

## **ENA Response to Ofgem Mid-Period Review Parallel Work Consultation**

1. Energy Networks Association (ENA) represents the “wires and pipes” transmission and distribution network operators for gas and electricity in the UK and Ireland. Our members control and maintain the critical national infrastructure that delivers these vital services into customers’ homes and businesses.

### **Introduction**

2. ENA members welcome the opportunity to respond to the Mid-Period Review Parallel Work Consultation. Within our response we have sought to set out a collective view of our members. Our response therefore sets out a number of key common principles and points on which there is broad agreement between ENA members and responds to a number of the specific issues identified within the consultation and associated questions. This response also includes observations on the Mid-Period Review Decision.
3. For ease of comprehension our response is aligned with the structure of the MPR parallel work consultation document.

### **General Observations**

4. Generally, ENA members acknowledge and support the intent behind the proposals set out by Ofgem in the consultation. However, there are a number of areas where our members have identified inconsistencies and/or approaches that raise concerns. We hope that Ofgem find the views on these various areas useful in reaching final decisions in these matters and in informing policy on any future decisions in respect of the current Electricity Distribution Price Control (ED1).
5. Whilst it is generally accepted that there may, under certain circumstances, be a need to review outputs so as to ensure that they remain appropriate and provide greatest value for customers, this needs to be carefully balanced against the risk of initiatives such as the parallel work being used as a way of effectively creating two four year price controls. It is important that investors can be confident of a stable regulatory regime and any concerns or perceptions that the price control can be effectively reopened outside of the scope of any agreed mechanisms avoided.
6. In seeking to mitigate this risk in the future all parties; Network Operators, Ofgem and stakeholders need to work together with the overall goal of ensuring that future price controls are comprehensive and clear. This should include ensuring that licence trigger hurdles for initiating an MPR are clearly defined at the outset and where these are not met the need for an MPR or any type of associated wider review should therefore fall away.

### **Output Accountability**

7. In order to ensure that customers are protected and a proportionate assessment of output delivery is made, we generally accept that where there is ambiguity then focus should be on the 'output purpose' when deciding whether an output has been delivered.
8. However, where there are changing circumstances driven by uncontrollable or unforeseen factors then the ability of NWOs to adapt to those changes and the potential for development of alternative and/or innovative approaches is also important and should be recognised and interpreted consistently. This will help to ensure that originally defined outputs are not pursued regardless of changing circumstance with potential detriment to consumers. It is important that mechanisms that enable plausible future scenarios to be managed in a fair and equitable way are incorporated into the price control.
9. Given the above we think the alternative options set out for assessing outputs where there is ambiguity would not offer a better approach.
10. In the case of the outputs discussed under this section we support the approach applied by Ofgem that has enabled network companies to respond to changing circumstances including the development of innovative solutions that deliver necessary outputs and greatest consumer value. For this approach to be effective going forward and in future price controls network companies will need to be confident that the TOTEX sharing factor of realised cost efficiencies is retained with clear benefits to customers [note our comment on appropriate mechanisms above].
11. Overall we believe that the proposed approach to the decisions set out under this section is consistent with the RIIO principles and reflects the need to apply a pragmatic and equitable approach against a background of change. .

### **Price Control Adjustments**

12. Under this section we set out our general views on the approach and Ofgem's proposed positions on price control adjustments and respond directly to a number of the questions.
13. In general, where for acceptable reasons, originally planned outputs have not been delivered these can be assessed at the end of the price control. Whereas, additional outputs that were not included in the original price control decision should be reviewed in accordance with the RIIO MPR criteria.
14. However, any decisions on adjustments need to be consistent with RIIO principles and applied consistently; the absence of appropriately designed mechanisms within the price control should not result in a perverse outcome/decision.

15. It is difficult to reach a clear position on the question in respect of the proposal not to amend the connection volume driver. The information provided in the consultation document seems very limited, given that this appears to involve a complex set of factors and considerations.
16. However, we reiterate our views in respect of funding outputs and changing circumstances set out under paragraph 8 of our response; both in terms of providing NWOs with the flexibility needed to deliver innovative solutions and the ability to adapt to unforeseen circumstances, including if necessary, the delivery of new outputs in response, for example, to changing user demand.
17. As a principle we believe that economic and efficient allowances should be provided for necessary additional outputs, with potential for innovation recognised.
18. Given the limited information available and in reaching a final decision, we suggest that Ofgem consider setting out the background to the question in greater detail together with a comparable degree of analysis.

