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01 October 2024

Sent by email only to [ReopenerConsultations@ofgem.gov.uk](mailto:ReopenerConsultations@ofgem.gov.uk)

Dear Zara, Sai, Evan and Eliska,

### **ENWL response to RIIO-2 Re-opener Applications 2024 Draft Determinations**

We welcome the publication of the Draft Determinations on the RIIO-2 Re-opener Applications 2024 and the opportunity to provide representations on all the Draft Determinations made. We are pleased Ofgem has agreed with six of the proposals in our Storm Arwen Re-opener application and recommended that all of the requested funding be allowed in the Draft Determinations presented. We look forward to working with Ofgem to ensure that there is a robust framework and requisite licencing arrangement in place to allow delivery of this important set of projects to improve storm resilience for our customers. As set out in our submission, our proposals represent a programme of work acting as a portfolio of activities and it is therefore important that we are able to flex this portfolio to deliver the best outcomes for our customers. We are therefore proposing a single evaluative Price Control Deliverable applies.

Further, we welcome the Draft Determination referencing the need for a wider discussion about resilience as part of the framework development for RIIO-ED3. The Draft Determinations for ENWL on the Storm Arwen re-opener represent a first step on the journey to increasing the levels of network resilience in the North West. Resilience in the future needs to continue to evolve to meet emerging needs and increasing risk from, for example, climate change and extremes in weather. This Draft Determination on its own will not deliver this but is an important short-term recognition of the need to increase investment in resilience to deliver enhanced performance over the longer term.

Our detailed response contained in Appendix 1 is limited to the Draft Determinations related to the Storm Arwen Re-opener for Electricity Distribution companies. Should you have any queries or wish to discuss our response, please do not hesitate to contact Jonathan Booth or myself.

Yours sincerely

**Paul Killilea**  
**Asset and Investment Director**

- Encs. Appendix 1 – ENWL Detailed Draft Determination Response  
Appendix 2 – Support letter - Tim Farron MP  
Appendix 3 – Support letter – Cumberland Council



## **Appendix 1 – ENWL Detailed Draft Determination Response**

### **Introduction**

We welcome the publication of the Draft Determinations on the RIIO-2 Re-opener Applications 2024 which were published on Tuesday 3 September 2024.

We are grateful for the opportunity to provide comments on all the draft proposals, but we will be restricting ourselves to those related to the Storm Arwen Re-opener for Electricity Distribution (ED) companies.

Specifically, our response is designed to provide a collective single response covering the following consultation questions:

- ED.Q4. Do you agree with Ofgem’s assessment of the cross-boundary interconnectors proposals and the proposed funding allowance?
- ED.Q9. Do you agree with Ofgem’s assessment of ENWL’s request for allowances?

This is set out in the ‘Response’ section.

### **Stakeholder engagement and support**

We have as part of our draft determination response engaged with regional stakeholders to understand their views on the draft determinations for ENWL contained in this consultation. We are pleased to be able to append a letter from Tim Farron MP, a Member of Parliament in our area, as well as a letter from Cumberland Council. These are appendices 2 and 3 to this letter.

In addition to this Westmorland and Furness Council stated:

*“Westmorland and Furness Council are pleased to support Electricity North West’s application for additional funding which will support our communities to be better prepared for and more resilient to future emergency and extreme weather events. Additional investment and improvements would help to secure reliable electricity supplies for residents and businesses in the area. The frequency and intensity of storms is increasing across the region and a modern, resilient network is vital for health and wellbeing, community resilience, for the local economy and our regions decarbonisation aspirations.”*

*Angela Jones, Director of Thriving Places, Westmorland and Furness Council, 24 September 2024*

### **Response**

We submitted seven proposals under the Storm Arwen Re-opener and are pleased to see that Ofgem has agreed with six of these proposals whilst recommending all of the requested funding in its draft decision. We look forward to working with Ofgem to ensure that there is a robust framework including licencing arrangements in place which can deliver this important set of tactical projects to improve storm resilience for our customers.

Our response is based on the five areas set out below where we have summarised our response in each area with full details provided in the numbered sections of the document that follows:

1. **Tree cutting – ETR132 – ENWL Proposal 7:** Ofgem should reserve judgement on the applicability of this for an additional Storm Arwen Re-opener application until such time that the changes and consequential impacts on DNOs can be assessed fully. Ofgem should instruct an additional window to allow for ETR132 impacts that covers direct and consequential costs on DNOs arising from any changes in standards.
2. **Regulatory mechanisms – Price Control Deliverables (PCDs):** We propose a single Evaluative PCD term, and are keen to work with Ofgem to ensure that the assessment process for the Evaluative PCDs is fair and recognises the value to consumers of these being flexible to allow optimisation of our proposed programme of work if more appropriate solutions become available.
3. **Indirect Scalar:** The type and nature of work undertaken for network resilience activities is the same in many cases as that undertaken for enhancing capacity through load interventions. Having assessed our proposals and based on the values in the Draft Determination for ENWL as well as the indirect scalar uplift percentage in the licence, we are proposing an additional £2.8m is allowed in the Final Determinations for this re-opener.
4. **Cost assessment – Interconnectors:** We note the method of assessing cost and expect that this is updated in the Final Determination for the number of interconnector projects used as the denominator in Ofgem calculations to be ten rather than eleven as at present.
5. **Draft licence condition:** We have reviewed this in detail and offer comments and observations that need to be addressed in the Final Determination and any licence proposals contained. These also need to be addressed for the Statutory Consultation on the licence changes required for this re-opener.

