

Overarching Working Group - update



- Since the last meeting of the group, we have published the sector methodology consultation, draft business plan guidance and draft business plan data templates.
- Consultation responses are due by 1 October
- We intend to continue to organise meetings of the group into November before issuing the sector methodology decision in December
- We have sought views from the DNOs on areas of particular interest and will be preparing a schedule of future meetings to share with the group

- The focus will be on key questions that we need to answer in advance of the sector methodology decision (or where additional evidence will help us to reach a decision)
- We anticipate that this group will discuss the following issues through until November
 - Approach to strategic investment and related uncertainty mechanisms
 - Interaction between ED2 and Access SCR
 - The business plan incentive (and its interaction with proposed ODIs relating to DSO, connections and vulnerable customers)
 - DSO
- We are considering how to take forward proposals on digitalisation and data and will provide an update to the group shortly.

Strategic investment



A strategic approach to investment in RIIO-ED2 will enable the networks to support pathways to Net Zero, and do so in a manner that maximises efficiencies across multiple price control periods

2 key risks:

- Companies are not provided with sufficient and timely allowances. This could lead to constraints on the network and an uptake of LCTs that may be slower than demand would otherwise dictate. In the long-run it may prove to be more costly to consumers if networks are expanded in a piecemeal fashion.
- Companies get higher allowances than is required and investment is made in infrastructure that does not fulfil its intended purpose. This could be because the capacity created is used up by other sources of demand, but could also be because the demand growth does not materialise in the way it was forecast.

A centralised approach would see Ofgem requiring a common forecast of outputs, where these align with Net Zero.

Could lead to higher costs or an underestimation of investment needed in different regions.

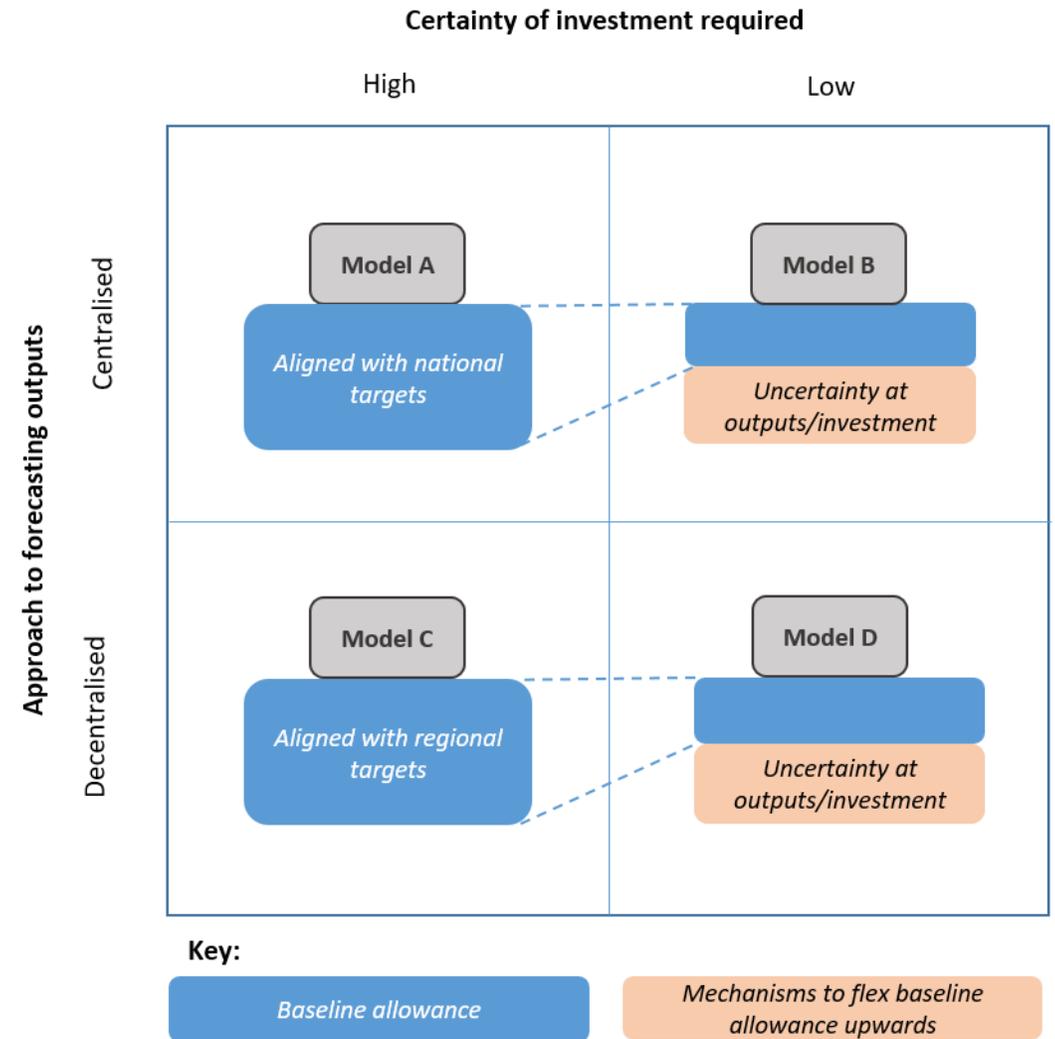
But assessing regionally-led plans is challenging:

