

# 1 Executive Summary

**Electricity North West Limited is the electricity distributor for the North West of England. We own, invest in, operate and maintain the network of overhead lines, transformers, switchgear and underground cables which carry electricity from the national grid to our customers in every home and business in the North West.**

- 1.1 Our job is to keep electricity flowing to our customers' homes and businesses, keeping the lights on 24 hours a day, seven days a week.
- 1.2 We recover our costs by charging electricity suppliers for the use of our network. Our charges account for about 16% of the average domestic electricity bill.
- 1.3 Ofgem (Office of Gas and Electricity Markets) regulates the amount we can charge through a series of price controls. We are currently in DPCR5, the fifth price control since privatisation, which covers the five years from 2010 to 2015. In 2015, DPCR5 makes way for RIIO-ED1, a new eight-year price control framework, which runs from 2015 to 2023. The RIIO framework links our Revenue to Incentives, Innovation and the Outputs we deliver for our customers.
- 1.4 Our Well Justified Business Plan details our proposals for the RIIO-ED1 price control.

## Our Promise: Prices

- 1.5 We understand that the cost of energy is becoming increasingly difficult to bear. We think the best way to deal with this is to keep prices down. If Ofgem accepts our proposals:
  - We can reduce our average prices by 16% compared to DPCR5 and kick-start RIIO-ED1 with a price reduction of 18% in 2015-16.
- 1.6 We can do this because we operate an efficient business. Our prices in RIIO-ED1 will be among the lowest in our industry. We will achieve this through our continued commitment to cost and productivity improvement, development of innovative solutions to the problems we face today and in the future and benchmarking our performance against our industry peers and the wider competitive market.

## Our Promise: Customer Service

- 1.7 We will provide excellent customer service for all our different customer groups. We will make sure customers can contact us quickly and easily through the most convenient channel for them. We will provide them with accurate and timely information and take ownership of their issues.
- 1.8 Telephone contact is likely to remain the favourite channel for the foreseeable future and we will invest in our people, systems and processes to deliver a first class telephone service. We will answer all calls quickly and make it easy for our customers to speak to one of our Customer Service Agents if they want to. We will resolve at least 90% of customer enquiries the first time they contact us and resolve all complaints first time.
- 1.9 We will support our telephone channel with online, mobile and app channels which will provide real-time information on, among other things, faults, their causes and expected restoration times.
- 1.10 Stakeholder engagement is embedded in our business and we will continue to build upon our already successful engagement to make sure we respond to our stakeholders' changing needs.
- 1.11 We will deliver additional assistance to our vulnerable customers in each year of RIIO-ED1. We will support this direct assistance with a co-ordinated programme which brings together companies, agencies, charities and other groups in the North West to develop integrated plans to help address fuel poverty.

## Our Promise: Network Performance

- 1.12 Our network is one of the most reliable in the country. Since we acquired the business in 2007, we have reduced the number of power cuts our customers experience (called Customer Interruptions) by 16% and their average duration (called Customer Minutes Lost) by 18%.
- 1.13 We are investing £1.4 billion during DPCR5 to improve reliability, ensure capacity and deliver a safe network. We plan to invest a further £2.6 billion in RIIO-ED1 to ensure the network continues to deliver excellent, affordable service to our customers in the face of future uncertainty.

