

## Feedback Summary

# ESO RIIO-2 CBA Workshop

### Purpose of note

To provide an overview of the stakeholder feedback we heard at the workshop and ensure this is a true reflection by those who participated.

### Key Points

- Stakeholders broadly support our process. They acknowledged the challenge this is for the ESO given we do not directly interact with consumers and our benefits are potentially wider ranging and hard to monetize.
- Stakeholders supported being consistent with the HMRC 'Green Book' and other Network CBA's on spend to ensure consistency and enable Ofgem to easily compare
- Need to better define the question we are asking when completing a CBA. What are looking to CBA and why?
- Need to clearly define Consumer. Is there a split between residential / Industrial & Commercial, what about locational differences?
- Felt there were limited areas where a robust CBA could be undertaken in the topics presented – gave Investment in the Control Room as an example where a robust CBA can be undertaken.
- Around scenarios and sensitives, supported using FES 2018 to underpin our benefits analysis but struggled to see how some activities would vary due to different energy landscapes. Felt potentially more value in looking at changing cost bases, varying start days of major projects or significant policy shifts

### Scenarios:

- Using FES scenarios as a basis for CBA was broadly supported however some concerns were raised around:
  - Scenarios should be used to feed into the information you have at the time
  - Sensitivities in FES should not just be based on the consistency between the scenarios but based on the timings things could happen and the benefits against this
  - Policy or commercial decisions made can change the scenarios
  - If using scenarios as base for CBA how do you justify the cost and could it potentially push an activity in a certain direction
  - Should be tested with stakeholders to ensure no scenario is missed

### Benefits:

- There is a trade-off between all the benefits for society e.g. cost vs service, but the prioritisation must be Ofgem's decision.
- Easily defined quantitative benefits could be:
  - Cost of BSUoS per kw/h
  - How it impacts different customers
  - Reduced cost on the bill
- Some benefits are easier to quantify than others and acknowledgement that wider system benefits need to be taken into consideration, especially if ESO actions could mean cost for others and how do we show the influence of these costs

**Model/Process:**

- Capital expenditure should be fully consistent with the TO's. There should be a distinction between cost types and how they are assessed. For example, Opex and Capex could have different processes
- Stakeholders questioned how the CBA shows if we have the capability to deliver the proposed activity and if we would therefore be the right organisation to deliver it.
- Stakeholders wanted to better understand the discount factor and NPV, whether it would change per activity or would be consistent across the CBA
- Need to ensure we have the right data to carry out a robust CBA specifically on Whole System outcomes and taking into consideration whole system costs
- If CBA is robust enough it should be the primary decision factor for going ahead with proposed activities
- Stakeholder would like to see more of the detail below the benefit

**Activities proposed to CBA:**

- Stakeholders said we needed to identify the definition of the needs case and why we should spend any money on the activity. If there is no needs case, there shouldn't be a CBA for that activity.
- Stakeholders suggested they needed to see the baseline cost for the activity and the baseline plus the added cost to show the additional benefit created from the additional spend.
- Some of the decisions for some of the topics suggested for CBA are out of the ESO's control. Some of the topics should also be led by stakeholder input.
- There needs to be the right critique of the costs for the wider benefits as well as potential negative benefits across the wider system involved.

**General:**

- Stakeholders questioned how we know activities we are currently doing as BAU are efficient or whether there are things we could do better?
- One stakeholder felt as if we offer a consultancy and insight service so therefore we should be costing this.
- Stakeholders felt this was a very complicated process we were condensing down to one number. As it covers many parties and timescales it could be dangerous and hide the sub costs that sit underneath and the different effects on other people.
- Agreement that lots of activities are linked together and can have consequences on the other
- CBA should not be using a simple tool and blanket approach across multiple activities
- Many stakeholders felt we should be looking at appropriate benchmarking, they understand it is limited but felt looking historically is not always sufficient.
- Further detail to understand the risk associated with activities and CBA would be welcome.