- Regional targets may depend on additional policy and financial commitments to make them a reality.
- Boundaries of network companies may not fit neatly with local and regional government structures.
- Establishing a regional plan is likely to rely heavily on the resource and knowledge of the DNO.

Regional plans must have robust, transparent modelling to establish a ‘most likely’ regional pathway to Net Zero.

Where there is uncertainty, we may set a lower baseline and rely on mechanisms to adjust allowances.

However, uncertainty mechanisms add complexity, make it harder to establish expenditure requirements and can lead to a lag between need and investment.



For December, we need to have resolved certain key issues. Immediate focus through September will be on the following:

Today's session: Central vs. Regional forecast

In which circumstances would a centralised approach to setting forecasts be appropriate, and when should we instead allow for regionally-led plans?

- What central forecast should be used?
- Where a regional approach is supported please use this session to explain and justify why Net Zero targets will differ (run ahead or behind) central targets, or where there is an absence of a central target.

9th September: Approach to regional plans

Where planning targets are determined on a regional basis, how can it be demonstrated that the process followed was robust, transparent and focussed on identifying least-cost solutions that are compatible with Net Zero pathways.

24th September: Uncertainty mechanisms and incentives

Focusing on the Capacity Volume Driver and Utilisation Incentive.

- How would unit costs be established (and scaled to the level of utilisation on the network)
- How would utilisation levels might be monitored
- What type of incentive is appropriate?

Further session with Cost team on 'touch the network once'

