

RIIO-ED2 Cost Assessment Working Group (CAWG) – 17th November 2020

From: Ofgem

Date: 17th November

Time: 10am to 2pm

Location:
Teleconference

1. Welcome and Introductions

Ofgem

UK Power Networks (UKPN)

Western Power Distribution (WPD)

Northern Powergrid (NPG)

Scottish Power Energy Networks (SPEN)

Electricity North West (ENWL)

Scottish and Southern Energy Networks (SSEN)

2. Real Price Effects & Ongoing Efficiency

2.1. Ofgem presented slides summarising responses received to the SSMC on ongoing efficiency and real price effects (RPEs). The responses received were in majority from DNOs, although other stakeholders submitted comments on individual issues as well.

2.2. ENWL noted that the impact of COVID-19 could change Ofgem's view to index RPEs and provide an ex ante allowance instead.

2.3. WPD asked Ofgem whether the apparent consensus in SSMC responses against an additional ongoing efficiency challenge to account for previous innovation funding would mean that it would be removed in our SSMD. Ofgem replied that this would not be ruled out in the SSMD, as the final decision would be made in Final Determinations.

2.4. Ofgem informed stakeholders on the next steps regarding RPEs and ongoing efficiency, particularly related to the BPDTs. This included:

- Finalising the notional cost structure for RPEs

- Agreeing on the right reporting for OE assumptions
- Links ongoing efficiency with the rest of the BPDT

2.5. ENWL enquired on which working group the RPE notional cost structure would be best discussed. Ofgem replied that this should be decided by the CAWG.

3. Regional and Company Specific Factors

3.1. Ofgem presented slides on Regional and Company Specific Factors and focused on: criteria, offsetting, submissions and interaction between Regional Factors and the Business Plan Incentive.

3.2. NPG suggested that DNOs should highlight whether a claim is a Regional or Company Specific Factor and further commented that if every licensee makes the same claim, the regional adjustment should be labelled as a normal cost.

4. Disaggregated Modelling

4.1. Ofgem summarised SSMC responses on disaggregated modelling.

4.2. UKPN asked for more clarity on how regressed and technically assessed costs would be treated in cost assessment. Ofgem replied that the SSMD would remain open on modelling techniques. Ofgem will develop the models and share results with the CAWG through 2021. The final decisions on modelling will be made in Final Determinations.

4.3. ENWL asked whether Ofgem would be definitive on disaggregated modelling in the SSMD. Ofgem replied that it will be clear in the SSMD that disaggregated modelling would be considered going forward. Ofgem expressed its intent to explore other ideas such as middle modelling as well. These ideas will be developed further in the next few months.

4.4. NPG enquired whether it would be useful to develop a criterion to define cost pools, particularly in light of the GD2 Draft Determinations.

4.5. Ofgem agreed that this would be a key step, alongside a workplan. Ofgem added that stakeholders' feedback would be welcome on this workplan, and direction would be set in the SSMD and future CAWG meetings.

5. Business Plan Incentive (BPI)

5.1. Ofgem presented slides on the BPI and outlined the assessment process. Ofgem noted that this process is still ongoing in RIIO-GD/T2. WPD asked how Ofgem would assess volumes and cost confidence for the BPI.

5.2. ENWL questioned whether 'low-confidence' costs could still be considered 'well-justified' if DNOs produce a high level of justification, citing newer costs with no established record or mature supply chains. Several DNOs questioned the scope of the BPI and where a penalty could be applied.

6. Role of Engineering Justification Papers (EJPs), CBAs

6.1. ENWL presented slides on the use of EJPs in ED2.

6.2. ENWL showed that a £2m threshold would have a few dozen load and non-load related projects and programmes where an EJP is merited. They confirmed that they had just applied a cost, not a volume, threshold. They stated that in some areas the onus should be on a comprehensive commentary rather than EJP, but confirmed that they would consider EJPs for NOCs and Indirects.

6.3. NPG asked how materiality would be set for different programmes or projects that can be aggregated, and whether there would be sub materiality thresholds. Ofgem stated that we do not want to be too prescriptive but would want it as aggregated as possible.

6.4. SPEN asked what would constitute a 'joint' programme suitable for aggregation in the EJPs. Ofgem stated that we would set a criterion against a threshold, and also give some discretion where DNOs might choose to produce an EJP.

- 6.5. ENWL asked what the most productive next steps would be for EJPs. Ofgem stated that we do not want to be too prescriptive in the SSMD, but that there is definitely scope to take this forward and ensure commonality across DNOs. Ofgem will aim to submit more guidance to the CAWG before the end of the year for discussion.
- 6.6. Ofgem presented the GD2 cost assessment schematic and indicated that we would look to develop a similar schematic for ED2.
- 6.7. ENWL were supportive of these diagrams and of the transparency they bring. They stated that we need to ensure that DNOs can replicate and follow through the process, which was a problem in GD.
- 6.8. On the CBA forward timeline and plan, ENWL asked if it had built in time for DNO testing. Ofgem stated that testing and opportunities for feedback would be needed.

7. Actions, Next Steps, and AOB

- 7.1. CAWG meetings will continue in 2021 as DNOs are developing their business plans.