### Western HVDC

19. As a principle the Totex Incentive Mechanism (TIM) should apply any necessary adjustments under the Annual Iteration Process (AIP), with adjustments reflecting any under or over expenditure by the NWO against Totex allowances.
20. However, we recognise that in respect of the Western HVDC project and the particular circumstances, that the TIM may not adequately deal with the timing variation. Therefore, where late delivery of this project results in funding being received ahead of expenditure, it may be appropriate to remove any resultant benefit to the network company by delaying allowances. However, the limited information set out in the consultation does not make it altogether clear whether this is appropriate in this case.
21. In the case of compensation received by the network company(s) from suppliers as a result of delays, this should be shared with customers thereby creating strong incentive for companies to include compensatory event conditions in any contractual arrangements and to pursue the payment of adequate compensation where triggered. This approach ensures that costs to consumers are minimised. Again the TIM should be the primary mechanism for such adjustments.

22. In respect to the following gas distribution outputs:

### **London medium pressure**

23. We note that NGGDs proposal to return £53.9m to customers is accepted given that this work will not now be completed in this price control. Access problems have constrained the rate of delivery of this programme.

### **NTS exit capacity incentive**

24. We agree that you should not make changes to the NTS exit capacity incentive. It is right that GDNs be incentivised to minimise their use of capacity and this has resulted in an increase in available capacity which has in turn reduced the need for investment in the transmission network. We think it is too early to draw conclusions on the performance of the incentive and any future decisions on changes to the incentive should be based on evidence accumulated over the price control period, where savings from reduced reinforcement or lower utilisation of network assets can be properly assessed.

### **Gas Distribution Outputs not directly linked to allowances or incentive schemes:** Below we respond to questions under each of the three outputs.

25. We have a number of general observations on the proposed approach. As a principle the necessity for customer redress payments should be avoided with targets and incentives being clear at the time of the price control decision with any resultant failure appropriately factored in. As our responses under this section makes clear there are a number of factors that should be recognised and taken into account when considering performance against these measures and how these measures should be treated in the future.

### **Safety repair risk**

26. We agree with the proposed approach to continue to monitor this output for the remainder of RII0-GD1 and require companies to justify where they fail to meet this output.

27. As the consultation recognises this type of measure is more of a management tool indicator of operational performance and not a safety measure. However, comparisons of performance across companies is difficult as GDNs use different measurement systems and due to the targets being set based on companies' 2012-13 repair risk score and not in relation to the funding allowance. The measure can also be impacted by factors outside of the GDNs control such as weather conditions and the number of escapes reported.

### **Reliability loss of supply**

28. It is right to recognise that the current forecast failures against the targets are due to the historical data that was used to set the targets and a number of uncertainties that were not taken into account.
29. It is also right to recognise that how multiple occupancy buildings (MOBs) are taken into account is an important factor. In this case we do think it appropriate to set targets for unplanned interruptions in MOBs, particularly in London which is experiencing a significant increase in safety reactive work.
30. MOBs are complex and in the event of a supply being disrupted require a number of consents to be obtained from multiple parties, for example, individual tenants, management companies and the local authority before any work can start. Given this reliance on factors outside of the network companies control MOBs should not be part of the main output for any new targets but should be measured separately with the overall aim of improving customer experience.

### **Maintaining operational performance**

31. We agree with the proposed approach to make no changes to this output for the remainder of RIIO-GD1, to continue monitoring this output and to require companies to justify where they fail.
32. This type of operational performance measure encourages good stewardship, creates a reputational incentive and delivers useful indicators and provides leading indicators for future investment and maintenance requirements. As with any performance indicator, in this case based on secondary deliverables, it can be expected that there will be a degree of variance and particularly when the measure and the targets it sets is relatively new. We agree that introducing the output into the licence would be a disproportionate level of change that is unnecessary.

### **Mid-Period Review Decision**

33. We think it is right that consumers should not fund outputs where it is proven that they are no longer required. It is also right that changing need for these outputs should not be treated as under delivery or be subject to any penalty. However, we reiterate our position and the principles set out under paragraphs 16 & 17 of this response; the need to recognise new outputs in response, for example, to changing user demand and for economic and efficient allowances to be provided for necessary additional outputs.
34. However, we would not see a Mid Period Review as the appropriate vehicle for making such adjustments under the current electricity distribution price control and believe that these types of allowance adjustments to be by way of project reopeners or close out.

35. In relation to the new enhanced system operator role, it is right that where licence obligations are changed which naturally creates associated new outputs then allowances should be adjusted/increased to fund the new outputs.
36. Whilst Ofgem has decided to implement the allowance adjustments set out in the decisions by modifying the Price Control Financial Model (PCFM) we would expect this to be accompanied by changes to the output targets for the price control.

**21 April 2017**