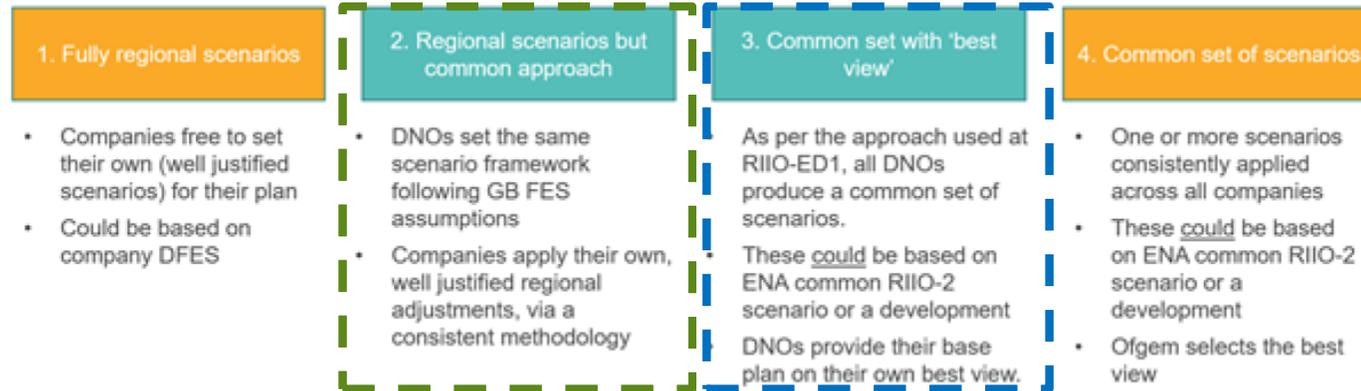
RIIO-ED2

ED2 Overarching Working Group Strategic Investment

04/09/2020

Centralised versus Regionalised Scenarios

SSMC forecasting options with varying levels of regional flexibility.



SSMC Annex 2, Figure 5

SSMC Alternative (Option 2) - Use GB FES with regional adjustments using a common framework

- Approach currently being developing by Open Networks.
- The national FES used as baseline with a common framework for DNOs to be able to apply adjustments to reflect regional variations provides consistency.
- Enables DNOs to reflect well-justified regional variations (e.g. devolved government ambitions) enabling DNOs to facilitate a smooth transition to Net Zero.

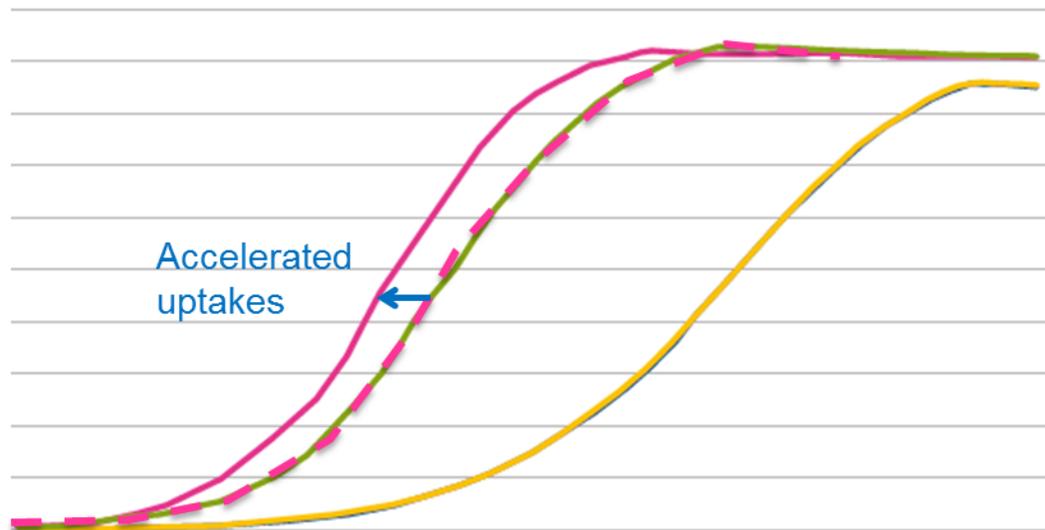
SSMC Proposed (Option 3) - Use common 'centralised' scenarios, from which DNOs select their best-view scenario

- DNOs unable to incorporate regional factors (e.g. devolved government policies and plans).
- Risks Net Zero targets not being met and could result in higher overall costs for consumers due to delays in connections.
- Undefined who/how the common scenarios would be derived.
- Any major changes to DNOs current forecast process could result in many months of additional network assessments and would be a significant challenge within ED2 BP timeframe.



Example of changes to central scenario to reflect regional policy/plans

To decarbonise transport in Scotland, the Scottish Government have committed to **phase out the need for new petrol and diesel cars and vans by 2032**.



Accelerated EV uptakes to help achieve the legislated target of 75% reduction of CO₂ emissions by 2030.

