

RIIO-ED2 Safety, Resilience and Reliability Working Group (SRRWG) – 8th September 2020

From: Ofgem

Date: 8th September
2020

Location: Remote

People invited: Relevant
stakeholders

Time: 10am to 12pm

1. Present

1.1. Ofgem

1.2. Electricity North West (ENWL)

1.3. Northern Powergrid (NPG)

1.4. Western Power Distribution (WPD)

1.5. UK Power Networks (UKPN)

1.6. Scottish Power Energy Networks (SPEN)

1.7. Scottish and Southern Electricity Networks (SSEN)

1.8. S&C Electric Company (S&C)

1.9. Energy and Utility Skills (E&U Skills)

1.10. Centrica

2. Introductions, Pathway to ED2, and agendas

2.1. Ofgem gave a reminder of where we are and the timeline for the remainder of the RIIO-ED2 programme, including the programme for future working groups. The topics outlined are indicative at this stage.

3. Unplanned interruptions - methodology

- 3.1. Ofgem outlined the key points in relation to how unplanned interruptions targets are set, building on the points raised in the Sector Methodology Consultation.
- 3.2. In relation to the minor errors that had been identified in the methodology, Ofgem believes these have already been corrected but will re-share the spreadsheets involved in the methodology with the DNOs to allow for error checking. These spreadsheets will not contain the very latest performance data – it will be a copy of the documents previously shared.
- 3.3. ENWL noted that a decision on the Draft or Final Determinations being the point at which the targets are published is important from a Business Planning perspective. It was also noted, through the discussions, that the same performance data would be available for both the Draft and Final Determinations, since the 2020-21 data would be finalised around November 2020. Ofgem agreed that it would take this away and think about the timings in relation to the publication of targets and the availability of data.
- 3.4. WPD highlighted that the concern around reliability improvements being funded twice only really related to those capital investments that DNOs have made to improve reliability, rather than changes in operational approaches that lead to improvements in restoration times. It was also noted that the point about performance being rewarded twice becomes less potent if a DNO's performance takes it beyond the reward cap, as in this circumstance the reliability improvement delivered beyond the cap does not result in any corresponding reward.
- 3.5. The discussion then focused on the proposal that targets would be set at the lower of a DNO's latest performance year, or the targets set by the methodology. It was questioned whether the latest performance would be a single year, in which case the effects of a particularly mild or severe winter could skew that view of performance, or an average over a few years. Ofgem confirmed the way it was worded in the SSMC suggested it would be an individual year, but recognised that this may need to be considered further.
 - 3.5.1. SPEN also noted that using a single year as a view of performance risks producing an overly aggressive target for a DNO, meaning there is the potential

for investments to be made that deliver a performance level that customers do not necessarily value.

3.6. It was also discussed whether the targets that are produced, either through the methodology or the comparison with a single year's performance, could result in uneconomic or unsafe behaviour to achieve those targets. It needs to consider the size of the step change in both CI and CML targets that might be produced, as well as the effect of any 'ratchet' from using the latest performance data.

3.7. NPg questioned whether, based on the proposal relating to the removal of the Other Exceptional Event (OEE) mechanism, Ofgem would be removing the OEE performance from historical data, so as to produce equivalent and updated targets as part of the ED2 target setting process. Ofgem confirmed this is something that needs to be considered, in terms of both practicalities and the outcome of the position on OEEs.

4. Unplanned interruptions - convergence

4.1. Ofgem outlined the proposals relating to convergence of unplanned interruptions targets, noting that this had been raised through the previous SRRWG meetings. It was noted that the existing approach to setting targets already has an element of convergence within it (by producing and, ultimately, driving performance towards the benchmark), and any additional convergence would speed that process up.

4.2. As set out in the SSMC, Ofgem noted concerns around increased costs for different parts of the country to achieve the same level of performance, the extra complexity of this aspect, and the uncertainty around whether consumers would value this process being sped up. It was also outlined that this does not preclude DNOs from proposing their own targets within their business plans, which may include a greater element of convergence than delivered through the existing methodology.

5. Planned interruptions

5.1. Ofgem summarised the position from the SSMC, noting that a range of options had previously been discussed relating to the approach to setting planned interruptions targets. Those options typically involved greater complexity for an uncertain amount of benefit and, therefore, Ofgem's position remains that the existing approach is the preferred way forward.

