

RIIO-2 Costs & Outputs Working Group

From: Ofgem

Date: 15/08/2018

Location: Ofgem offices in
London and Glasgow

Time: 10:00 – 15:30

1. Present

Ofgem Representatives;

Attendee	Location
Paul O'Donovan	London
Neill Guha	London
Peter Tuhumwire	London
Min Zhu	London
Kelvin Hui	London
Mark Cassidy	Glasgow
Niall McDonald	Glasgow
Anthony Mungall	Glasgow
Thomas McLaren	Glasgow

Stakeholder Representatives;

Attendee	Location	Organisation
Chris Watts	London	S&C Electric
Gregory Edwards	London	Centrica
James Kerr	London	Citizens Advice
David Bowman	London	National Grid Electricity System Operator
Patrick Hynes	London	National Grid Electricity Transmission
Michelle Clark	London	National Grid Electricity Transmission
Alison Robinson	London	National Grid Electricity Transmission
Stewart Lindsay	Glasgow	Scottish Hydro Electricity Transmission
Fraser Nicolson	Glasgow	Scottish Hydro Electricity Transmission
Danny McMillan	Glasgow	Scottish Hydro Electricity Transmission
Christianna Logan	Glasgow	Scottish Hydro Electricity Transmission
Gordon Macdonald	Glasgow	Scottish Power Energy Networks
Martin Hill	Glasgow	Scottish Power Energy Networks
Craig McTaggart	London	Scottish Power Energy Networks

2. Introduction

- 2.1. Ofgem welcomed and thanked stakeholders for attending. Attendees introduced themselves and their represented organisations. Ofgem noted that the meeting was being hosted between two locations, Ofgem's London and Glasgow offices, to offer flexibility in attendance. Ofgem presented their thoughts on the frequency of working group (WG) meetings with the initial idea of meetings occurring every five weeks. Ofgem asked stakeholders to provide feedback, at the end of the meeting, on how well the split location worked and the frequency of future WG meetings.
- 2.2. Ofgem introduced the agenda and the content the meeting aimed to cover. Stakeholders were asked to make their presentation at suitable locations within the agenda.
- 2.3. Ofgem outlined intent of publishing the WG presentation and non-attributable minutes on a dedicated RIIO-2 WG page on their website. Stakeholders requested circulation of meeting minutes prior to publication for factual accuracy checking.

Action 1: Circulation of Meeting Minutes. **Ofgem – pre-WG content publication**

Action 2: Publication of Presentation and Minutes on Ofgem website.

Ofgem – 24th Aug

3. Purpose of Working Group

Objectives

- 3.1. Ofgem outlined the purpose of the WG as a forum to inform licensee BP submissions. Stakeholders noted that clarity would be needed in respect of the division of responsibilities between the policy & cost WGs.

Terms of Reference

- 3.2. Ofgem emphasised that the WG is a non-decision making group; it is a platform to share and discuss ideas and opinions.
- 3.3. Ofgem noted that although the group is initially focussed on the Transmission Operator (TO) side of business, some issues will also be relevant for the System Operator (SO) cost assessment work.
- 3.4. Ofgem noted that discussion points were not binding to GEMA, allowing stakeholders to be free and frank with their thoughts.

Timeline for Activities and Deliverable

- 3.5. Ofgem presented the timeline and the current position.
- 3.6. The group discussed the BP submission timelines and Ofgem stated that it would be looking for the initial drafts in mid 2019 to be suitable for analysis. Respondents highlighted the need for suitable BP guidance ahead of this to enable them to meet this requirement.

Scope of workgroup activities

- 3.7. Ofgem wanted WG participants to take ownership WG activities. A review of what went well within RIIO-ET1 and what did not will inform future WG agendas.
- 3.8. Ofgem noted some activities will be cross sector that may be more aligned to the remit for a Cross Sector WG, eg Network Output Measures, Real Price Effects. This WG should focus on the sector specific elements of those issues.

What is needed to determine allowances?

- 3.9. Stakeholders commented that early discussion of cost analysis techniques was needed to inform BP submissions

Action 3: Reflect on WG meeting content and provide feedback on areas of improvement for future WG

All – Next WG Meeting

Action 4: Reflect on RIIO-ET1, what could be brought forward to RIIO-ET2 and what could be changed

Stakeholders – Next WG Meeting

Action 5: Consider work required for RIIO-ET2 cost assessment

Stakeholders – Next WG Meeting

4. Interactions with User Groups / RIIO Challenge Group

Role of Different groups

- 4.1. Ofgem presented their current understanding of the roles each group has along with the expected output. The stakeholders agreed with Ofgem's high-level understanding of the groups.

National Grid Presentation – NG Engagement plan

- 4.2. National Grid Electricity Transmission (NGET) presented their interpretation of the engagement plan leading to RIIO2. NGET mentioned that it is important to have procedural clarity for developing their BP so that it can develop consistently throughout the stakeholder engagement process.
- 4.3. Stakeholders also questioned whether the independent challenge group would also challenge Ofgem. Ofgem confirmed this to be included in the challenge group remit.
- 4.4. Stakeholders expressed the need for clarity on how the User Group and the Challenge Group align. This will be the subject of separate WGs; Ofgem will report back once there is further clarity.

5. Framework Decision Document

Types of Outputs for RIIO2

- 5.1. Ofgem presented their view on the types of outputs for RIIO2 and the new terminologies. Ofgem noted that the Cost and Outputs WG would focus on the Price Control Deliverables (PCDs).