Forecasts underpinned by engagement with **Scottish Government and Transport Scotland** and incorporation of their detailed transport sector modelling.

Network company forecasts need to be able to reflect regional requirements



OAWG

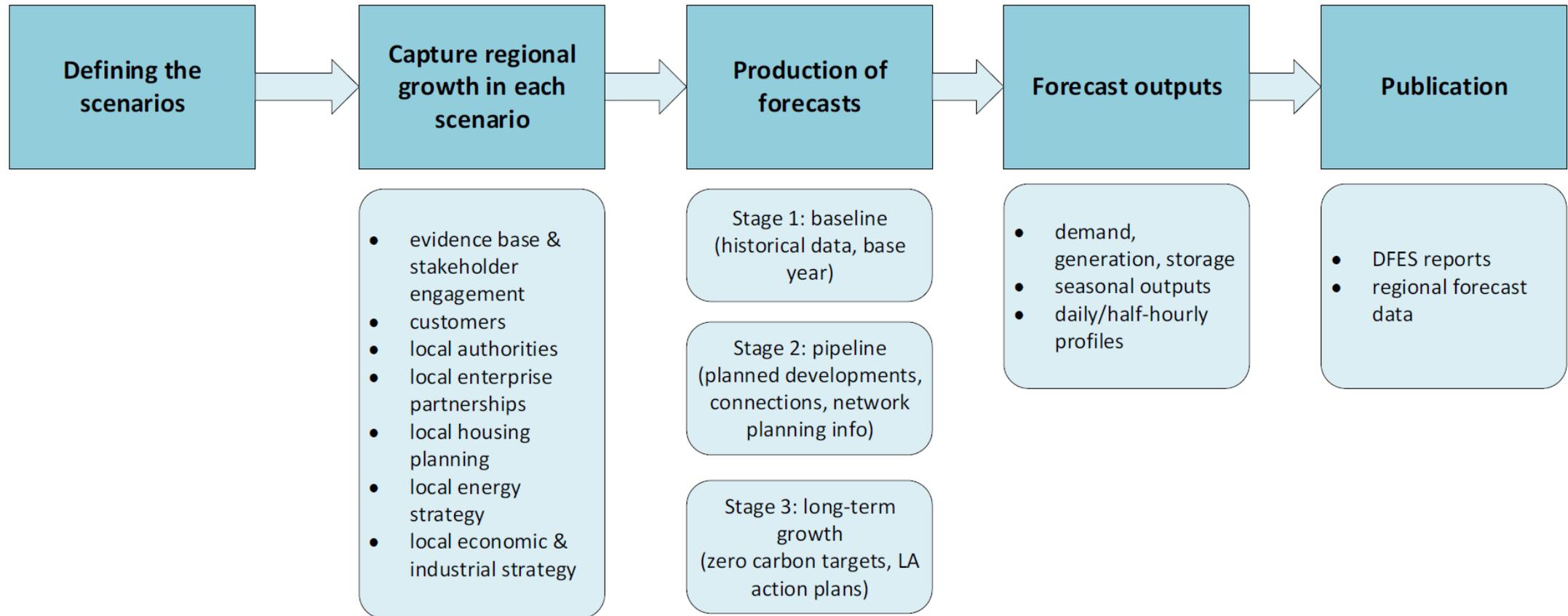
Centralised vs Regionalised Forecasts

Ben Godfrey

➤ Network Strategy Manager

Scenarios and DFES production

➤ Convergence of DFES production and standardisation of the format is well underway