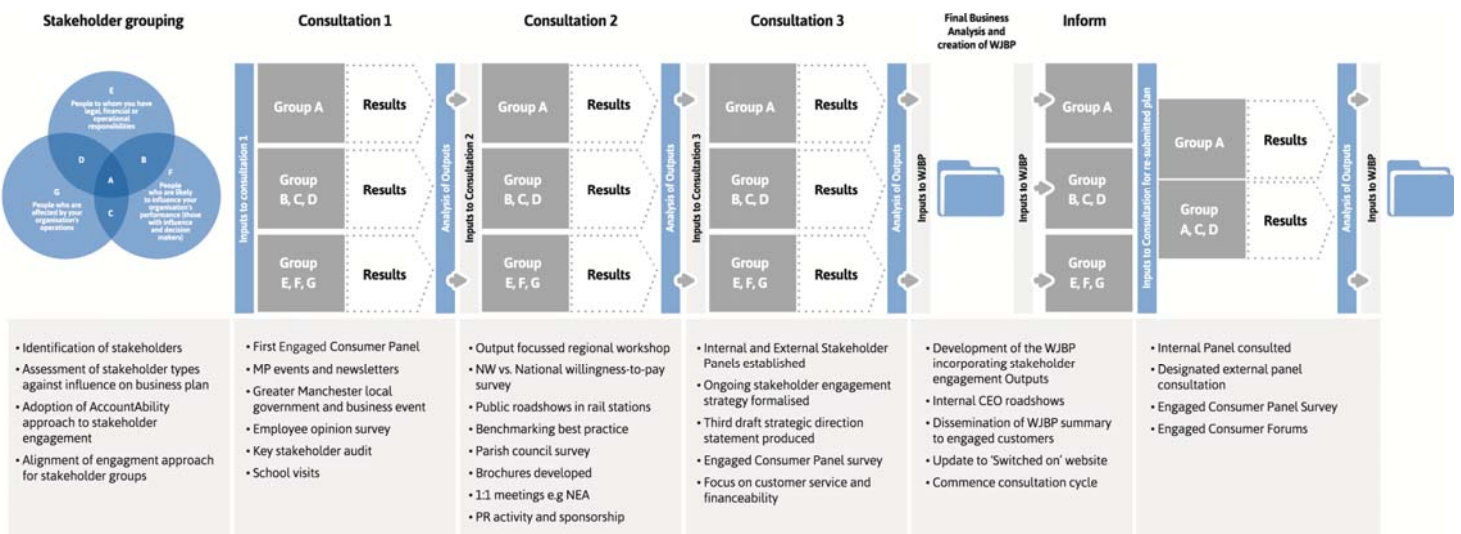
## Our Promise: Fit for the Future

- 1.14 Our investment plans are prudent but flexible. We will invest the right amount at the right time to make sure we can improve performance now and sustain it in the long term. We will design our interventions to balance performance and value in a way which does not store up problems for future generations.
- 1.15 We are committed to supporting the UK's transition to a low carbon future. We will use a combination of traditional reinforcement and innovative commercial and technical arrangements to provide sufficient capacity to accommodate Low Carbon Technologies.
- 1.16 When customers want to connect to our network, we will make this easy, quick and affordable. We will provide consumer choice by continuing to champion a fully competitive connections market.
- 1.17 We are very proud of our Well Justified Business Plan. It delivers outstanding value, performance and service for our customers and stakeholders. It clearly demonstrates that our costs and prices are reducing, our performance and service is improving, we are innovating to respond to the challenges of the future and we are delivering the Outputs our customers and stakeholders value most.

## Developing our Business Plan

Stakeholders have played an essential part in helping us develop our plan. They range from the domestic and commercial customers who depend upon our service, to local and national government and groups who represent various specific interests.

- 1.18 We have consulted widely through our 'Switched on: North West' campaign to better understand our stakeholders' needs and priorities. We have analysed them, provided feedback, developed proposals and consulted upon them through an audited and accredited process, which is shown in the diagram below:



- 1.19 This is the second version of our Well Justified Business Plan. Ofgem reviewed the previous version during the second half of 2013 and found it met four of their five key criteria.

DNO Group	licensee <sup>10</sup>	Process	Outputs	Resources – efficient costs	Resources – efficient finance	Uncertainty and risk
Western Power Distribution	WMID					
	EMID					
	SWALES					
	SWEST					
Electricity North West Ltd	ENWL					
Northern Powergrid	NPgN					
	NPgY					
UK Power Networks	LPN					
	SPN					
	EPN					
SSE Power Distribution	SSEH					
	SSES					
SP Energy Networks	SPD					
	SPMW					

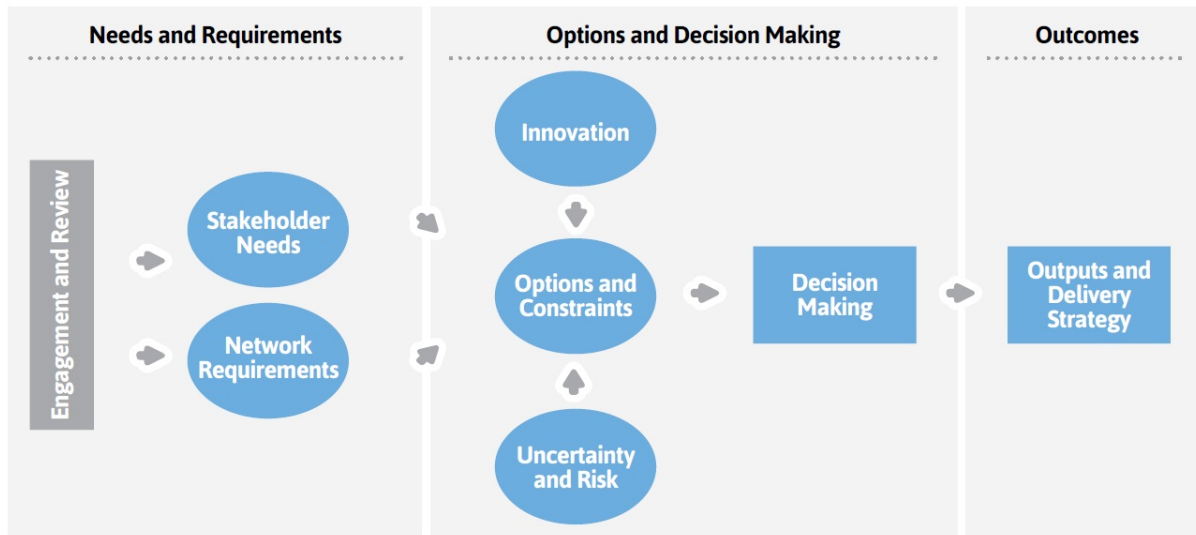
- 1.20 However, Ofgem asked us to look again at our expenditure forecasts as they found that we had not fully justified the previous version.
- 1.21 In this version of the plan we have reviewed the entirety of our expenditure proposals, benchmarked ourselves against the other DNOs using the data Ofgem provided and worked with our supply chain to review key unit costs.
- 1.22 As a result we have been able to reduce our expenditure by a further £34 million. We have also provided considerably more detailed information that explains why the investments we are making are the most efficient for the people of the North West. In particular we have provided a lot more detail on how our plan develops and deploys the benefits of smart meters and smart grids.
- 1.23 Where we have received feedback from Ofgem on the previous version of our plan we have checked many of the changes in this version with stakeholders before finalising this plan.

