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RIIO-ED2 Draft Determinations Overview Document Consultation response

Annex 1: Overview

August 2022

Introduction

In this annex we set out our response to the questions set out in the Overview annex of the Draft Determinations (DD).

In considering the questions raised by Ofgem, and our response to these, we have engaged with our CEG as well as wider stakeholders to understand their views on the DD and the positions set out by Ofgem. We have done this throughout the ED2 preparation process and consider that the views of our customers, stakeholders and CEG remain as important as ever. It remains critical that the settlement which is finalised for ED2 enables ENWL to deliver for the communities we serve. From our stakeholder engagement over the summer we understand that our stakeholders will respond independently setting out their views. It is vital that Ofgem act on these in the development of Final Determinations (FD) reflecting regional stakeholders needs.

We continue to welcome the ongoing engagement with Ofgem, both through bilaterals and working groups and view this as vital as we work through the changes required between DDs and FDs to ensure a workable and acceptable framework/ determination. We would note that the time remaining is short and there are significant amounts of detail still needing to be developed. This can be achieved but requires both DNOs and Ofgem to constructively work together in a solution orientated way. We are fully committed to playing our part in this regard. We also suggest given the time available and volume of work need that Ofgem consider its short-term resourcing requirements and scale as appropriate.

The responses contained in this and the other documents should be considered alongside the detailed comments we have made within licence drafting working group (LDWG) and its associated issues logs. We recognise that the licence for ED2 is not a formal part of this DD consultation stage and a separate process will be run to consult on the licence to be put into place, therefore we have not sought to include views on the licence at this stage in our response. An effective Ofgem led informal and formal licence consultation process is critical including the timely provision of updated issues logs showing how Ofgem has considered and actioned DNOs feedback contained within.

Further, whilst we note the DDs are a consultation with the opportunity to provide our views and evidence on the proposals contained within, we remain seriously concerned that the process and timing is not optimal and risks this important part of the ED2 process being rushed, especially considering the range and complexity of changes from RIIO-ED1. We remain of the view that an eight-week consultation period, especially given the timing over the summer, is not sufficient for such an important part of the process and urge Ofgem consider this in future stages and price review processes. This issue of process and the time available to fully understand the DDs and develop a fully informed and thought out response has further been exacerbated by additional and short order data requests from Ofgem with response dates overlapping, ultimately diverting resources away from our core response at times.

On next stages and steps in the process we remain open to working constructively with Ofgem and others to develop workable solutions for ED2. We urge that Ofgem are open and transparent and encourage that this occurs on an ongoing basis and ahead of FDs, including the expediting and sharing of decisions where possible. It is important that FDs contain no surprises to DNOs and we are of the view that if there are, this is unhelpful to all parties and a failure of process. This is of increased importance when considering the area and outcomes from Ofgem's cost assessment process.

To that end, we will continue to feed in evidence and information for the consideration of Ofgem over the coming weeks and months. We expect that Ofgem will consider this information on the same basis as it will the information contained in this document and included in our wider DD response.

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Chapter 6. Adjusting allowances for uncertainty

Q1. Do you agree with our proposal to introduce a new funding mechanism for PoLR activities?

No, we don't agree, we realise we have these obligations under the legislation that brought in the clean energy package to UK law, but we do not think we are best placed to provide and own and operate EV chargers of last resort.

There should be a very high bar to undertaking EV charging PoLR activities by DNO's, as Ofgem's current guidance envisages. This is important given the development of both market provision of charging solutions and the role central and local government and others can have in ensuring EV charging provision occurs where needed, including intervening where there is a market failure.

There are better ways than energy bills of funding an EV PoLR service that should be taken forward. Therefore, not having a funding route already in place helps to avoid distorting the incentives for other actors to find a way forward, including innovative and potentially low-cost solutions that could emerge to meet what might have previously been seen as PoLR potential situations.

Ofgem should only introduce a funding route in the unlikely event market-based or better placed non-DNO solutions truly cannot be found. This is part of providing consent to the PoLR activities which appears to be a process with sufficient time to put the funding mechanism in place in parallel. Should there be a situation where PoLR is required then we propose cost pass-through (justification set out in the response to Q2 below) as the solution, as this should be the quickest and cleanest solution to implement, if it ever were required.

Q2. What are your views on our two proposed options, and do you agree with our preferred option of a DRS?

