

RIIO-ED2 Safety, Resilience and Reliability Working Group (SRRWG) – 23rd September 2020

From: Ofgem

Date: 23rd September
2020

Location: Remote

People invited: Relevant
stakeholders

Time: 11am to 12:30pm

1. Present

1.1. Ofgem

1.2. Electricity North West (ENWL)

1.3. Western Power Distribution (WPD)

1.4. UK Power Networks (UKPN)

1.5. Scottish Power Energy Networks (SPEN)

1.6. Scottish and Southern Electricity Networks (SSEN)

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

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

1.9. 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 based on the indicative list; other meetings may be added as required.

3. Exceptional events

- 3.1. Ofgem provided an overview of the position taken in the Sector Specific Methodology Consultation (SSMC). It was noted that the proposal to remove the Other Exceptional Event (OEE) mechanism is only a proposal, and views from all stakeholders are welcomed on this.
- 3.2. SSEN questioned whether the reference to the use of the 'latest available data' for setting thresholds related to a single year, or the latest data available to create an average. Ofgem confirmed it was the latter.
- 3.3. ENWL noted that if the OEE mechanism is removed, then there is a need to ensure that historic performance data is updated to account for this, particularly when it comes to setting targets for the IIS (so as to avoid setting targets on a different basis from how performance will be assessed). It was also highlighted that extracting the OEE performance would be easier for EHV and 132kV, but more challenging for the HV networks.
- 3.4. UKPN outlined that the low utilisation of the OEE mechanism is not a sign of it being unfit for purpose – instead it shows that it is working well as only the truly exceptional events are being considered under it. With that in mind, UKPN suggested a better option would be to tweak the existing mechanism to counter Ofgem's concerns about the type of events being used and the amount of work involved in assessing and/or processing the claims. UKPN also noted that the DNOs as a group would be able to help improve/streamline the process.
- 3.5. SPEN also agreed that the OEE mechanism should be retained, and that it has been a success in providing a safety net against the biggest of exceptional events; several participants agreed that this was a key reason to retain some form of mechanism in RIIO-ED2. SPEN also noted that there may be options for streamlining the assessment process, such as a multi-stage screening process.
 - 3.5.1. SPEN also suggested that DNOs, and other stakeholders, may benefit from having greater visibility of the claims that have met the thresholds and the value of those. Ofgem acknowledged it has a role to play in making this more visible.
- 3.6. Energy and Utility Skills asked whether the impact of Covid-19 on resources of DNOs would meet the criteria for an exceptional event, and whether the impact of lockdown (either nationally or regionally) on resource availability is being considered by DNOs. It

was noted that the existing arrangements (known as NEWSAC) that allow DNOs to provide resources to other DNOs at times of stress would still apply during the current arrangements.

4. Value of Lost Load (VoLL) and incentive rates

- 4.1. Several DNOs highlighted the importance of agreeing a figure for VoLL as soon as possible, as other parts of the price control also rely on it. WPD asked whether other caps (such as those relating to Guaranteed Standards payments) would also remain at the RIIO-ED1 levels; Ofgem confirmed that, at this stage, that is the expectation.
- 4.2. ENWL noted that there needs to be a transparent approach to updating the values relating to the IIS, as there are a number of key assumptions throughout the process. In updating values there needs to be a systematic approach, and transparency will help with any read-across to other parts of the price control. It also helps other parties understand the steps that have been taken to get to the finalised position.
 - 4.2.1. ENWL also highlighted the interaction of any revenue caps with the Return Adjustment Mechanisms (RAMs). Historically, a revenue cap was introduced for the IIS to protect against customers paying for 'excessive' rewards. However, with the introduction of RAMs, if the VoLL figures are calibrated correctly, there could be less of a need for a revenue cap on IIS performance. Having a cap in place artificially limits the benefit that DNOs can deliver for their consumers.
- 4.3. In relation to the ratio of domestic: SME customers, ENWL noted that there has been discussion about recalibrating various parts of the IIS and it would therefore seem sensible to update this aspect as well.
- 4.4. SSEN highlighted that there is less data available for Scotland to help accurately determine a more disaggregated VoLL and, unless there is a way to use equivalent data for Scotland, it would be something they would struggle to support. SPEN agreed that having granular data for Scotland would be beneficial, but also noted that updating VoLL as much as possible to reflect the latest position would be better than not updating VoLL at all. It was also agreed that a single VoLL for GB would be sensible for the IIS, but that it would be important to retain the option for a 'variable VoLL' to be used for specific investment cases to be put forward by DNOs, using more localised figures where they are available.

4.5. In relation to the formula used to translate VoLL into the IIS incentive rates, SPEN presented some analysis carried out to see what the incentive rates would be if the latest data is used. This analysis showed that the CML incentive rate remains broadly equivalent to the RIIO-ED1 values, but that the CI incentive rate would reduce by around 30%.

4.5.1. This raised a number of key questions around how the incentive rates are derived. The current process translates a 'value' of a loss of supply that is currently greater than the value used in RIIO-ED1 into an overall lower incentive rate, in part due to DNOs efforts to reduce the average CML. The current approach contains a perversity in that the formula uses a function of an interruption duration to set the incentive rate for CIs.

Action: SPEN and ENWL to consider alternative formulae/approaches to translating VoLL into IIS incentive rates.

5. AOB

5.1. ENWL asked whether there were plans for future meetings beyond the initial list circulated by Ofgem. Ofgem confirmed that, once the final meeting has happened (scheduled for 30th September) the list of outstanding topics will be compiled and further meetings arranged as necessary.