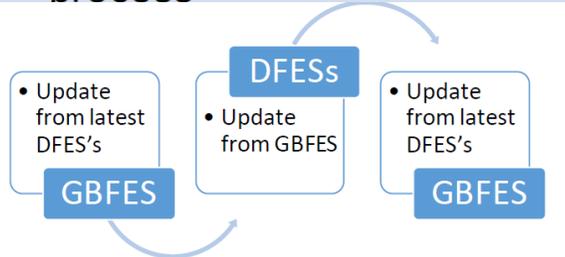


Scenarios and DFES production

Level of Standardisation

DNOs Flexibility

Common Scenario Framework Model	Initial Alignment & Feedback Model	Fully Integrated FES/DFES Process
<ul style="list-style-type: none"> The same scenario framework as the GBFES Greater flexibility for DNOs to adjust their own levers and assumptions Could lead to greater differences between national and license area trends Does not require additional resource 	<ul style="list-style-type: none"> The same scenario frameworks as the GBFES The same high-level assumptions as the GBFES A process to review and address differences and take appropriate actions to update models, assumptions and data. Resource intensive process 	<ul style="list-style-type: none"> All processes/models are the same High degree of interaction between the ESO and DNOs Much greater alignment and consistency May prevent each DNO from capturing and reflecting local targets and trends Much more resource intensive process



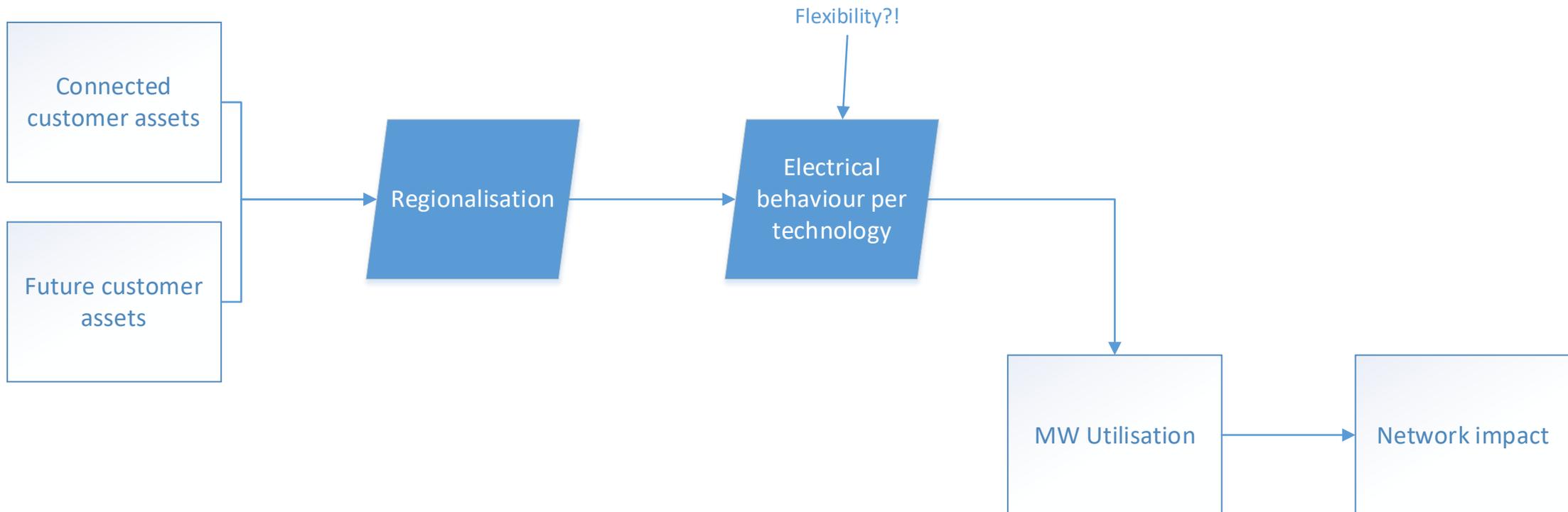
Forecasts

What do we mean by forecasts?

- The purpose of what the forecasts will be used for is critical in understanding what data is required and what level of detail is needed
- Are we using the forecasts to measure discrete units or is it MW capacity/utilisation?

Customer Behaviour

- There will be regional differences in customer behaviour – the electrical MW assumptions behind the different technologies will need to be proposed in order to understand MW capacity/utilisation.