No, we disagree, cost pass-through is a better choice than DRS though DRS is an acceptable way forward that can work. Pass-through is preferable as this better aligns with a PoLR activity where the DNO should just pass-through the costs thereby ensuring the DNO is neutral, no better, no worse off should it be a PoLR or not – the DNO just passes the costs through and recovers them.

As further justification of positioning, the ED1 General Principle underpinning a Directly Remunerated Service is defined as: "*The General Principle is that a service provided by the licensee as part of the normal activities of its Distribution Business within the Distribution Services Area is to be treated as a Directly Remunerated Service if and to the extent that the service so provided is not already remunerated under any of the income categories set out in paragraph 5C.5.*"

We expect the definition of the General Principle will remain unchanged for ED2 and therefore do not regard PoLR as a "*normal*" activity, rather a rare and exceptional activity in the absence of other service providers being able to step in. Therefore, treating as DRS would not be optimal in our view on this basis. Further, other last resort services for ED1 are currently part of pass-through charges and therefore the equivalent treatment for PoLR in ED2 (cost pass through) is in our view the best treatment.

Q3. Do you agree with our proposal to introduce a re-opener to deal with recommendations from the Storm Arwen review, our proposed trigger and re-opener window?

Yes, we agree that a common re-opener mechanism should be in place to deal with recommendations (and associated outcomes from these recommendations) from the storm Arwen review by E3C and Ofgem.

Concerning the trigger, we suggest Ofgem makes it clear that the recommendation(s) and associated actions reached could in themselves trigger a subsequent action that then becomes eligible for the re-opener. For example, 'Action E2' calls on industry to review and update as required the current distribution and transmission network infrastructure and standards (including ETR132, OHL designs and vegetation management) to ensure they are fit for purpose, especially for spur lines in rural areas. Upon completion of this review and update, DNOs may be required to make material changes to their respective standards for application during ED2. Similarly, any review outcomes may accelerate changes to Telecoms resilience or expediated allocation of radio spectrum. The Arwen re-opener scope should allow for these types of impacts to be facilitated. We reference this scenario in our response to question 59 of the core document. The precise impact of these might not be known, including if any retrospective changes are required. Several of the BEIS and Ofgem actions could fall into this category.

It is hoped that many of the BEIS and Ofgem recommendations could be reached by 1 April 2023 with a sufficient level of detail that they can be turned into robust and effective proposals for the re-opener by 24-26 January 2024. However, this is not certain, and we consider that Ofgem should have a second re-opener window of January 2026. This is to ensure that where Ofgem supports the consumer case for actions that need more time to turn into a re-opener application these are still able to come forward.

For example, if the action concludes a new standard or amendments to an existing standard, a large piece of follow up work could be required to develop a re-opener request flowing from Arwen review action or recommendation that may take longer than circa 6 months to finalise. If only one re-opener window was set for January 2024 this would not be achievable in this circumstance whilst having a second window in January 2026 enables more complex actions to go forward instead of waiting until the ED3 process for them to be submitted to Ofgem. Having only the single re-opener window as proposed risks constraining the ability of Ofgem to support timely delivery of all the review outcomes for consumers.

At present as Ofgem rightly says in 6.27, "*We think that there is too much uncertainty around the scope and costs of implementing these recommendations, to include this activity within baseline allowances*". We also consider this uncertainty especially around both scope and scale of actions means two windows are needed.

The proposal for a 1 percent materiality threshold is wrong in general (further addressed in our response to Q6 of this document) and is specifically wrong for this re-opener. Because the recommendations are driven from an Ofgem and BEIS/E3C review, the materiality threshold should be zero for this re-opener.

We consider this re-opener to be the same in characteristics as to those in RIIO-ED1 (and as proposed for ED2) for physical site security where the needs are driven by government, legislative or potentially a regulator in this case and so we suggest the materiality threshold for this re-opener is zero. Additionally, this area is one where national resilience is at the heart of the activity which further aligns it to physical site security and cyber which in turn enhances the argument that this should also have a zero materiality threshold.

Q4. Do you agree with our proposal to maintain the RIIO-ED1 High Value Project mechanism and focus it on non-load related HVPs in RIIO-ED2?

We agree with the retention of a High Value Project mechanism for ED2, we consider that this mechanism is necessary to allow for large projects to come forward in period where there is either a new need identified, or greater certainty over an anticipated requirement, which was anticipated at final business plan (FBP) submission, but without a sufficient level of certainty.