We cover each of these areas in turn in more detail.

#### 1. Tree cutting – ETR132 – ENWL Proposal 7

We note the decision to not allow our proposal 7 - ETR132 review. Whilst we agree that the impact of this is still relatively uncertain, as demonstrated by our inclusion of a zero-allowance request, we disagree with the reasoning provided in the Draft Determination by Ofgem that this is not in scope of the Storm Arwen Re-opener.

Special Condition 3.2.67 of the Distribution licence states, “The Storm Arwen Re-opener may be used where the costs incurred or expected to be incurred by the licensee in operating its Distribution Business have changed as a direct result of the Storm Arwen Recommendations, **including actions taken as a result of those recommendations** [emphasis added]”.

It is our view that the licence is clear, and that impacts on DNOs activities and costs as a direct result from the recommendation to update ETR132 standards and requirements is within the scope of this re-opener. It is unreasonable to assert that because the recommendation is to update the standard that only costs associated with that activity are in scope.

Further it should not be assumed, without assessment or evidence, that the costs of meeting the new standards would not be material and as such be managed within existing allowances established for RIIO-ED2 and based on historic costs and activities with significant future efficiency assumptions.

It is our view that ETR132 should be kept under review with a potential additional window instructed once the impact of the update is fully known, including assessing the impact on DNO costs. Further the costs of complying with the change in standards to meet a revised ETR132 are in scope of the Storm Arwen Re-opener as set out in Special Licence Condition 3.2.67.

## 2. Evaluative PCDs

Our submission provided a view that the allowance determined should be provided on a Use It Or Lose It (UIOLI) basis with reporting requirements based on those in place for the Worst Served Customer (WSC) mechanism in RIIO-ED2. This reflected our view that the best way to maximise the benefits of this programme is through a portfolio approach where we are able to flex the mix of the portfolio to optimise outcomes for consumers through the period.

We note that the Draft Determination set proposals for Evaluative PCDs for each of our proposals individually. We are particularly keen to work with Ofgem to ensure that the assessment process for the Evaluative PCDs is fair and recognises the value to consumers of these being flexible to allow optimisation of our proposed programme of work if more appropriate solutions become available. We view that this may involve re-allocating funding between proposals as listed and would welcome Ofgem recognising this in its final determination proposals as well as any applicable regulatory mechanisms.

Therefore, we propose that in the Final Determination Ofgem sets a single Evaluative PCD for ENWL that covers the entirety of the SART allowance determined. Our proposal is that this single PCD is to deliver investment based on the six allowed proposals for ENWL only namely; Proposal 1: HV network strengthening predictive modelling, Proposal 2: Targeted HV undergrounding/ strengthening, Proposal 3: Pennine and borders interconnection, Proposal 4: LV automation enhancements, Proposal 5: Coniston HV interconnector, and Proposal 6: Alston HV interconnector.

The deliverable would be a single output line with the profile set out below:

DNO	Output	Delivery date	2023 /24	2024 /25	2025 /26	2026 /27	2027 /28	Total
ENWL	Project 1	31/03/28	0.00	0.08	4.33	7.39	15.73	27.53

Where the Storm Arwen Price Control Deliverable Project for ENWL would be:

DNO	Field	Description
ENWL	Project 1	<p>An optimised delivery programme of the following allowed proposals outlined in the ENWL reopener submission and set out in the Final Determination of the Storm Arwen Reopener:</p> <p>Proposal 1: HV network strengthening predictive modelling</p> <p>Proposal 2: Targeted HV undergrounding/strengthening</p> <p>Proposal 3: Cross DNO interconnection - £1.57m for projects expected to materialise in the later years of RIIO-ED2 based on Storm Arwen</p> <p>Proposal 4: Low Voltage (LV) automation enhancements - Installation of LV reclosing facilities</p> <p>Proposal 5: Coniston HV interconnector - Installation of a new interconnector to provide an alternative power supply from Ambleside to Coniston</p> <p>Proposal 6: Alston HV interconnector - Installation of a new interconnector to provide a new supply from Little Salkeld to Alston</p>

This approach has the benefit of;

- Maximising the benefit of the investment to consumers through optimising spend within the programme of activity (as set out in our submission),
- Reducing regulatory burden of assessment for Ofgem and ourselves, and
- Better aligning with the RIIO-ED2 framework where PCDs were only potentially applicable to single investment above £15m (which no individual proposal of ours reaches on its own merit).