## Stakeholder Priorities

- 1.24 We have many different stakeholders and, not surprisingly, they express a wide range of needs and expectations. We would like to be able to accommodate them all, but in truth it is neither practical nor cost effective to do so. Our engagement process allowed us to gather, analyse and refine stakeholder input to our plan to determine the major issues which had the most support.
- 1.25 They are:
- Reliability – ‘keeping the lights on’
  - Affordability – delivering exceptional value for money
  - Sustainability – managing and investing in our network to meet the challenges of the future
- 1.26 Our customers expect and demand a first class service when they need to contact or interact with us. We are responding to this by putting customers at the heart of our business and we promise to deliver their priorities with an exceptional level of Customer Service.
- 1.27 These “Stakeholder Priorities” are the foundation of our plan.

## Process

- 1.28 Our entire business has come together to develop our plan. It is based on a robust and comprehensive decision-making process and a governance plan overseen by our Chief Executive Officer and Board. Our process is illustrated below:



## Assessing Needs

- 1.29 Our starting point is to look at what we need to deliver to meet customer and stakeholder expectations and to maintain the safe, efficient and reliable operation of our network.
- 1.30 Stakeholder needs come from our Stakeholder Engagement process. Network needs are determined by a number of factors, including asset age, condition and capacity as well as an assessment of the electricity our network has to distribute now and in the future.

## Options and Decision Making

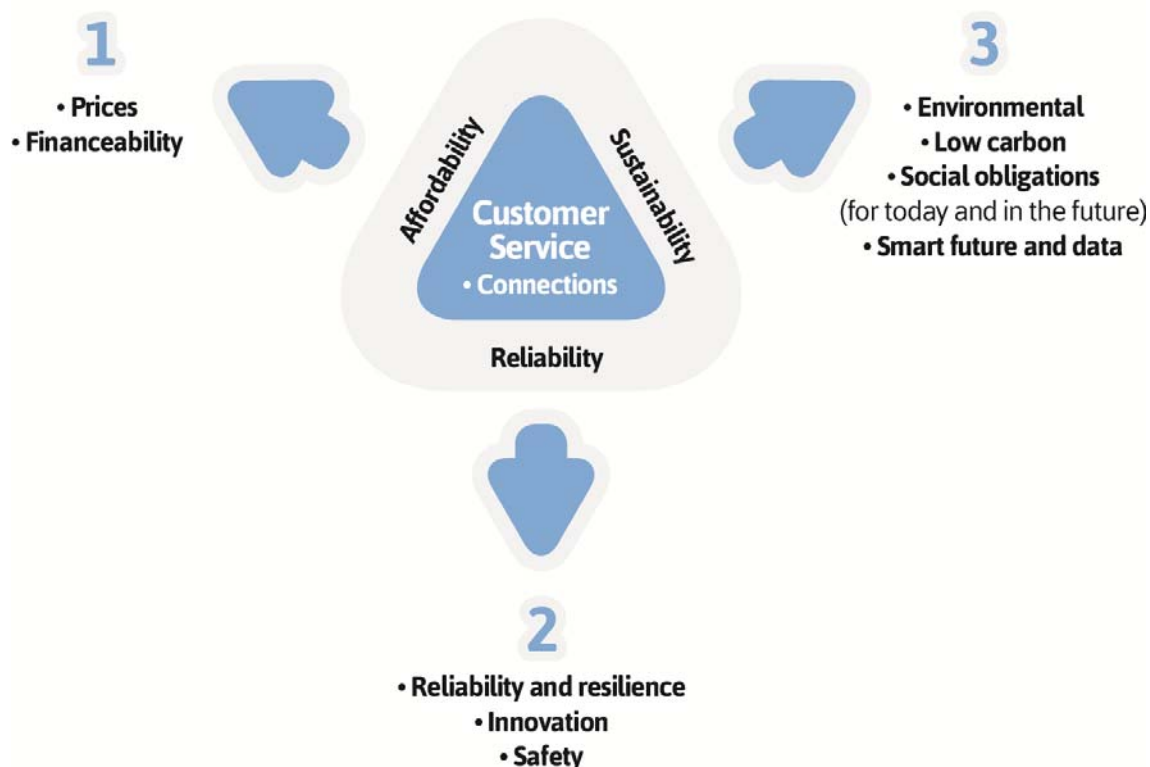
- 1.31 We can satisfy stakeholder and network needs in a number of ways and we use robust and proven techniques to develop the right mix of interventions. Our decisions have been guided by our Stakeholder Priorities, engineering experience and standards and decision support techniques like Condition-Based Risk Management and Cost Benefit Analysis.
- 1.32 Sometimes there is no established solution so we rely on our strong track record of innovation to develop new, cheaper and faster ways to solve problems.

## Outcomes

- 1.33 Our process results in a detailed programme of interventions and services which range from minor repairs to huge capital projects; from developing training programmes for our Customer Service Agents to replacing the IT systems which let us manage our network. The RIIO framework lets us express this complex programme in a series of 'Outputs', which are essentially the performance and service levels we will deliver for our customers and stakeholders in RIIO-ED1.
- 1.34 The Outputs are:
- Safety
  - Social obligations
  - Reliability and availability
  - Customer satisfaction
  - Connections
  - Environmental impact
- 1.35 Our Outputs will deliver an exceptional level of price, reliability and sustainability benefits which provide excellent value for our customers and support our collective ambitions for a low carbon future.