Characteristics of PCDs

Key Take-aways

- 5.2. Ofgem noted key points from the Framework Decision document and lessons learnt from RIIO-ET1. These would have to be incorporated in to the considerations of the WG.

6. Review of RIIO1

What's worked well?

- 6.1. Ofgem noted achievements over RIIO-ET1 of Innovation funding, SF6 Incentive, Stakeholder engagement.

What needs improvement?

- 6.2. Stakeholders queried the use of the phrase "inappropriate scenarios". Ofgem clarified that the previous scenario choice was subject to external constraints, but it was expecting a more objective scenario to be used for this cycle.

- 6.3. Discussion took place about the need to clarify definitions of cost categories. This led to a general discussion on the suitability of the existing annual data collection templates.
- 6.4. Ofgem discussed their intention to evolve the reporting templates rather than fully redesign them. Ofgem noted work already completed over the course of RIIO-ET1 to supply suitable templates

7. Scenario Planning

- 7.1. Ofgem presented its high-level views on its requirements from scenarios to set a credible basis for the BP submission.

SHE-T Presentation: Scenario Setting

- 7.2. The presentation described how SHE-T had adapted the national model to account for regional factors in the North of Scotland.
- 7.3. SHE-T then outlined the general concept of how the scenario planning would feed into their BP and work planning. It was noted that this analysis would complement rather than duplicate the NOA process.
- 7.4. SHE-T informed the WG that their scenario planning work was soon to be published, if further information was required.
- 7.5. Ofgem also emphasised the need for harmonisation of scenarios between the ETOs, where possible.

8. Cost Benefit Analysis (CBA)

Why do we need CBAs?

- 8.1. Ofgem presented high-level views on its expectations on the content of CBAs that support BP submissions. It noted that in previous controls, licensees had presented extreme alternative options to justify the needs case for investment proposals but we expect all plausible options to be explored.
- 8.2. Stakeholders noted the difficulties between the CBA and the BP templates, recommending reconciliation between the two. In addition, the difficulty of how to deal with uncertainty within CBAs was raised.

SPT Presentation: CBAs

- 8.3. SPT presented their current approach and thoughts CBAs for BP. In their presentation SPT noted that the lowest upfront CAPEX may not always provide the most economic and efficient outcome.
- 8.4. Discussion took place on the variability of approaches and parameter values used in CBAs. Stakeholders commented that there should be a common approach to the use and content of CBAs.
- 8.5. Ofgem commented that CBAs should be designed to inform decision making rather than used as a method to justify a decision already made. To this, stakeholders agreed and suggested the development of a CBA WG.

Citizens Advice (CitA) Presentation: Approach to RII02

- 8.6. CitA presented a reminder of their expectation from stakeholders, in the WG, for RII02 and outlined the consumer principles they have noticed from their engagement work. CitA key message was that of transparency and trust development within the ET industry and noted that stakeholders need to engage consumers at their level. CitA also noted its own role in assisting stakeholders with the ensuring good consumer engagement.

9. Future work

Business Plan / Annual Reporting

- 9.1. Ofgem commented that it was an important point that the BP data template would be a natural evolution of the current RIGS and improvement was needed to coordinate terminology with ED. Stakeholders agreed that the RRP and templates need to feature in a future discussion of the WG, as the tables have potentially grown too big. Ofgem also commented that “non-lead assets” needs to be defined and catergorised.
- 9.2. Ofgem noted that ‘things’ all need to be tracked, mapped and decided on. Stakeholder noted that the ‘thing’ concept presented becomes the biggest challenge for defining a unit cost in a project and where is the limit of the scope. Stakeholders further discussed the concept of reporting the ‘what?’, ‘why?’ and ‘how?’ and appropriate responses. One stakeholder suggested a ‘carving-up’ or a ‘clean sheet start’ to activities on the template to facilitate analysis and definitions.
- 9.3. Stakeholders mentioned the consideration to balance the scope of change of reporting against the impact on their IT systems, resourcing, etc.

Steps for determining PCDs

- 9.4. Ofgem presented a strawman of a process for determining PCDs. Stakeholders suggested the process map needed to better represent the input points from parties external to the WG, to ensure it was inclusive.
- 9.5. Stakeholders input that there is a lot of detail and wondered how it would be applied in practice. Ofgem noted that some elements may need to be discussed outwith the WG.

Action 6: Consider benefits of what can be achieved vs status quo

All – Next/Future WG Meeting

10.Future work

10.1. Feedback on the meeting was provided by stakeholders.

- For location, the consensus was that everyone should be in one room for discussing complicated topics. Future meetings will vary between Scotland and London.
- The WG meeting objectives should be clear in advance on the meeting to ensure sufficient preparation time.
- Attendance should be decided on based on the scope of that upcoming WG meeting.
- Time period of four weeks was suggested rather than five weeks as there is a large list of deliverables required before Christmas and the five-week plan may not allow sufficient discussions to occur.

10.2. Stakeholders agreed to lock in the discussion topics for the next WG as; **Capex Cost Assessment Techniques and RRP Tables.**

Action 7: ETOs to feedback on PCD approach and what they would consider to be best approach

ETOs – Next WG Meeting

Action 8: Change to slide 33: PCD approach to clearly outline engagement is included in Ofgem's approach

Ofgem – pre-WG content publication

Action 9: Consider discussion agenda items for future WG meeting (including 'Front ending' certain topics)

All – Next WG Meeting

Action 10: Consider **Capex Cost Assessment Techniques**

All – Next WG Meeting

Action 11: Consider **RRP Tables**

All – Next WG Meeting