We also agree with the proposed change that load related projects would not qualify as a HVP and would instead be dealt with through the load re-opener. We agree and consider that the Ofgem proposal for LRE re-opener for ED2 should adequately cover any new load projects which would have historically been captured under the HVP mechanism. It is critical of Ofgem to ensure this is the case that qualifying load related projects (HVP equivalents) are accommodated under the LRE re-opener.

Whilst we agree with the principle of a "*high value*" threshold, we consider that the value of £25m proposed is too high for application in electricity distribution (ED). This can be seen by the very limited number of projects in this category for ED1 and the fact that no new projects qualified during the re-opener window in ED1. Setting a threshold too high may result in projects needing to wait until ED3 which will not be in customers interest.

We proposed in our FBP a threshold of £18m as we suggested that this was more representative of a HVP in ED, and maintain that a lower threshold better reflects the reality of a HVP in ED.

Should Ofgem consider that £18m is too low, then we proposed an alternative of £20m at DD stage. What is clear to us is that the Ofgem proposed £25m is too high as no new projects came forward over ED1 which is not in consumers interests if projects must wait until ED3 rather than being delivered in ED2.

We consider that HVPs merit the additional transparency and scrutiny that such a regulatory mechanism brings and also ensures that large projects with a clear justification that come forward in the period do not have to unnecessarily wait for the arbitrary deadline of a new price control.

It would also be appropriate for Ofgem to identify how it would proportionately approach any HVP re-opener, as we think clarity now would assist all parties and Ofgem in informing where a threshold might be. Ofgem may want to scale down its re-opener requirements even further for ED considering the experience of MSIPs/LOTI undertaken by Ofgem in electricity transmission (ET) and noting the investment differentials between the two sectors (i.e. the at least doubling of the threshold for ET).

It should also be noted that potential HVPs are likely to be at shared sites with the transmission network owners. As such, these will have a dependency on other aspects of Ofgem's regulatory remit and may be subject to either a ET T3 price control submission, or a Transmission re-opener of some kind. The mechanisms set for ED must be flexible enough to react to, and indeed encourage, whole system thinking and system co-ordination across both ET and ED.

The setting of application windows needs to carefully consider this interaction so as to not create any unintended barriers to whole system development that seeks to drive efficiency and minimal disruption. The T3 FDs are likely to be in late 2025, meaning a re-opener window of January 2026 could be challenging if we only see the ET projects approved the month earlier. We therefore suggest that two windows should be considered namely:

- **Window one: January 2026** - So as to be agile enough to consider needs that have become more certain since ED FDs; and,

- **Window two; January 2027** - To be able to incorporate any new requirements as a result of the Transmission T3 price control settlement.

Q5. Do you agree with our proposal to remove the RIIO-ED1 smart meter volume driver?

No, we strongly disagree with the removal of the smart meter volume driver.

In the December 2020 SSMD[1] Ofgem confirmed its decision to retain the smart meter volume driver with no changes. The DD documents do not explain why there is a change from the SSMD to DD position.

This mechanism was implemented in ED1 to reflect three significant uncertainties arising from the rollout of smart meters across GB;

1. Uncertainty was **timing of the rollout**,
2. Uncertainty over **volumes that the suppliers** would install, and
3. Uncertainty around the **level of interventions** at the service position that DNOs would be required to do.

Additionally, the unit cost was well understood and therefore a volume driver was the most appropriate UM to manage this uncertainty.

Originally the smart meter volume driver was time-bound to reflect the mandated end date for suppliers to complete the rollout. Due to a range of issues, this end date has been changed numerous times, with the ED1 licence needing to be changed to reflect this exogenous factor.

Taking each of these uncertainties in turn, we consider and set out the status of the three uncertainties in the context of ED2 below:

1. **Timing of rollout** – this is still uncertain.

   Suppliers have not met the end date on numerous occasions due to various reasons. For our area, we are currently recording circa 50 percent penetration levels (and based on current supplier installation rates would only reach 68 percent by 2025) which would suggest uncertainty on actual volumes of smart meter interventions required will continue well into ED2. A further rollout phase and continued activity will be necessary beyond the June 2025 end date of the current phase.

[1] RIIO-ED2 Sector Methodology Decision: Annex 2 Keeping bills low for consumers – Table 4

Customer uptake has been and remains unpredictable and there have been technical delays developing SMETS2 meters. Other exogenous factors such as the COVID pandemic have affected numbers and timing significantly.

