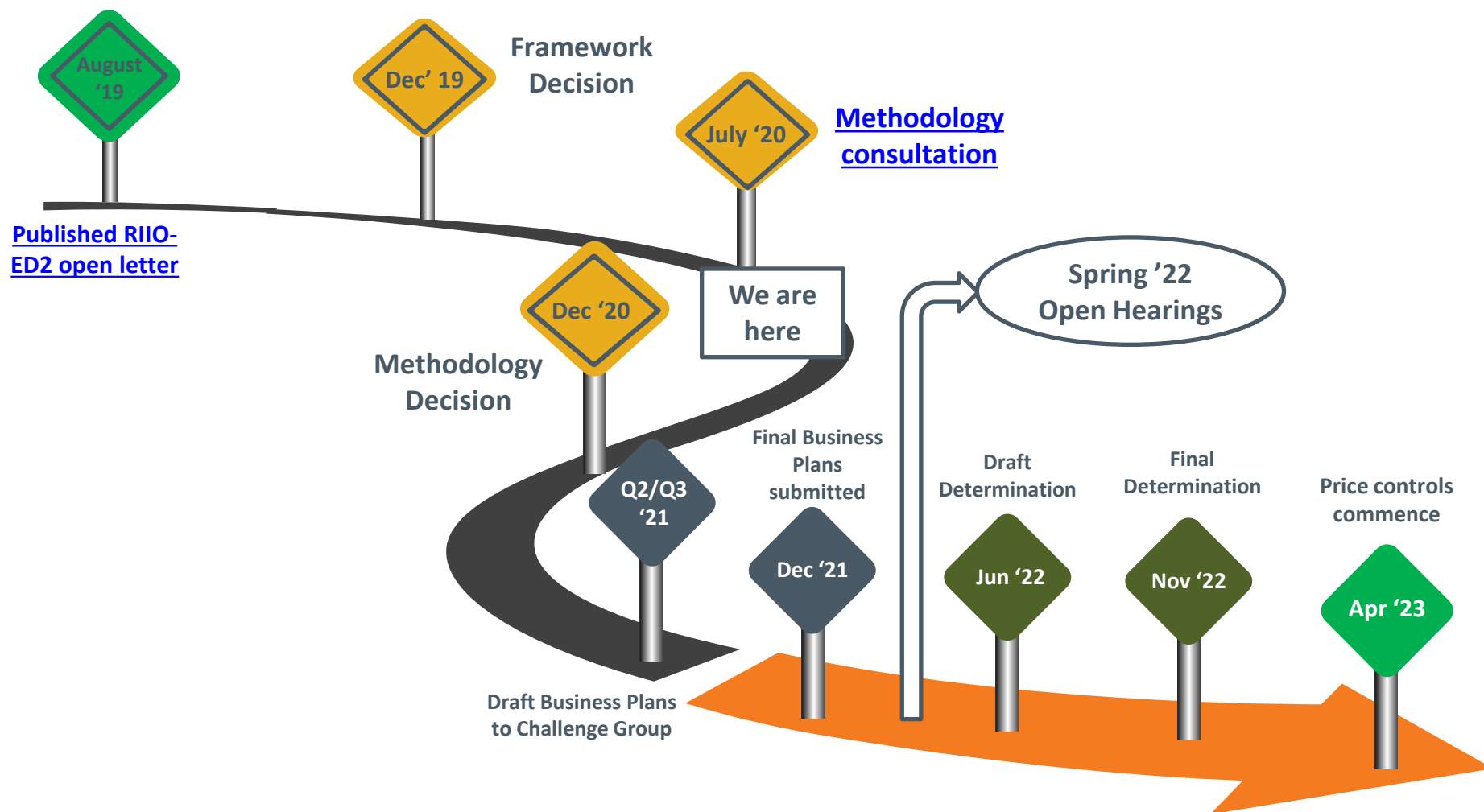


# Safety, Resilience and Reliability Working Group

## Incentive rates and exceptional events



- Introductions
- Exceptional events
- Value of Lost Load
- Revenue caps
- AOB



- RIIO-ED2 Sector Specific Methodology Consultation:  
<https://www.ofgem.gov.uk/publications-and-updates/riio-ed2-sector-specific-methodology-consultation>
- Safety, Resilience, and Reliability Working Group minutes and slides: <https://www.ofgem.gov.uk/publications-and-updates/riio-ed2-working-groups>