# Responding To Stakeholder Priorities

Our plan is complex but can be expressed by a small number of key attributes, which we have aligned to our Stakeholder Priorities.



## Customer Service

- 1.36 Customers tend to contact us either when their electricity supply is interrupted or when they need to connect to our network. When they do, they expect us to provide accurate and timely information and deal with them in a professional and helpful way.
- 1.37 We are investing in our people, systems and processes to make sure our customers experience excellent service every time they contact us. Our target is a minimum score of 85% in the Broad Measure of Customer Service.
- 1.38 Our connections Output proposals are at the forefront of our industry. We will make it easier, cheaper and quicker to make a connection application and to carry out the work. We will invest to make sure our network can accommodate low carbon technology connections, both large and small, and use innovative approaches to overcome network capacity constraints.

## Affordability

- 1.39 Our entire plan ultimately results in a price we have to charge electricity supply companies for the use of our network. Customers are increasingly worried by rising energy prices and the burden this places on household and business budgets. We have worked hard to improve our efficiency and productivity to minimise our costs and our customers will benefit from this.
- 1.40 We have developed a financing package which lets us meet our obligations, maintain a good credit rating and raise the money we need to pay for our investments. We believe we have struck an excellent balance between the allowances we need to meet our funding costs, the additional capital that our shareholders will invest and the incentive revenue we can earn from excellent performance, which is fair for our customers and us.

## Reliability

- 1.41 Our stakeholders want us to 'keep the lights on' by operating a safe, efficient and reliable network. Safety is our number one priority. We will comply with all applicable legislation and go beyond this with selective, targeted investment to address specific risks to our staff, contractors and the public.
- 1.42 Our network is already 99.99% reliable but we want to go further. Our stakeholders would like 100% reliability. This would mean us doubling the size of our network to make sure we had a back up when a cable, transformer, switch, pole or tower developed a fault. This would be unaffordable. Instead, we propose to improve network reliability by 20% from its 2012 level by 2019.
- 1.43 We have already demonstrated an enviable track record in applying innovation to solve practical problems on our network and improve reliability and service. We face many new challenges in the future, particularly from the adoption of Low Carbon Technologies (LCT), and we will continue to innovate to make sure our customers can benefit from the cost and performance benefits LCT can deliver.
- 1.44 We will continue to develop our resilience programme to protect the network from extreme weather events, particularly flooding.

## Sustainability

- 1.45 Our customers want a network which delivers reliable service now and in the future. They trust us to make the right engineering and asset management decisions but they want us to do so in a way which balances the cost across the generations of customers who will benefit. We agree with them. We could radically reduce investment in the short term to create artificially low prices but we think this would be reckless and mean storing up problems for future customers. Our investment programme is prudent and consistent.
- 1.46 We are a responsible organisation and we take our environmental and social obligations seriously. Our sustainable network will be one which helps deliver the UK's ambitious greenhouse gas emission reductions by enabling LCT adoption, reducing the losses inherent in electricity distribution and contributing to a substantial reduction in our own Business Carbon Footprint. We believe that smart meters and other smart technology can contribute as well and our plan demonstrates our readiness to play our role in the Smart Future.
- 1.47 We believe that our plan meets our customers' and stakeholders' key requirements however we recognise that there are some customers who need extra support and assistance from us. We are upgrading network reliability in areas where there are concentrations of vulnerable customers and will provide temporary power supplies for our most vulnerable customers during power outages. We provide our vulnerable customers with a welfare support package when they need it. We are supporting this with a comprehensive Customer Relationship Management system. This will help us target this assistance effectively and support greater coordination among organisations in the North West to address fuel poverty.

## Outputs

**Outputs are the products and services we will deliver for our customers and stakeholders in RIIO-ED1. Ofgem has specified six Outputs and asked for our proposals for each. In some cases we go beyond the basic Output and propose additional deliverables which are needed to address specific issues.**

## Safety

- 1.48 Safety is our number one priority. It is embedded in everything we do as a business. Our Safety Output delivers absolute compliance with all relevant legislation and regulation. In addition, we will take steps to address specific risks to staff, contractors and the public by:
- Improving security arrangements at 800 substations to reduce metal theft and vandalism
  - Installing additional safe climbing attachments on 1,600 towers
  - Removing or making safe the asbestos in 9,000 substations

## Social Obligations

- 1.49 We are a responsible organisation. We take our role in the social development of our community seriously and our Social Obligations Output commitments reflect this.
- 1.50 We will participate in the Business in the Community Corporate Responsibility Index and achieve Gold status by 2019.
- 1.51 Some of our customers need a bit more support from us when their electricity supply is interrupted. We already maintain a Priority Services Register to allow us to assist these customers. We will go further to provide enhanced support for all vulnerable customers. This will include meals and other welfare provisions, personal support from our staff or our partners at the British Red Cross and temporary generators where there is an urgent need to restore supply.
- 1.52 We are developing a comprehensive Customer Relationship Management system which will allow us to better understand our customers' relationships with our business. This will allow us to develop targeted and effective support. Our staff will be trained to recognise signs of vulnerability and when they do, explain the additional services and support we can offer.
- 1.53 We will deliver a programme of automation to improve the reliability of the network where there are large concentrations of vulnerable customers.

