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30 August 2017

Dear Steve,

RE: Potential RIIO-ED1 mid-period review – timetable and next steps: A call for evidence

We welcome the opportunity to respond to your call for evidence on the mid-period review. We view this mechanism as an important protection for our customers, ensuring that our focus remains on the services they require and enabling us to deliver them in a timely and efficient manner.

We have carefully considered whether we have any relevant evidence pertaining to the mid-period review and have identified four issues where further consideration of the need to review the operation of RIIO-ED1 was required. However, after further review none of these issues requires any action in this mid-period review. These issues are briefly discussed below:

1. Change in Government Policy – National Flood Resilience Review (NFFR)

DNOs have undertaken a review of the potential impact of the implementation of the NFFR's recommendations. The key recommendation pertinent to the mid-period review is that primary sub-station sites serving more than 10,000 customers should be protected to a 1 in 1000 year frequency event flood level instead of the 1 in 100 year level currently specified in the relevant engineering standard.

The NFFR will result in an amendment to engineering recommendation ETR138. Ofgem representatives have attended meetings of the ETR138 working group at the Energy Networks Association and received briefings on the outcome of the initial impact assessment.

For Electricity North West the NFFR recommendations result in some changes to our current flood protection programme; this includes a) sites in the current plan whose scope may need to be reviewed, b) sites previously defended which may not be protected to the higher standard, and c) sites not previously considered to be at risk but which would qualify under the new criteria. In total we have identified that 18 sites require some recategorisation and review. However, given the ability to incorporate this work within our existing flood protection programme and to phase some of the work at additional sites across the RIIO-ED1 and RIIO-ED2 periods, it is clear that additional expenditure in the RIIO-ED1 period will not exceed the Electricity North West materiality threshold.

2. Change in Government Policy – Implementation of Traffic Management Act 2004

A considerable number of Local Authorities within the operational area of Electricity North West have implemented the charging and permitting schemes enabled by the Traffic Management Act 2004. For Electricity North West this represents a significant increase in obligation and a material addition cost when compared to the allowances calculated as part of RIIO-ED1. However, the existing licence contains appropriate mechanisms to deal with the implications of this policy implementation and therefore this issue does not need to be considered as part of the mid-period review.

3. Change in Output - Development of Common Network Asset Indices Methodology

All DNOs are obligated under Standard Licence Condition 50 to develop a Common Network Asset Indices Methodology and using this, restate our Network Asset Workbook. We have successfully completed this activity and Ofgem has approved our revised Network Asset Workbook. Whilst this results in a change in outputs, the licence already contains all the processes for ensuring this is undertaken and funded and no further developments are required as part of the mid-period review.

4. Change in Output – Development of a Distribution System Operator

The joint Government and Ofgem Plan for Smart Systems and Flexibility - Upgrading our Energy System, explains that *“a key change in addressing [a lack of established markets in local flexibility services to manage local network constraints] is the continued evolution of distribution network operators (DNOs) to become more active in managing their networks as a system. This mode of operation would see the DNOs operating as distribution system operators (DSOs).”*

This represents a fundamental change in the nature and scope of work for Distribution Network Operators. We are actively engaged with the other DNOs, the Transmission System Operator and a range of other stakeholders to define the new activities and processes that DSOs will be required to undertake. We do not believe that there will be sufficient clarity on the changes and their impact to assess whether or not they would exceed the limits of the materiality threshold at the mid-period review. This seems broadly consistent with the proposals in the Smart Systems and Flexibility Plan which states that *“Ofgem will consider what further changes might be needed to network companies’ roles in the longer-term, and how this should be incentivised through the next round of RIIO price controls.”*

Additionally Ofgem may want to consider whether any additional mechanisms are required as a safe-guard to ensure that DNOs are not inhibited in undertaking the transition to DSOs as part of the mid-period review. A potential solution could be some form of logging up mechanism at RIIO-ED2.

We look forward to working with Ofgem on the proposed timetable as set out in the call for evidence and believe that the timetable and process are sensible. We would like to be involved in any workshops on the mid-period review.

Yours sincerely

Paul Bircham
Commercial Strategy & Support Director