reporting.

5. DSO Cost Assessment

5.1. Ofgem thanked stakeholders for their work on the treatment of DSO costs in the BPDT WG. There is currently a lot of work being progressed on this topic, and the assessment of DSO costs would need to be picked up by the CAWG on the required approach. SPEN echoed Ofgem's points; and noted that further clarity would be needed on DSO incentives in ED2. WPD agreed with the need to clarify incentives.

5.2. NPG pointed out that if a totex approach to benchmarking was used, cost categories would not matter since all costs would be in the same table. Ofgem stated that all of the cost assessment approaches would remain on the table up to the draft determination stage.

6. Actions, Next Steps, and AOB

6.1. Ofgem invited views on topics of focus for the next CAWG.

6.2. **Action: Ofgem will send an email to DNOs on next steps on regional factors. It will call for volunteers to cover off points on regional adjustment metrics and links with the BPI.**

6.3. The intention is to have a session on the lessons learned from other sectors on the BPI, ahead of the SSMD.