## Reliability and Availability

- 1.54 This is the measure of how well we 'keep the lights on' and, when they go off, how quickly we get them back on again. We do this through a combination of investment, automation and responding to faults.
- 1.55 We will improve Reliability (measured by Customer Interruptions) and Availability (measured by Customer Minutes Lost) by 20% of their 2012 levels by 2019.
- 1.56 We can only deliver this improvement if we maintain the underlying stability and resilience of our network. We therefore need to continue to invest in maintaining our current network. Our network investment, maintenance and replacement programme will maintain network risk (ie the probability of asset failure) within 3% of its 2015 level and we will maintain our current fault rate.
- 1.57 We will install additional capacity or interconnection at major substations where there is a risk of overloading and provide capacity for LCT connection by replacing switchgear at locations where it is likely to be a constraint.
- 1.58 We will improve resilience to extreme weather events and malicious attack by a programme of flood protection, network reconfiguration, additional battery back-up capacity and security measures.
- 1.59 By 2023, no customers connected to our network will fall within the industry definition of 'Worst Served'.

## Customer Satisfaction

- 1.60 We are committed to delivering the highest level of service for our customers.
- 1.61 Ofgem's Broad Measure of Customer Service measures our performance on general enquiries, complaints and connections enquiries. We will achieve a score of at least 85% against this measure at the start of RIIO-ED1 and maintain or improve it for the duration of the price control.
- 1.62 We will resolve all complaints first time. At least 90% of these will be within one working day and the remainder within five working days.
- 1.63 We will continue to develop our Stakeholder Engagement process and ensure our plans take account of our stakeholders' and customers' changing needs.
- 1.64 Despite our best efforts, there will be times when we do not meet our customers' expectations in full. Where this is the case, we will proactively pay any compensation they may be due under Guaranteed Standards.

## Connections

- 1.65 When customers want to connect to our network, we will make the application and delivery process easy, quick and as affordable as possible.

- 1.66 We will continue to champion a fully competitive connections market and implement a comprehensive strategy to support our major connections customers. Ofgem can penalise us where our engagement falls below expectations. We will ensure our engagement is professional, courteous and proactive and therefore expect not to incur any penalty.
- 1.67 When customers ask us for a connection quotation we will provide this within:
- Six working days for single domestic connections
  - Ten working days for two to four domestic connections
  - Twenty-five working days for all other connections
- 1.68 Once we have agreed terms with customers, and they tell us they are ready to progress, we will complete the work within:
- Thirty working days for single domestic connections
  - Forty working days for two to four domestic connections
  - Fifty working days for all other connections

