

## RIIO-ED2 Overarching Working Group – Meeting 10

From: Ofgem RIIO-ED2 team

Date: 24 September  
2020  
Time: 12:30

Location: Teleconference

### 1. Present

James Veaney, Tom Wood – Ofgem  
 Caroline Ainslie, Malcolm Bebbington, Russell Bryan – SPEN  
 Paul Auckland, Christos Kaloudas, Rebecca Hassall-Lees, Simon Brooke – ENWL  
 Paul Branston, Ben Godfrey – WPD  
 George Day – Energy Systems Catapult  
 Chris Harris, Trung Tran, Peter Williams – SSE  
 Judith Ward, Maxine Frerk – Sustainability First  
 Matt Cullen – E.ON  
 Patrick Erwin, David Wilkins – Northern Powergrid  
 Rick Curtis – GLA  
 Gregory Edwards – Centrica  
 Paul Jarman – University of Manchester  
 Ron Loveland – Welsh Government  
 Charles Wood – Energy UK  
 Dan Saker, James Hope – UKPN  
 Andy Wainwright – NG ESO  
 John Parsons – BEAMA  
 Catalina Rozo – Zenobe

### 1. Minutes of previous meeting

- 1.1. Ofgem invited attendees to provide any comments on the draft minutes of Meeting 9, either at the meeting or later in writing.

### 2. Strategic investment

- 2.1. Ofgem introduced the agenda item on strategic investment, adding that this session was scheduled to discuss uncertainty mechanisms in particular. Ofgem commented that the LRE (reopener-type) mechanisms in place for ED1 had not been used and this may be because companies are reluctant to incur costs that could potentially be disallowed by Ofgem or because of the risk of failing to meet the threshold level, which would mean that costs incurred below that level could not be recovered. Ofgem said

that in-period decision may go on to be appropriate for large schemes but it was also interested in more automatic mechanisms that can be put in place to deal with uncertainties present at the time of the price control. The focus of this session was to be on the capacity mechanism and utilisation incentive proposed in the ED2 sector methodology decision.

- 2.2. SSE introduces a presentation that had been jointly prepared by the DNOs (although there was not necessarily a common view across DNOs on all aspects). SSE highlighted the need for the price control arrangements to be flexible, adapting to consumer needs and behaviors during ED2.
- 2.3. ENWL commented that the scale of many distribution projects meant that they should not need to be 'called in' by Ofgem for approval before investment could proceed. ENWL said that whatever mechanisms were put in place, these needed to be underpinned by transparency.
- 2.4. WPD said that once there was a view on which areas of work in relation to these mechanisms should be progressed, the cost assessment working group may be the most appropriate forum to develop proposals.
- 2.5. Paul Jarman commented that, where a unit cost is required as part of a mechanism, setting this accurately is very important and finely balanced. If set too low, this may result in only a level of activity needed to compliance with legal standards. If set too high, it may result in windfall gains.
- 2.6. WPD commented that the capacity mechanism could have elements that are analogous to the mains replacement arrangements in the gas distribution sector, where different unit costs are set for different types of activity, and GDNs are able to flex the workload mix.
- 2.7. SPEN commented that the proposed mechanism might be appropriate for HV and LV circuits but queries whether this would be appropriate for looped services, where a

funding arrangement based on the number of looped services replaced may be preferable.

- 2.8. UKPN presented a view on a potential model for a capacity volume driver with a utilisation metric, commenting that it should provide transparency on the use of reinforcement and flexibility solutions - utilisation data should give a measure of how the DNO has managed the network including flex and non flex options.
- 2.9. On the aspect of the proposal that involved a potential ex-post evaluation of forecast accuracy and utilisation, SSE commented this would need to take into account that DNOs may upsize when carrying out reinforcement (e.g. in order to 'touch the network only once').
- 2.10. SP queried how this mechanism would interact with other uncertainty mechanisms such as the high-value project reopener.
- 2.11. On the proposal for how unit costs could be set (based on a likely blend of intervention types – e.g. reinforcement, flexibility), E.ON queried who would determine the appropriate mix. UKPN suggested that this should fall to the DNOs.
- 2.12. WPD commented that this approach relies on good quality data, which does not necessarily equate only to monitoring. WPD said that the CBA justification for installing monitoring equipment at highly-loaded substations had perhaps not yet been played out and that other sources of data such as smart meters could also have a part to play.
- 2.13. Northern Powergrid presented on its preferred UM option of and LCT volume driver, setting out its view that this was a simpler option that placed more emphasis on the role of the DNO in forecasting.