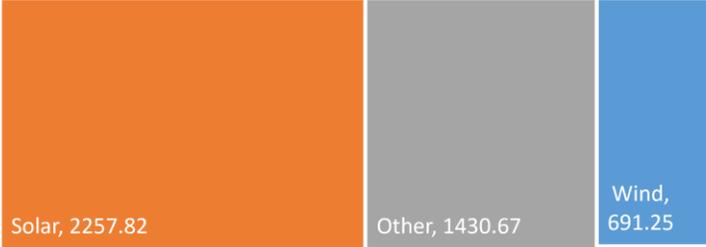


Regional Allocations - Connected

WPD Connected



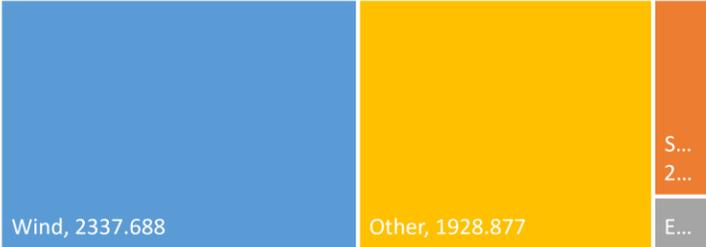
SSEN Connected



ENWL Connected



SPEN Connected



UKPN Connected

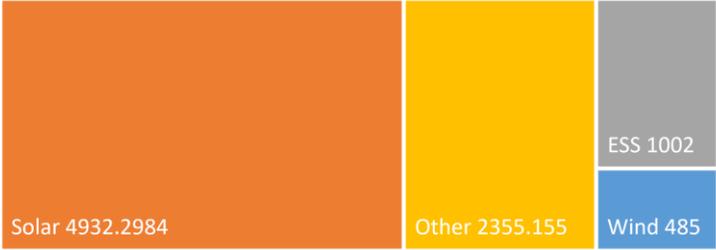


NPG Connected

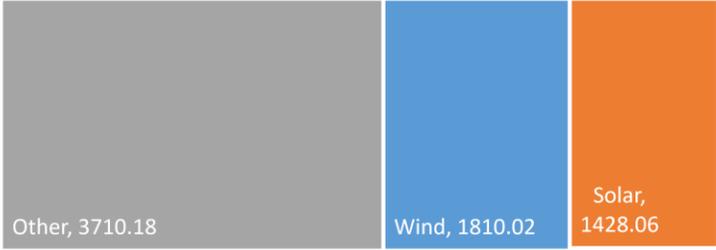


Regional Allocations - Connected

WPD Accepted



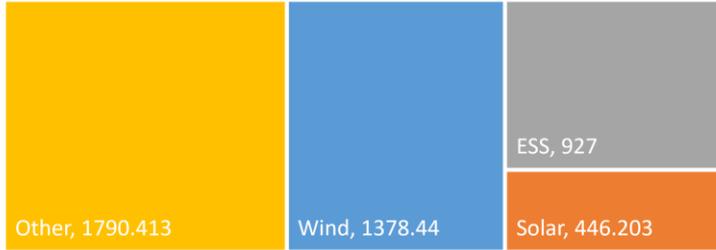
SSEN Accepted



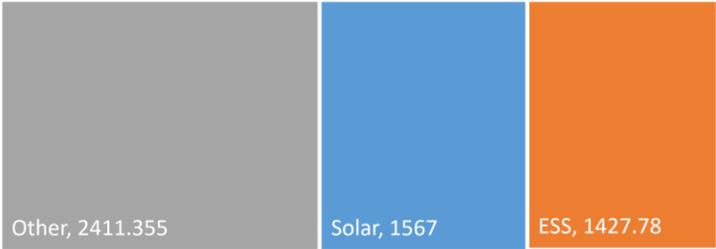
ENWL Accepted



SPEN Accepted



UKPN Accepted

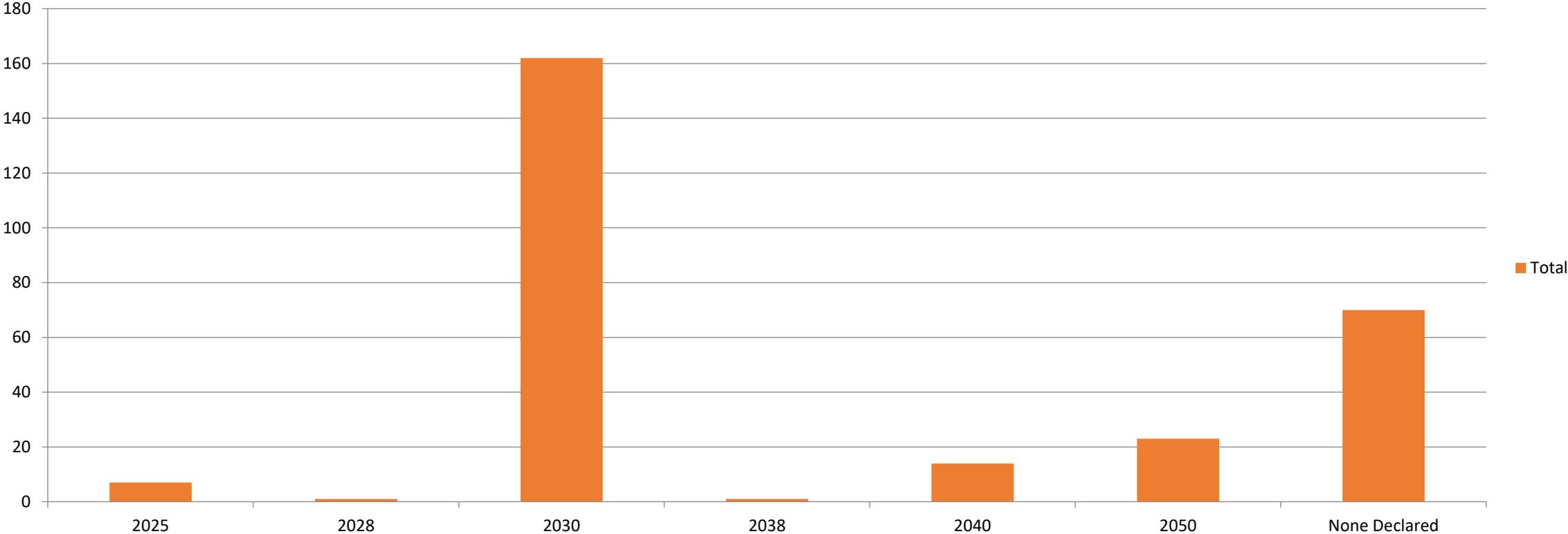


NPG Accepted



Leading and Lagging Regional Ambition

Number of 1st and 2nd tier authorities declaring climate emergencies with Net Zero target dates (grouped by year)



Reflecting the needs of stakeholders

- All DNOs are committed to undertake the DFES process
- This will become a licence condition as part of the clean energy package and include requirements to consult stakeholders
- DNOs will be required to provide business plans which reflect the needs of stakeholders
- DFES may wholly or partially address some of this engagement activity
- How would a centralised or FES-based forecast demonstrate the needs of local stakeholders have been met?

Ofgem is the Office of Gas and Electricity Markets. We are a non-ministerial government department and an independent National Regulatory Authority, recognised by EU Directives. Our role is to protect consumers now and in the future by working to deliver a greener, fairer energy system.

We do this by:

- **working with Government, industry and consumer groups to deliver a net zero economy at the lowest cost to consumers.**
- **stamping out sharp and bad practice, ensuring fair treatment for all consumers, especially the vulnerable.**
- **enabling competition and innovation, which drives down prices and results in new products and services for consumers.**