## Environmental Impact

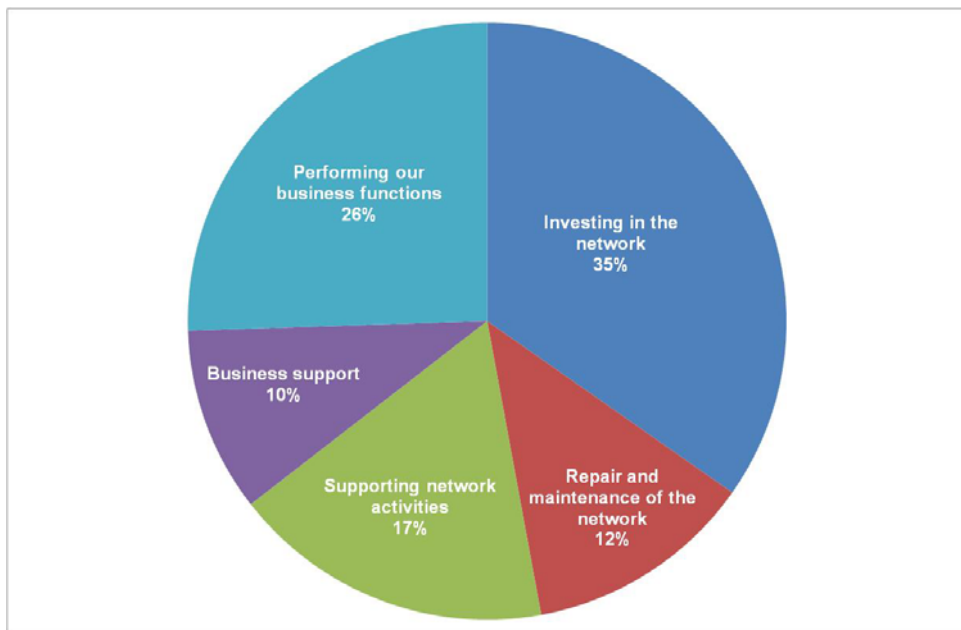
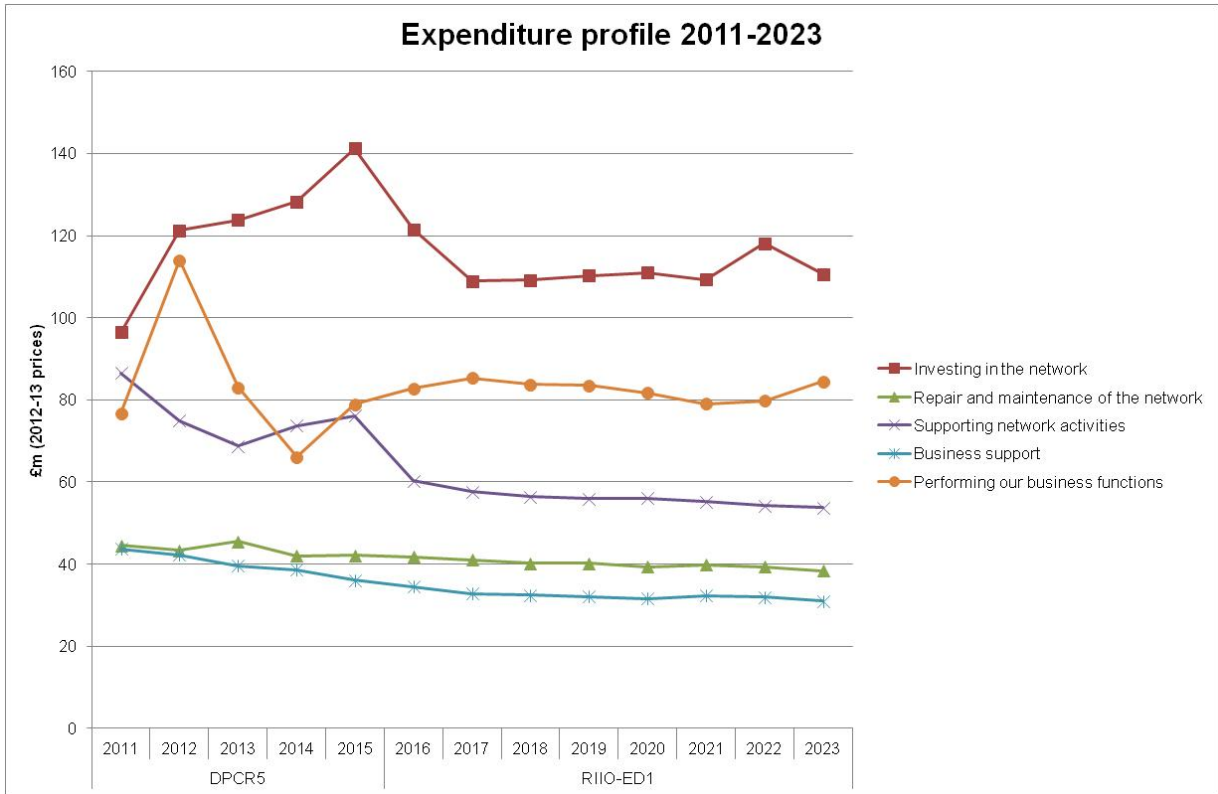
- 1.69 We are determined to make a positive contribution to our environment.
- 1.70 Our Business Carbon Footprint measures the amount of carbon we emit. In RIIO-ED1 we will reduce it by 10% of its 2015 level by 2020.
- 1.71 We will invest £10 million in low loss transformers, which will help reduce the amount of electricity which is lost as a natural result of the distribution process. Our investment will reduce losses across our network by 11,000 MWh, equivalent to 4,900 tCO<sub>2</sub>e, each year.
- 1.72 We use oil to insulate some of our transformers and cables. Inevitably some of this leaks so we will take steps to reduce oil leakage from our cable assets by 13% compared to DPCR5 levels.
- 1.73 Our network passes through some of the most breathtaking landscapes in the country. Some of our stakeholders would like us to run as many of our cables as possible underground where this is the case. Although we cannot do this for the entire network, we will underground 80km of overhead lines in National Parks and Areas of Outstanding Natural Beauty for a cost of £9 million.

## Expenditure

**In RIIO-ED1, we will invest around £2.6 billion in maintaining, replacing and upgrading our network and carrying out all the other functions expected of us as a responsible business.**

- 1.74 Our expenditure is broken down into five main areas:
- Investing in our network
  - Repair and maintenance of our current network
  - Supporting network operations and investment
  - Business support
  - Performing other business activities
- 1.75 We have challenged ourselves to reduce costs and improve efficiency and benchmarked our ambitions against other DNOs and the wider asset management and service sectors. We believe our plans are cost-effective, efficient and flexible and deliver outstanding value for our customers and stakeholders now and in the future. We recognise that we need to continue to challenge costs and efficiency and so are committing to reduce our costs by at least 1% year-on-year in RIIO-ED1.
- 1.76 The overall impact of this is to reduce our costs by £76 million compared to maintaining at 2015 levels.





### Investing in our network – £899 million

- 1.77 This is our biggest area of expenditure and accounts for 35% of our RIIO-ED1 total. This is broadly in line with our level of investment in DPCR5.
- 1.78 Our stakeholders want an efficient, reliable and resilient service and we will invest to deliver this. We will create capacity to accommodate expected economic and social changes in the North West and enable adoption of Low Carbon Technologies. We will continue to invest in and deploy innovative solutions which allow us to improve our service and reduce our costs.

## Repairing and maintaining our network – £320 million

- 1.79 We invest to make sure our network remains fully operational and aligned to our customers' needs. We will respond rapidly to fix faults, inspect and maintain the equipment regularly, manage the vegetation growing near our lines and operate the substations on which the major plant is sited. Our continued commitment to efficiency and service means these costs will be 8% less than in DPCR5.

## Supporting network investment and operations – £449 million

- 1.80 Managing our network requires considerable support activity, whether through the delivery of capital works or providing the capability to manage day-to-day operations. We run a state-of-the-art Control Centre to manage network service and a Customer Contact Centre to support customer service. We invest to find new ways of doing things and manage a range of non-operational assets, such as vehicles and buildings. On-going challenge and rationalisation of our support activities means these costs will reduce by 26%.