- 5.2. SSEN questioned how outperformance in one area (as evidenced by stakeholder feedback) would be assessed and treated compared to performance based on the targets produced by the existing methodology. Ofgem confirmed that the performance a DNO delivers will be assessed against the target that is set, either by the proposed methodology or through stakeholder feedback. Ofgem also acknowledged that the cost assessment process would need to factor in the differences in costs associated with a DNO proposing their own, more stretching targets as a result of stakeholder engagement.
- 5.3. It was also noted that planned interruptions are driven by programmes of work, some of which might lead to a significant increase in the volume of planned interruptions. This could mean a DNO is penalised for missing their target in the first instance, under the proposed methodology, but subsequently receive more achievable targets for later years. Ofgem noted that the overall methodology should balance this out in the long run, though it was highlighted that this would only apply if planned interruptions performance was treated separately from unplanned interruptions performance. The key thing is that the mechanism allows us to tie performance back to the overall programmes of work that DNOs are delivering.

Action: Ofgem to consider the options for treatment of planned and unplanned interruptions in relation to the overall reward cap.

6. Short Interruptions minimum standard

- 6.1. In outlining the proposals on a minimum standard for short interruptions, Ofgem stressed that the key thing is to ensure that any incentive is based on robust and comparable data. The minimum standard proposal is intended to provide a level of protection for customers in the short term, while the data on short interruptions performance is improved and standardised.
- 6.2. Several DNOs outlined concerns with the proposal to look to reduce the number of short interruptions, highlighting that the Interruptions Incentive Scheme (IIS) has sought to reduce the number and duration of longer interruptions and, therefore, has meant DNOs have invested in measures that have, in some cases, increased the volume of short interruptions. It was also highlighted that progress in relation to

various technologies, such as batteries, mean the impact of a short interruption is reduced with time.

- 6.3. Ofgem acknowledged these points, but reiterated that the intent behind this proposal is to adapt to the changing demands from customers (greater uptake of LCTs, increased working from home etc.) and establish a minimum level of service that protects consumers from increasing volumes of short interruptions over the next price control. This is intended as a first step, alongside work to improve the quality and consistency of data that is available on short interruptions.
- 6.4. S&C agreed that there needs to be a balance going forwards between the current arrangements and future ambitions, and noted that developments in other countries could be a good starting point for exploring options in relation to short interruptions. It was agreed that data is the real key to understanding the long-term options.
- 6.5. A further question was raised about what stakeholders are telling DNOs – essentially that a small number of short interruptions are not that inconvenient, but a series of them changes that. This reinforces the need to differentiate between a single short interruption and several, and the obligations on DNOs in these respects. SPEN also noted that the drive to reduce the number and duration of longer interruptions does not necessarily result in an increasing volume of short interruptions, as there are other options available (such as splitting the networks up, or avoiding faults in the first place).
- 6.6. It was agreed that the design of any standard will be crucial in delivering a good outcome for consumers. S&C agreed to share some examples of comparable measures from Florida Power and Light and Gulf Power that might help in this discussion. Alongside this, the quality of the data needs to be ensured so that not only is the incentive or standard designed correctly, but that DNOs can accurately trace those customers who may not have received the required level of service.
- 6.7. Ofgem acknowledged that this is a space in which their thinking is still developing, and welcome further thoughts on this from all stakeholders. The goal would be to introduce a minimum standard for the beginning of the price control, though they acknowledged that this would likely need to flex in time or scope as the price control progresses. Alongside this, consideration of the data that is available needs to happen. It was also

noted that there is a potential role for the reduction of short interruptions in the Worst Served Customer metric discussions.

7. AOB and Date of next meeting

- 7.1. ENWL raised a further point around the 'lesser of' rule in relation to unplanned interruptions target setting, to ensure that the opportunity for cherry picking of CI and/or CML performance does not take a DNO into an overall penalty position. It was suggested that, when considering the latest performance of a DNO, consideration should be given to the overall reward achieved, rather than the CI or CML elements individually.
- 7.2. SPEN also noted that there needs to be a discussion around incentive rates, and how they are apportioned between CIs and CMLs, especially in the context of VoLL and revenue caps. It was noted that the reduction in average demand might lead to a lower incentive rate in RIIO-ED2 than in RIIO-ED1, which would not reflect the forecasts of demand for the end of the price control or the messages being heard about greater dependence on electricity by customers. The use of average demand is impacted by embedded generation, and this impact could increase over the course of RIIO-ED2. It was agreed that this discussion would be picked up as part of the VoLL debate, at the next SRRWG covering reliability.
- 7.3. The next SRRWG meeting covering reliability will take place on Wednesday 23rd September.