With events such as the energy crisis, continuing presence of COVID-19, supplier market challenges and issues with the communications network in the North region, as well as the potential diversion of resource to support the upgrade to Communication Hubs in the Central and South regions, there are still a great number of uncertainties meaning that the end date cannot be predicted with confidence.

We further note the recent Energy Bill progression which refers to consideration of timing of rollout of smart meters.

2. **Volumes that the suppliers would install** – For the reasons explained above, it is difficult to predict the volume of installs across GB, let alone by DNO geographical area. Therefore, setting an ex-ante allowance based on volumes is not possible because volumes can't be predicted with confidence and certainty.

3. **Level of interventions required** – Whilst there is more historical data gathered on the relationship between smart meter installs and DNO interventions, due to the two uncertainties described above, it is difficult to predict the DNO interventions required whilst the number and timing of smart meter installs are heavily influenced by factors outside of our control.

For these reasons we propose that the ED1 smart meter volume driver remains in place for ED2. This is an area that is driven largely outside of the DNO control, and we have no influence on where and when smart meter installs will take place, merely needing to react at such point when a DNO intervention is needed to support an install taking place. We propose a similar approach to ED1 is taken, with an ex-ante base set, flexed as necessary by a mechanistic volume driver. We believe this provides the best balance of risk between customer and company. As we refer to elsewhere in this response (finance question 30) the volume driver must include all the costs (i.e. including indirects), not just capital costs of enabling smart meter rollout. We note that the mechanism in ED1 does include indirects and we view this as best practice and consider Ofgem do this in the case of all uncertainty mechanisms.

Q6. Do you agree with our proposed approach for a common materiality threshold being applied to RIIO-ED2?

No, we strongly disagree with the proposed common materiality threshold as proposed to be applied.

We understand that there are merits to a common materiality threshold to manage the number of re-opener applications within the period, however, we are unclear why this should be different to decisions made for other sectors for RIIO-2.

For GD2/T2 Ofgem decided on a materiality threshold of 0.5 percent which is to apply on the same basis as the proposed 1 percent for ED2, which is clearly twice the materiality. Given in other parts of the framework Ofgem has justified its position based on decisions made for GD2/T2 it is unclear, and unjustified, why a different materiality threshold is applying for ED2. Effectively what Ofgem seems to be suggesting is what is material for GD/T is immaterial for ED2, on which we have seen no evidence to justify this differential position.

There is better justification for ED2 materiality being lower than that in RIIO-2 and on the same justification/evidence definitely not a threshold which is higher than RIIO-2. This is because the uncertainty mechanism and re-opener package for ED2 (as proposed) is much more legislative and compliance based in its driver than GD2/T2. In principle any issues out of the DNO's control such as legislative or compliance should have a zero-materiality threshold. This has been accepted throughout ED1 and other price controls as a general working principle.

Given the nature and as mapped in table 1, this gives rise to the risk in ED2 that legislative and compliance-based activities are absolutely 'must do' to avoid legal consequences whereas investment-based UMs can be deferred if necessary and don't have the same absolute consequences on companies with regards failure to deliver/comply.

Given this, and the need to avoid risk of non-compliance, companies will always deliver legislative and compliance-based activities ahead of any other. For example, customer or stakeholder driven activity. The effect of Ofgem setting the high materiality threshold is where this increased threshold is not reached will lead to a cooling effect on more discretionary activities resulting in lower outcomes for customers to give effect of compliance/legislative requirements and investment need through baseline funding.

Table 1: mapping of uncertainty mechanisms between RIIO-2 and ED2

ED2	GD2	T2
Net Zero	Net Zero	Net Zero
Physical Site Security	Physical Site Security	Physical Site Security
Cyber Resilience	Cyber Resilience	Cyber Resilience
Coordinated Adjustment Mechanism (CAM)	Coordinated Adjustment Mechanism (CAM)	Coordinated Adjustment Mechanism (CAM)
Specified Street works	Specified Street works	
PCBs	Non-Op IT and Telecoms Capex	Non-Op IT and Telecoms Capex
Load related expenditure (LRE)	Net Zero Pre-construction and Small Projects	LOTI
Electricity System Restoration	Repex – HSE policy changes	MSIP
Environmental Legislation	Repex – Tier 1 iron stubs	Pre-construction funding
DSO	Repex – Pipeline Diversions	Access Reform
High Value Projects	Multi occupancy buildings safety	Visual Amenity
Rail Electrification	Heat Policy	
ENWL proposal 'Regulatory Driven Change' re-opener	New large load connections	
Digitalisation	Smart Meter rollout costs	
Storm Arwen	Fuel poor network extension scheme	
Tax review		
Key: Compliance based Company/investment based		

We propose Ofgem reduces the materiality threshold to no more than 0.5 percent to (as a minimum) align with the decision for GD2/T2 (RIIO-2). Should this not happen we fail to see the justification from Ofgem for differential treatment between sectors.