## Business support activities – £259 million

- 1.81 There are a range of things we have to do to fulfil all our obligations as a major business. We need to recruit, train and develop our people; manage and operate our business IT systems; report our activities appropriately; comply with our legal and regulatory obligations; raise finance to fund our investment and operations and play an appropriate role in the community. We look to reduce these costs wherever we can. Following feedback from Ofgem we have committed to additional reductions in business support costs. As a result, the proportion we spend on business support has been reducing and in RIIO-ED1 we are committing to an 18% reduction compared to DPCR5 levels.

## Performing our other business activities – £660 million

- 1.82 We incur cost obligations as part of our operations including transmission connection point charges, the Ofgem licence fee and pension deficit repair costs. There are also other services that we provide to a variety of customers that are charged for separately and our plan includes the costs we will incur in providing these. These services include diversions, where we have to move our assets; where a customer wishes to move their meter position and revenue protection activities to combat electricity theft. Over RIIO-ED1 these costs will be broadly similar to those in DPCR5 due to the accommodation of new requirements such as smart metering roll out.

## Financing Our Business Plan

**Ours is a long-term business. We invest in, maintain and manage assets which will deliver for our customers and stakeholders over many decades.**

- 1.83 We need to pay for equipment, supplies, labour and services when we install and use them however we recover these costs over a much longer period. This creates a significant mismatch in our cash flows. We bridge this gap by raising the capital (cash) we need to invest and operate through a combination of shareholder investment (equity) and borrowing (debt).
- 1.84 Under our licence from Ofgem we need to maintain an 'Investment Grade' credit rating, which allows us to access the global capital markets and helps us negotiate efficient interest rates on our borrowing. We plan to maintain our credit ratings at the existing Investment Grade levels throughout RIIO-ED1.
- 1.85 Ofgem has introduced a 'Trailing Average' index to set the Cost of Debt allowances for RIIO-ED1. For a number of reasons, we are concerned that the Trailing Average will mean a material shortfall in the funding of our efficient actual Cost of Debt. We need to construct a fair and sustainable financing package, which maintains our Investment Grade credit rating and offers value for our customers. We have, therefore, embraced the Trailing Average index concept, using an average over that last 15 years that focuses on the investment grade level.

1.86 Our core financeability proposals are:

Cost of Equity	6.3%	This recognises the recent changes Ofgem have identified in the cost of equity
Cost of Debt	15 – 20 year Trailing Average	We can accept this as part of our balanced finance package
Gearing	65%	This is the same as DPCR5 and we see no need to change it
Capitalisation Rate	72%	This is in line with our statutory capitalisation rate

1.87 In order to maintain our Investment Grade credit rating, we need to supplement the core proposals with some additional measures. We propose to transition to Ofgem’s 45-year asset life over the course of RIIO-ED1. The average asset life will be 34 years. We have deferred £11 million of revenue from DRCR5 to RIIO-ED1. Ofgem have agreed to certain license condition changes to enable this.

1.88 Our approach to financing our plan means:

- Our average prices between 2015 and 2023 will be 16% lower than they have been over DPCR5.
- Some of the benefits of RIIO-ED1 have been accelerated into DPCR5
- Our prices will reduce by a further 18% in 2015

## Managing Uncertainty

**We have fully addressed uncertainty and risk in our business plan using the principle that risk should be borne by those most capable of managing and mitigating it. This means we seek to manage all risks that we can exercise reasonable control over. Our plan allows for all business as usual risks, such as unit costs and delivery, to rest with us and we reflect this in our Cost of Equity calculation.**

1.89 Some things are so uncertain that it is not sensible for us to price the risk into our plan. If we did, it could result in unnecessary price increases being passed on to customers. In these circumstances, Ofgem offers a range of uncertainty mechanisms which seek to protect both the DNO and its customers from significant cost and price risk. These uncertainty mechanisms include reopening specific areas of the price control, flexing cost allowances as volumes change and pass-through of certain costs.

1.90 Our main areas of uncertainty include:

- Load-related investment
- Smart meter implementation
- The Traffic Management Act and other legislation changes
- Real Price Effects
- Nuclear power station at Moorside, Cumbria

1.91 We have established appropriate monitoring and provided flexibility in our plan and delivery model to be able to address them.

### Load-related investment

1.92 This will be driven primarily by the adoption of low carbon technology, such as electric vehicles, heat pumps and photovoltaic panels. Our plan assumes that adoption rates will be in line with the Government’s ‘Low’ scenario. If another scenario develops and our plan is out by more than 20%, Ofgem will allow us to reopen this part of the price control.

## Smart meters

- 1.93 Smart meter implementation is driven by the Government's programme which requires their installation in all domestic and small commercial premises by 2020. We have a role in supporting this programme and we also plan to use smart meter data to improve the way we interact with our customers and manage our network.
- 1.94 Ofgem have provided a pass-through mechanism which allows us to recover our smart meter data and systems costs in full until the implementation programme is complete. Thereafter, we will meet any on-going costs from efficiencies.
- 1.95 Our plan assumes our technicians will have to provide assistance for 2% of all smart meter installations. If the number increases, Ofgem have proposed a volume-driven adjustment, which we agree with.
- 1.96 We recognise that smart metering will benefit all parties involved, customers, suppliers and DNOs. In order to ensure that the smart metering implementation programme is carried out efficiently and to ensure the best experience for customers we are supportive of the work being undertaken under the Distribution Connection and Use of System Agreement to develop a service level agreement which sets out distributor and supplier obligations.

