

Summary of November Outcome Working Group – ODIs and Innovation

Summary of Marginal Costs breakout groups

- Do you support removing estimates of marginal cost in the calculation of ODI rates?
- If so, how should we take account of cost sharing in how we calculate ODI rates?
- If not, what could we do differently so that companies report consistent and comparable information for common PCs?

Part of the group agreed with the proposal to substitute marginal benefit for marginal cost as it was a pragmatic approach that helped to simplify the regime. It also would lead to symmetrical ODI rates for outperformance and underperformance. Others agreed for some PCs but considered that a direct assessment of marginal costs should be used to determine the ODI rate where costs were more directly relevant such as for asset health or if PCs were directly related to specific schemes.

Most considered that attempting to understand marginal costs is important in order to set appropriate cost allowances and potentially to set PC levels. Some considered that on the basis that it is important to understand them anyway, marginal costs should still be used in the ODI rate formula for all PCs. A further view was that there should be no link to totex cost sharing as part of the ODI rate formula at all and that incentives should be set on the full benefit to customers. Another was that perhaps ODI rates should be set on a top down approach.

A number of people expressed the need to have a discussion about how to understand ODI risk as part of the determination.

Summary of feedback from Enhanced ODIs breakout groups

- If you are from a company that has enhanced ODIs what difference has this made?
- What are your views on whether we should retain enhanced ODIs in the future?

There was a general consensus that it was too early to assess the effectiveness of enhanced ODIs as there were only results from one year so far. Companies that had at least one enhanced ODI considered that they did have impacts on incentives, although this was dependant on the threshold being in reach or not. Overall, there was a view that enhanced ODIs could continue to be used even if they only applied for a minority of companies as it was recognised that thresholds should be set at a level that would not be expected to be achieved without the incentive, although they should not be out of reach. It was important that any learning as a result of enhanced ODIs was shared among all companies. We should consider how we can simplify the approach where possible.