Whilst we consider this should be the common parameter materiality threshold, we further propose, on case by case basis, that zero-materiality thresholds apply in some circumstances, particularly where the need is out of control of the DNO and based on considerations of compliance and legislative requirement. We have set out in our response to specific re-opener questions where a zero-materiality threshold should apply both in our response to this DD and also in response to SSMC/ SSMD previously published by Ofgem.

Chapter 9. Approach to the Totex and Business Plan Incentive Mechanisms

Q7. Do you agree with our view that all the DNOs have passed Stage 1 of the BPI?

Yes, we support the assessment including passing of all DNOs for stage 1 of the BPI.

Q8. Do you agree with our overall approach regarding treatment of CVP proposals?

No, we disagree with aspects of the treatment of our Smart Street and CLASS CVP proposals. Whilst we welcome the support of both proposals including providing funding for Smart Street we urge that Ofgem reconsider these for CVP reward given the significant merits of both proposals. We set out our more detailed response in question 4 of the ENWL specific annex.

Chapter 10. Increasing competition

Q9. Do you agree with our proposed position on early and late competition?

We agree with Ofgem that the consumer benefits from competition are most likely to arise in the ET sector. Therefore, the successful application of any of the competition approaches should be fully demonstrated and delivered, first in ET.

Should any ED project meet the criteria under late competition (over £100m and new and separable) and a consumer case be identified, we suggest the delivery model should be through a properly and directly licenced by Ofgem distribution network company (CADO). We already have IDNO's in the distribution sector so late models such as the Special Purpose Vehicle (SPV) Model and the Competition Proxy Model (CPM) add regulatory risk, complexity and cost when they clearly are not required as through IDNO's there is a formal licencing regime already. We suggest Ofgem should therefore go further than caveating the use of late competition models to, "*where appropriate*". We can't envisage circumstances where CPM and SPV could be superior to CADO and so Ofgem should reflect further and not introduce CPM and SPV late models for ED, in the light of experience through assessing existing competition in the ED sector.

On early competition, we agree this is not developed sufficiently. We further agree with Ofgem that the suitability or not, and which models if relevant, that might apply in ED requires a specific Ofgem process with full evidence gathering specific to the ED sector and proper consultation including a robust impact assessment.

Ofgem's competition policy for ED has not seemingly yet taken on board the material differences between ED and other sectors. In ED, and especially in our area, there is already vibrant competition[2] and a proliferation of activities by ICP's (organisations to build distribution network connections) and IDNO's[3] (large and small scale licenced operators of distribution networks). Essentially a large degree of competition already exists in the ED sector that does not in other sectors.

Chapter 11. RIIO-ED2 in the round, post appeals review and pre-action correspondence

Q10. Do you have any views on the proposed scope of the FDQ process and pre-action correspondence, including on the proposed timing for sending such to Ofgem?

While we appreciate that early and positive engagement with the regulator about appeals is a practice to be encouraged, we would be surprised if Ofgem was unaware of the likely grounds of dispute given the degree of engagement during the price control process. Moreover, there are practical reasons why it may be difficult or inappropriate to engage early. Ofgem will appreciate that deciding to bring an appeal to the CMA is often a finely-balanced decision and companies will want to see the final outcome of the price control process[4] before deciding whether to appeal or not. Ofgem's position, that such pre-action correspondence is "expected" is not clear as to the legal effect envisaged, and it would be helpful if Ofgem clarified its position.