### 3. Indirect Scalar

We made no specific request for an Indirect Scalar to be applied to our Storm Arwen Re-opener submission. Having observed the precedent set by Ofgem in the design of the Load Related Re-opener and volume drivers, we assumed this principle would be applied to the Arwen Re-Opener as the nature and type of work is similar.

We acknowledge that we did not state this assumption in our submission but discussed this with Ofgem subsequently and upon review of the Draft Determination, we remain of the view that an adjustment to reflect the indirects impact of the proposals included in our submission is needed based on the activities and types of projects they include and within the scope of the Storm Arwen Re-opener as drafted in the licence.

As referenced previously, Special Condition 3.2.67 of the Distribution licence states “The Storm Arwen Re-opener may be used where the **costs incurred or expected to be incurred by the licensee in operating its Distribution Business** [emphasis added] have changed as a direct result of the Storm Arwen Recommendations, including actions taken as a result of those recommendations”.

Special condition 3.2.67 is clear that costs expected to be incurred by DNOs in operating its Distribution business are in scope.

We do expect to incur additional indirect costs given the type and nature of work undertaken for network resilience activities is the same in many cases as that undertaken for enhancing capacity through load interventions (e.g. installing HV cables). In our view, the intensity of the indirect activities (design, project management, consenting etc.) is the same if not likely to be higher for storm resilience projects than Load or capacity related investment due to the nature of the communities and geographies within which the work will take place. It is unclear to us why the clear precedent of allowing proportionate additional indirect costs to be applied to additional direct costs has not been followed in this Draft Determination where clearly there is no fundamental difference in an underground HV cable scheme for Load or resilience drivers.

We would therefore expect that of our proposals submitted, an indirects impact would be appropriately applied to the following proposals:

- Proposal 2: Targeted HV undergrounding /strengthening
- Proposal 3: Pennine and Borders Interconnection
- Proposal 4: LV automation enhancement
- Proposal 5: Coniston HV Interconnector
- Proposal 6: Alston HV Interconnector

For the purpose of this response, we have assessed what this should be based on the values proposed in the Draft Determination for ENWL and the indirect scalar uplift percentage in the licence, we are therefore proposing an additional £2.8m is allowed in the Final Determination.

#### 4. Interconnector cost assessment

In the cost assessment process to establish the draft allowances for cross-boundary interconnectors, Ofgem has:

- *calculated the median cost of a cross DNO interconnector project using data submitted by the DNOs. We then apply this median project cost to the number of projects proposed by each DNO.*

We note that this is consistent with the RIIO-ED2 cost assessment approach used in Final Determinations in November 2022. In attempting to replicate these calculations we have assumed that Ofgem has also applied a ratchet, giving companies the lower of the submitted costs and costs at the median.

Although we do not expect it to have a material impact, we thought it was important to clarify the number of interconnector proposals that ENWL expect to pay for. This is based on the primary benefiting DNO in bilateral engagement as part of the interconnector's feasibility assessment.

Table ED6 shows that we plan to deliver eleven interconnectors at a cost of £1.6m, but as you will see from our submission, we expect the project named "M62" to be fully funded by Northern PowerGrid as it will solely benefit their customers. Consequently, if Ofgem is to continue to use this methodology, we would expect the number of interconnector projects used as the denominator in Ofgem calculations to be ten rather than eleven as at present.

#### 5. Draft licence condition

We note and welcome the addition of a drafted Storm Arwen Re-opener licence modification proposal as part of the Draft Determinations. We have reviewed this in detail and offer the following comments and observations:

- Page 69 – The 'introductory note' to the Statutory Consultation incorrectly references section 3.7 Part I, when it should be 3.2 Part I (though we do note that it is referenced correctly in the proposed Statutory Consultation wording itself).
- Pages 69 and 70 – An additional reference to SpC1.2 (definitions) changes in the main body of the Statutory Consultation is also needed for transparency and clarity.
- Page 71 – It is necessary to remove the 'or' in "between Cyber Resilience IT PCD Table, or Special Condition 3.6", as 3.6 is no longer the last item in the list.
- Page 71 – Modifications to 3.2 part I - It is not clear why the text relating the re-opener itself needs to move to section 3.14 (as, other than paragraph reference numbers, it does not change). The move seems unnecessary and complicates the licence changes unnecessarily.
  - If it is moved however, there need to be some new wording for part I (e.g. '[Not Used]') – otherwise the letter references for subsequent sections would need to be amended.
- Page 73, 3.14.9 a) – The paragraph reference is missing (our view is that it should be to 3.14.7).
- Page 74, 3.14.11 – Based on the current version of the licence, there is an incorrect reference to 'part S' in this condition. This should refer to 'part R' as 'part S' no longer exists. We note that this has also been fed back in the recent housekeeping changes

proposed through the ENA, so may be resolved through a separate housekeeping consultation.

- Page 74, 3.13.13 – The paragraph reference is missing (our view is that it should be to 3.14.8).
- Page 74, 3.14.16 – The paragraph reference should be to 3.14.14 (rather than 3.14.12).
- Page 79 – The delivery years in the table are wrong (it states 2021-2026) this should be 2023-2028.