## Traffic Management Act and other legislation changes

- 1.97 Under the Traffic Management Act 2004, Highway Authorities can introduce specific restrictions, requirements and charges for the work we need to do on public streets. Different authorities are introducing the Act's provisions at different rates and with different levels of charging. We have dealt with the financial impact so far however it is possible that our costs could increase by around £20 million as the Act is implemented in Greater Manchester.
- 1.98 We are also aware of a number of potential changes in EU legislation which could have a significant impact on our investment and operating costs. These relate mainly to new restrictions on or specification of the equipment and materials we use.
- 1.99 RIIO-ED1 has provision for a 'mid-period review' in 2019. At that time, a limited range of issues may be addressed if their impact is material. We propose to deal with any Traffic Management Act and legislative changes at the mid-period review.

## Real Price Effects

- 1.100 Our cost allowances increase by the Retail Price Index (RPI) each year. RPI is based on a broad range of goods and services which represent the average purchasing habits of the population.
- 1.101 Some of the costs we incur, particularly those related to commodities like copper, steel and oil and some specialist labour costs, can increase at a greater rate than RPI. This difference is referred to as Real Price Effects (RPE). We have included £82.6 million of RPE in our plan but we have fully offset this with efficiency savings in our cost base.

## Moorside nuclear power station

- 1.102 There are plans to build a new nuclear power station at Moorside in Cumbria. National Grid is in discussion with the developer, NuGen, about the arrangements to connect the station to its transmission network. It is possible that the transmission connection would require us to dismantle and remove some of our existing network and install new transformers and switchgear. As we do not know when the connection will go ahead and what the option will be, we propose to use the Strategic Wider Works mechanism available to transmission companies. We think this offers the right level of protection for our customers and us.

## Innovation

**Innovation is one of our core values and we are leading the industry in developing innovative solutions that challenge and improve the way we do things for our customers and stakeholders.**

- 1.103 We innovate because we want to continue delivering exceptional results for our customers and stakeholders now and in an increasingly unpredictable future. Being able to adapt to changes in demand on our network caused by the uptake in low carbon technology, customers switching from gas to electricity, economic growth and the challenges of fuel poverty is critical to our continued success.

### Track record

- 1.104 Through DPCR5 we have invested £18 million in innovation with an expectation that we will deliver over a £100 million of benefit through cost avoidance and efficiency improvements in RIIO-ED1 and ED2.
- 1.105 We deliver successful outcomes by aiming innovation at specific stakeholder and customer needs. We manage innovation through a robust governance process that ensures we deliver it in the most practical and cost-effective way and embed it in our day-to-day business.
- 1.106 We understand the benefits of a collaborative approach. We lead national industry forums, develop best practice which we share with other DNOs and we learn from other organisations as an innovation ‘fast follower’.
- 1.107 We are one of the few DNOs to have successfully maximised use of their DPCR5 innovation funding. The success of this investment contributes substantially to the £140 million of savings which we will deliver by the end of DPCR5.

### Our RIIO-ED1 Innovation plan

- 1.108 Our plan focuses on our stakeholders’ priorities of reliability, affordability, sustainability and service and is split into two phases of activity.
- 2015-2019 - We will focus on developing our network’s capability to expand and meet anticipated demand increases whilst maintaining an exceptional level of reliability and customer service
  - 2019-2023 - Our focus will be the delivery of our data strategy and use of smart meter information to drive efficiency, reliability and capability on our network
- 1.109 We are requesting a Network Innovation Allowance of 0.8% of allowed revenues. This equates to approximately £24 million of funding for RIIO-ED1.

### Key Messages

- 1.110 Our Well Justified Business Plan is the result of three years’ dialogue with our stakeholders and customers. We asked, they answered, we listened and we acted.
- 1.111 We have developed a plan which offers an exceptional combination of network performance, customer service and value-for-money. It targets our stakeholders’ priorities of affordability, reliability and sustainability.
- 1.112 We are reducing our average prices by 16% compared to DPCR5, delivering the benefits of RIIO-ED1 early by not having to increase our prices for domestic customers in 2014-15 and kick-starting RIIO-ED1 with a price reduction of 18% in 2015-16.
- 1.113 We are improving network performance through a prudent, innovative and ambitious programme which will reduce Customer Interruptions and Customer Minutes Lost by 20% compared to 2012 levels.
- 1.114 We are investing to support and enable the transition to a low carbon future and doing everything we can to reduce our own Business Carbon Footprint and losses across our network.
- 1.115 We are financing all of this with an imaginative proposal which supports our Investment Grade credit rating and is in line with Ofgem’s expectations of an efficient financing package.
- 1.116 We are committing to deliver all of this with a level of customer service excellence which will set a new benchmark for our industry.

- 1.117 We face a challenging and increasingly unpredictable future but we are confident that our plan prepares us well to face it.
- 1.118 Our plan was reviewed by Ofgem who found it satisfied four of their five key criteria. This version of the plan includes a further £34 million of expenditure reductions, £76 million less revenue and considerably more detailed information that explains why the investments we are making are the most efficient for the people of the North West.