To the extent Ofgem is seeking to make pre-action correspondence compulsory, we would note that the process for appeals to the CMA is well-established, and laid down in legislation, supplemented by the CMA's rules on energy licence modification appeals (CMA70). The CMA has just published proposed updates to its rules but does not propose to introduce a binding requirement for pre-action correspondence with Ofgem. Although the CMA proposes to "encourage" companies to inform Ofgem that they are considering bringing an appeal, the CMA does not support the suggestion in the DD that companies must provide Ofgem in advance with details on the scope of any potential appeal. Companies should adhere to the requirements of the appeal process. This process has historically been designed to be fair and workable to both appellants and the regulator. Prospective appellants can decide what, if any, further information they share with Ofgem beyond that which is legally required. It is not for Ofgem to add to or amend the CMA's rules or the statutory process.

In practical terms, Ofgem should provide further information on how the FDQ process is intended to work, particularly in respect of matters potentially that might be appealed, such as by what mechanism(s) and how quickly and transparently Ofgem would issue corrections. The proposals Ofgem make, rely upon Ofgem being agile and transparent between FDs and Licence consultation, which again needs to be set out. Additionally, Ofgem needs to ensure it makes complete and accurate price control documentation available in a timely way, as this is the most appropriate way to minimise risk of appeals where Ofgem on reflection thinks it has made an error and Ofgem agrees with the appellant(s).

Ofgem does not ask a specific question on interlinkages, though ENWL's view of this remains consistent with the view it has expressed throughout this process that the CMA is able to consider interlinkages in the appeals process. It is therefore for the CMA to determine whether consequential amendments

[2] Ofgem's consultation highlights 8 of 9 market segments have effective competition, the most competition of all DNO areas. https://www.ofgem.gov.uk/sites/default/files/2022-03/Consultation%20on%20our%20minded-to%20proposals%20of%20competition%20review.pdf

[3] The Role of Independent Utility Networks - Independent Networks Association (ina.org.uk) who already own and operate 70-80% of new housing development network nationally.

[4] To support Ofgem's desire to engage with potential appellants on potential issues, greater emphasis and effective progress is required on the detailed package of price control documents including licence, guidance documents and any other material elements.

are required to the price control decision when correcting the error(s) and not for Ofgem, which must act in accordance with the CMA's determination including any directions.

Chapter 12. Access and Forward-looking Charges Significant Code Review

Q11. Do you agree with our proposal to not introduce a specific uncertainty mechanism to manage the impact of the Access SCR (and address it through the LRE mechanisms instead)? Please explain why.

We agree with the general principle that Load Related Expenditure (LRE) mechanisms should be designed to be able to manage any uncertainties for LRE that arise from the impact of the Access SCR decision.

At present, the single application window for Load Related re-opener, coupled with the size of the materiality threshold may prove to be a barrier to react in an agile way towards impacts from the Access SCR decision should they be seen early in the price control. Consideration of this should be given when working on the detailed design of the LRE UMs including the number and frequency of application windows that apply.

We also agree that in terms of LRE, the driver for investment is largely irrelevant, and there are practical challenges with categorising whether a need has arisen as a consequence of the Access SCR decision, or other reasons.

We comment separately in our response to the core document (questions 4 and 5) our views on the LRE mechanisms, however, it is important to highlight here that the mechanisms as they are currently designed do not adequately cater for the increase in indirect costs that will be incurred as a result of Access SCR decisions. This is also covered in our response to finance question 30.

There must be some mechanism that provides for allowances to be adjusted as LRE UMs are used, to appropriately reflect the increase in indirect costs alongside the direct activity costs. This is particularly material for LRE given the necessary design and engineering input required.

We recognise that the DD does not reflect an Ofgem view on the level of expenditure necessary which is likely to be driven as a result of the Access SCR decision, and that further work will take place between DD and FD.

We note the recent request for re-submission of our tables M30a and M30b to support Ofgem incorporating the impact of Access SCR within FD. We intend to respond with this further information within the timescales as set out by Ofgem.

We welcome a constructive dialogue between companies and Ofgem, including the planned consultation over the Autumn, that lays out how Ofgem propose to reflect the impact of Access SCR into ED2 and FDs. Part of this work being carried out must bring a solution to the challenge of accounting for indirect costs. Some DNOs have proposed solutions, and there is an Opex escalator in place for T2 which in principle could be adopted for ED2 though another solution is to include indirect costs in volume driver rates. We set out further detailed views on indirects in our response to questions 30 and 31 of the Finance response which cover capitalisation rates for re-opener and volume drivers.

We would further note that the issue of indirect costs and how these are accounted for in uncertainty mechanisms is not solely applicable to LRE, but applies across all uncertainty mechanisms that are included, or proposed to be included, for ED2.