Date	Workstream	Items to cover (indicative)
02-Sep-20	Resilience	Climate change resilience, ongoing reporting, black start
08-Sep-20	Interruptions	Unplanned targets (convergence and methodology), Planned targets, short interruptions minimum standard
10-Sept-20	NARM	NARM/CNAIM, Incentives associated with NARM, Review of CNAIM v2.0
23-Sep-20	Incentive rates	VoLL (methodology to set it), revenue caps, exceptional events
30-Sep-20	Other	Guaranteed Standards, WSC, AOB (e.g. Cyber resilience)
07-Oct-20	Load	Load indices in ED2
14-Oct-20	NARM	NARM/CNAIM, Interaction with cost assessment (BPDTs, CBAs, EJPs etc.)

## Annex 1: Chapter 7 – Exceptional Events

- We propose to retain the existing mechanism for Severe Weather Exceptional Events.
  - We propose to update the threshold values at the same time as setting targets for the IIS, using the latest year's performance data.
- We propose to remove the Other Exceptional Events mechanism.
  - In RIIO-ED1 there have been a small number of events with a relatively small impact on performance.
  - Current structure of the mechanism enables claims to be submitted for weather-related events that do not meet the SWEE threshold.
  - Current format of the mechanism means some DNOs will never breach the threshold.
  - Not clear that its benefit outweighs the cost of running the process each year.
- An alternative to removing it would be to streamline/improve it – we are seeking views on that through the SSMC.
  - Stakeholders need to present views as to why it should be retained and how it should be improved.

## Annex 1: Chapter 7 – Value of Lost Load

- We propose to update VoLL for RIIO-ED2, as a minimum, in line with inflation.
  - We stated in line with RPI in the SSM, but the inflation measure used is not fixed.
- We consulted on other options for updating VoLL:
  - Full disaggregation (as per ENWL/Fraser Nash) plus inflation, giving a value of c. £25,000/MWh
  - Full disaggregation (as per ENWL/Fraser Nash) plus inflation with an updated ratio of domestic: SME customers, giving a value of c.£23,500/MWh.
- We propose to set a single VoLL for GB, rather than disaggregating by DNO region.
  - Interested to hear views on the scope for DNOs to generate a regional VoLL for investment cases etc.
- We propose to retain the RIIO-ED1 revenue cap of 250 RoRE basis points per year for the IIS in RIIO-ED2.

**Table 26: Summary of VoLL figures and impact on RIIO-ED1 rewards**

Study (used in)	Accent/Recko n (RIIO-1)	London Economics (EBSCR)	RIIO-1 value uplifted to 2019 prices	ENWL – full disaggregation	
				Updated ratio	Original ratio
Year	2008/2012	2013	2020	2019/20	2019/20
Value (£/MWh)	£17,600	£17,000	£21,000	£23,500	£25,000
Total RIIO-ED1 IIS reward (£m)	£548m	£529m	£588m	£613m	£625m

## Annex 1: Chapter 7 – Value of Lost Load

- In RIIO-ED1, we use the following formula to translate VoLL into IIS incentive rates:

*Implied VoLL per interrupted customer*

$$= \text{Latest GB average CML} \times \left( \frac{\text{Average consumption per customer} \times \text{VoLL}}{\text{MInutes in a year}} \right)$$

- Proposal is to use the same formula for RIIO-ED2.
- VoLL and average consumption are the main variables; increase in one can offset corresponding decrease in another.
- Average demand has fallen by c.5% over the course of ED1, and 12% since ED1 incentive rates were set.
- Options for ED2:
  - Use the same formula, meaning the actual average demand is reflected in incentive rate
  - Use new formula
  - Use existing formula, updating each year to reflect average demand



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- **enabling competition and innovation, which drives down prices and results in new products and services for consumers.**