

Geoff Randall
MPR team
Ofgem
9 Millbank
London
SW1P 3GE

Electricity North West
304 Bridgewater Place, Birchwood Park
Warrington, Cheshire WA3 6XG

Telephone: +44(0) 843 311 4800
Fax: +44(0) 843 311 5119
Email: enquiries@enwl.co.uk
Web: www.enwl.co.uk

Direct line: 08433 113710
Email: sarah.walls@enwl.co.uk

7 October 2016

Dear Geoff,

Re: Consultation on the mid-period review (MPR) of RIIO-T1

On behalf of Electricity North West, we appreciate the opportunity to respond to this consultation on the proposed mid-period review (MPR) of RIIO-T1. We have reviewed your proposed amendments and have a number of observations in relation to electricity transmission and the process more generally. We do not believe we are appropriately placed to comment in relation to the proposals for gas transmission.

Non-variant allowances

We are aware that the System Operator (SO) has identified concerns around voltage control and believe it is essential that adequate funding is in place to ensure appropriate measures can be adopted to manage this. As a principle, we welcome Ofgem's view that the SO should be encouraged to consider a range of solutions to address this issue, rather than having outputs specified in terms of a given solution. We believe that we may be able to develop and provide services to the SO that might assist with the identified challenge. However, as such services are not part of our price control settlement and not specifically required by our customers, the SO will need to fund these services. Enabling the SO to fund these services as opposed to being limited to delivering capital investment is essential to resolving some of the arising issues as the transmission: distribution interface in the most cost-effective way for GB customers.

However, we also note that the SO is part way through its price control and do not believe that outputs should, as a general approach, be declassified. From a regulatory certainty perspective, Ofgem has stated that new outputs could be introduced where "*needed to meet the needs of consumers and other network users.*" The addition of additional duties with appropriate funding is an understandable requirement of the Mid-Period Review.

We know from our own experience that expenditure and delivery of outputs are rarely aligned and therefore, if an output is to be removed, it will always be hard to determine whether a network operator has been appropriately remunerated for the service it has provided to customers in the first part of the price control period or for any anticipatory investment or preparation it has made in discharging its expected obligations for the second part of the price control period. The removal of obligations and allowances that are already in flight is extremely difficult and raises significant concerns about regulatory risk and the overall cost of finance.

In the event that the current output is not needed, per se, we propose that it should be given a different status and the network operator should be required to demonstrate whether any

additional expenditure related to this output was appropriate and in customers' interest with a high evidential threshold associated with such a test. This will dissuade any further unnecessary expenditure, but may allow the completion of in-flight projects if appropriate. The sharing factor will enable the benefits of ceasing activity to be shared with customers. If appropriate a new output, specified in terms of voltage management rather than a named solution, and an appropriate allowance could then be introduced in line with Ofgem's stated policy.

Enhanced SO role

We recognise the additional responsibilities that the SO has been asked over recent years to undertake and agree that it is appropriate to fund these activities. We would urge that, in relation to the ITPR obligations, the SO continues to be encouraged to take a whole system view to ensure that all appropriate options to address needs identified on the transmission system are considered. This holistic approach will ensure that needs are addressed with the most appropriate solution. We wonder whether an additional obligation on the SO to demonstrate, where it selects solutions fulfilled by the TO, that the choice made is the most efficient and effective for GB customers would be beneficial. We believe that whilst the SO and TO are held in the same ownership group there will always be some stakeholders who express concerns about the independence and impartiality of the SO decision-making.

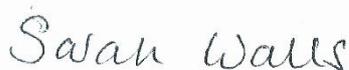
As described above, we believe that we may be able to provide solutions to assist the SO at a distribution level. However, these are not needed particularly by the customers of the North West and it is therefore essential that the SO is encouraged to fund these activities. We believe this can be achieved already as the totex approach gives licensees discretion on how to fund the most effective solution and Distribution companies can receive such funding as a Directly Remunerated Service. However, a formal statement to this effect similar to the one produced for CLASS balancing services may be beneficial to ensure all parties are clear on the treatment.

Wider reflections on RIIO

At this stage in the process, we believe that the RIIO framework is working well and delivering benefits for our customers. We welcome the approach taken by Ofgem to MPR that has restricted the review to those areas of significance, allowing the licensees in question to focus on continuing to deliver for their customers and limiting the potential regulatory burden of such a review to those areas of significant value. Reviewing the consultation document and reflecting on ED1, we do see there are real challenges when elements of the price control are not fixed at the start and would urge Ofgem to seek to finalise such elements as soon as possible for the current controls, as well as giving consideration as to how much time must be allowed when developing future controls to minimise the likelihood of such elements still being uncertain at the commencement of the relevant regulated period.

We hope the above comments assist your process. If you have any comments or questions, please do not hesitate to contact me or Jen Carter on 07342 062371.

Yours sincerely



Sarah Walls
Head of Economic Regulation