

By email:
FutureChargingandAccess@ofgem.gov.uk.

Your ref

Our Ref

Date

09th August 2021

Contact / Extension

David Holland
0141 614 3018

Dear Future Charging & Access Team,

Consultation on DNOs' request for directions to disapply the notice periods set out in the electricity distribution licence SLC 14.11 and in clause 19.1A of DCUSA Section 2A in regulatory years 2023/24 and 2024/25

SP Energy Networks (SPEN) owns and operates the electricity distribution networks in the Central Belt and South of Scotland (SP Distribution) serving 2 million customers as well as (SP Manweb) which serves 1.5 million customers in Merseyside and North Wales.

We welcome the opportunity to respond to this consultation.

It is our position that consumer interests will be best protected by introducing an appropriate reduced notification period for DNOs to publish changes to DUoS tariffs for both regulatory years 2023/24 and 2024/25.

In our view the best option to achieve this would be via Directions served upon each DNO as:

- Letters of comfort will not address the underlying issue of uncertainty giving rise to price volatility.
- DCUSA code modification will be a more time intensive process which does not provide any additional benefits and will result in the same outcome as the preferred option.

Please find our full response to the consultation questions in the annex.

Yours sincerely



David Holland,
Regulatory Revenue Model Manager
SPEN

SP House, 320 St Vincent Street, Glasgow. G2 5AD

Telephone: 0141 614 5213

www.spenergynetworks.co.uk

SP Transmission plc, Registered Office: SP House, 320 St Vincent Street, Glasgow, G2 5AD Registered in Scotland No. 189126 Vat No. GB 659 3720 08
SP Manweb plc, Registered Office: 3 Prenton Way, Prenton, CH43 3ET Registered in England and Wales No. 2366937 Vat No. GB659 3720 08
SP Distribution plc, Registered Office: SP House, 320 St Vincent Street, Glasgow, G2 5AD Registered in Scotland No. 189125 Vat No. GB 659 3720 08

Internal Use

ANNEX

Consultation Question 1: Do you agree with our initial views on whether to issue directions that the relevant DCUSA and licence conditions do not apply? Please provide evidence to support your views, including on whether any or some directions should be issued and the benefits and risks with each option. If we do issue a direction (or directions): (i) Should these apply for 2023/24 and 2024/25, or just 2023/24?, (ii) Should it be a direction only disapplying DCUSA Section 2A clause 19.1B or also electricity distribution licence SLC 14.11? (iii) If both, what should the notice period be and why?

As set out in the ENA letter¹, dated 5th May 2021, it is our belief that consumer interests will be best protected by introducing an appropriate reduced notification period for DNOs to publish changes to DUoS tariffs for regulatory years 2023/24 and 2024/25. Further, we believe the direction should be applied to both DCUSA and licence obligations to be effective.

This would mitigate financeability risk to the DNOs arising from:

- differences between the Draft and Final determinations which we believe could have the potential to be material in nature given the current uncertainty created around the short-term actions to achieve the UK's Net Zero ambitions; and
- the inherent volatility as a result of transitioning to a new price control, such as impacts of step changes in investment.

If this course of action is taken this would also mitigate price volatility later in RIIO-ED2 and would lead to no major deviations from the current tariff setting arrangements over the medium term.

Our initial conversations have found that stakeholders are broadly supportive of this proposal.

Consultation Question 2: Can you provide any specific evidence about the impact of varying notice periods on contractual arrangements and budgeting?

As set out in the prior correspondence, the current timeline for RIIO-ED2 price control review process and that of tariff setting for the 22/23 & 23/24 are incompatible. We believe that the proposed short-term changes to the timescales will allow for the greatest amount of time to provide certainty around tariff setting inputs and by extension consumer price stability.

¹ https://www.ofgem.gov.uk/sites/default/files/2021-07/DUoS%202023-24%20Price%20Setting%20and%20RIIO-ED2_v101625820811924_0.pdf

Consultation Question 3: Do you agree with our initial views on the potential for a letter of comfort being sufficient to mitigate the main risk for DNOs? If no, please provide evidence of what the remaining risks are with this option?

We do not believe that a letter of comfort will mitigate the risks faced by DNOs as ultimately this option does nothing to address the potential cash flow risk arising from basing the 22/23 and 23/24 charges on draft ED-2 inputs nor does it mitigate the potential for price volatility for the consumer. The removal of the penal rate of interest for over/under recovery in relation to differences arising from movements between the draft & final determinations, as this would not be in the gift of the DNOs to control, is an essential modification.

Consultation Question 4: Do you think the benefit of advanced notice of charges outweighs the risk of significant under/over-recovery over multiple years? Please provide evidence to support your preference.

In our view we do not believe that the benefit of advanced notice outweighs the risk of significant under/over recovery over multiple years. The main reason for this is that not only would it lead to higher price volatility for the consumer in the long run it would also increase the risk of potential financeability issues for DNOs at the very time that they would be critical in facilitating the required investment to unlock the path to Net zero for the UK economy.

Consultation Question 5: Do you agree with our views on the option to use the code modification process to address the timing issues between price controls? If not, can you provide any evidence regarding the benefit of applying a code change?

We agree with the rationale provided by Ofgem that this option would not be suitable given the constraints surrounding the timetable for implementation and the fact that other options are available to deliver a similar outcome.