

Steve McMahon
Deputy Director, Electricity
Distribution Price Controls and
Cross Sector Policy
By email to:
Steven.McMahon@ofgem.gov.uk

Your ref

Our Ref

Date

March 9, 2022

Contact / Extension

0141 614 1953

Dear Steve,

Call for input - RIIO-ED1 Green Recovery Scheme – Potential Extension for accelerated removal of polychlorinated biphenyls (PCBs).

This response is provided by SP Energy Networks (SPEN) which owns and operates the electricity distribution networks in the Central Belt and South of Scotland (SP Distribution) and Merseyside and North Wales (SP Manweb). We have submitted proposals for the accelerated removal of PCBs in both of our licence areas.

UK DNOs have worked closely over RIIO-ED1 with Defra and UK environment agencies to develop a PCB intervention programme for pole mounted transformers, underpinned by an approved innovative statistical approach. Application of this approved approach will significantly reduce the burden of the impact of environmental legislation on DNOs and UK customers.

The approved statistical model is a critical tool developed and employed by UK DNOs as it is rarely possible, practicable or cost effective to sample or test pole mounted transformer insulating oil. This approach is expected to save customers at least £300m by 2025. Without the approved model and approach agreed with Defra, potentially all sealed pole mounted transformers manufactured pre 1987 would need to be replaced.

Given the deadline of the end of 2025, there are clear advantages to customers and the industry for some DNOs commencing their programme in RIIO-ED1. SPENs view on the three specific questions posed by Ofgem are set out below:

1. Improved deliverability of statutory obligations and increased efficiency for consumers.

There are clear benefits of improved deliverability and increased efficiency for customers by facilitating an early commencement of this compliance programme. However, the scale of the deliverability challenge and opportunity for increased efficiency for consumers differs across the DNOs, driven by the volume of interventions required.

Accelerating the programme in RIIO-ED1 is consistent with established precedents for this type of funding requirements to address emerging issues within the relevant and specific licence areas.

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

Telephone: 0141 614 5213

www.spenergynetworks.co.uk

The units we are proposing to deliver in RIIO-ED1 are on circuits that are not included within the first 3 years of RIIO-ED2 modernisation program, so we are maximising efficiency and minimising impact of customers by continuing to utilise co-ordination opportunities in the first three years of RIIO-ED2.

It is appropriate that DNOs should be funded to deliver the most efficient overall outcome for customers. This includes upsizing transformers to accommodate future demand, and other associated activities which will reduce overall customer costs in future price controls.

2. Is Green Recovery Mechanism the best means to fund this investment.

SPEN believe the proposed approach is the best available means to fund this investment in RIIO-ED1 as it can confirm funding in the necessary timescales and is fully transparent. This will provide the necessary regulatory certainty to enable those DNOs most impacted to begin an incremental RIIO-ED1 programme to begin to satisfy the UK's PCB legislative requirements.

The transparent nature of the proposed approach means that the interactions with the RIIO-ED1 and RIIO-ED2 price controls can be fully addressed.

3. What steps could Ofgem take to mitigate any unintended consequences.

Given the continuing degree of uncertainty over the overall programme to be delivered, as it will ultimately be determined by the oil samples from replaced transformers updating the industry statistical model, an uncertainty mechanism for RIIO-ED2 is a critical tool that we recommend Ofgem should deploy to avoid any windfall gains or losses by DNOs or customers.

A further benefit of deploying such an uncertainty mechanism is that this can be calibrated to discount any activities funded under this Green Recovery Mechanism.

Further, by agreeing fixed outputs for RIIO-ED1 (i.e. volume of pole mounted transformers to be replaced at Ofgem's expert view of RIIO-ED1 efficient unit cost) the efficiency proposed by DNOs within their Green Recovery submissions will be locked in for customers.

Should you like to discuss any aspect of this please do not hesitate to contact me.

Yours sincerely



Jim McOmish
Head of Distribution Networks
Jim.Mcomish@SPEnergyNetworks.co.uk

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

Telephone: 0141 614 5213

www.spenergynetworks.co.uk