

RIIO Team
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Date
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Contact / Extension
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By email: FutureNetworkRegulation@ofgem.gov.uk

Dear RIIO Team,

Open Letter: Future Systems and Network Regulation

SP Energy Networks (SPEN) represents the transmission licensee SP Transmission plc (SPT) and the distribution licensees SP Distribution plc (SPD) and SP Manweb plc (SPM). We own and maintain the electricity transmission network in Central and South Scotland (SPT). We also own and operate the electricity distribution networks in the Central Belt and South of Scotland (SPD), and Merseyside and North Wales (SPM). As an owner of both transmission and distribution network assets, we are subject to the RIIO price control framework and must ensure that we develop an economic, efficient and coordinated onshore electricity system.

Thank you for the opportunity to respond to this consultation on the future of price controls. Please see our responses to each of the questions below:

1. Strategic issues we will face in the development of the next price control review process?

Government policy decisions about the long-term future of the energy system will need to be made in the next few years. Irrespective of the outcome of those decisions, significant investment in network infrastructure will be needed. We will continue to require an agile price control framework which allows network companies to flex their expenditure.

In light of global gas prices, GB domestic energy production and security of supply is likely to be a focus of our current and future governments. We are entering a significant new era for our industry in terms of the level of electrification expected and it is therefore essential that electricity price controls keep up with the pace and scale of change. To meet increasing public demand for decarbonised technologies significant capital investment in networks will be needed, this will require us to robustly test the key price control parameters.

Importantly, this need for investment comes at a time when the energy industry as a whole is facing issues with regards to gaining customers' trust, as they face unprecedented rises in supplier bills. As a networks industry we deliver 99.99% levels of reliability on billions of pounds of investment for around 5% of the current average domestic energy bill¹, placing our delivery at the frontier in the utility industry. Whilst any change to the networks' regulatory framework needs to operate within and reflect on the wider industry context, we believe it is important to recognise the successes of the current price control framework.

2. Do you have any views on the case for change we have outlined?

We can see the need for change and improvement in some areas. The need to adapt and respond to the changing external environment is fundamental to ensuring that policy and regulatory frameworks, and the

¹ Our distribution RIIO-ED2 business plan bill impact is on average £111. Our transmission RIIO-T2 business plan bill impact is £4.43.

institutional structures that underpin this transition, are fit for purpose. However, it should be recognised that the RIIO framework, which has incentives built in to drive innovation and improved output delivery, has delivered a significant step change for consumers, so we are supportive of retaining these core elements. The success of the RIIO framework is evident from the significant improvement in DNO and TOs customer satisfaction scores; the reduced level of interruptions; and the reduced time of interruptions. We would therefore encourage Ofgem to retain the existing, and globally leading RIIO framework. Further, it is imperative to recognise that credit rating agencies provide a 60% weighting to qualitative factors which includes regulatory stability. This is why we believe we must work with the existing regulatory toolkit and treat this as an evolutionary process, not a revolutionary one. However, we recognise that there is room for improvement and provide some suggestions in relation to this below:

Simplification and efficiency of planning process: The process involved in implementing the RIIO price control is a significant task for companies, Ofgem and stakeholders alike. The current process is overly resource intensive, typically taking around 3 years from the start of Business Plan development to the publication of Final Determination, so we would support a review of the existing process and requirements to try and simplify the process of agreeing price controls. Stakeholder fatigue is a genuine concern. To avoid this, we would prefer to maximise the time spent by our stakeholders on key issues, rather than going through a similar extensive exercise every 2-3 years, particularly as many of our stakeholders across Transmission and Distribution are the same. Each network company will have its own User Group or Consumer Engagement Group which we believe play a key role in collaborating with companies to test their ideas and ensure that a wide range of stakeholder views have been considered within each companies' plans.

Consideration of materiality of issues: Importantly, we believe we must closely assess the materiality of issues which are considered by Ofgem and the Challenge Group during the price control. For example, it is not the best use of stakeholders' time to spend a significant period reviewing a matter that may equate to less than 1p/annum of a customer's bill where companies are already delivering their outputs.

Focus on ensuring funding is awarded in an agile manner: We support the retention of a 5 year review for baseline TOTEX. It is important that companies continue to have an adequate level of baseline funding to allow them to secure and progress with contracts, and to have this certainty over an extended period. The baseline funding allowances could be derived from the use of existing RRP reporting returns as well as a requirement to submit Engineering Justification Papers (EJP) as we have done in RIIO-2. This would operate in a similar manner to the existing price control cost data table submissions; however, future submissions would be aligned to future, simplified RRP processes. However, we believe that this should be complimented with a core set of Uncertainty Mechanisms. Currently we believe there are too many Uncertainty Mechanisms (there are 17 re-openers alone in the draft RIIO-ED2 licence) and would support a move to fewer mechanisms with a wider remit to ensure that companies can flex their baseline TOTEX as required.

Recognition of the role of networks within the global economy and geopolitical environment:

With the current global environment, there has been no other time in recent history where the risk of disruption to electricity supply had greater prominence in the minds of customers. With this, and the general move to electrification, there is even more need to focus on security and quality of supply. In setting a revised price control framework, there needs to be strategic discussions with GEMA and network companies to understand how to balance this with the push for lowest cost and what this balance should look like going forward.

In addition, there needs to be a full review of the current financial parameters in light of the changing macro-economic situation to understand what investors in networks will realistically accept in return for investing in critical infrastructure.

Retaining 'Outputs' and Simplifying enduring reporting: Currently we report thousands of data points to Ofgem on an annual basis across both transmission and distribution and it is not clear if all of these are used

and are necessary. We believe existing RRP processes should be streamlined, utilising existing working groups to establish what data or information is really required and what is no longer needed.

Retaining Ofgem and stakeholders' trust is of the utmost importance to us. We have delivered the outputs we set out to deliver in past price controls which has provided our stakeholders with confidence in our business plans. We believe that outputs must continue to be closely assessed by Ofgem in order to create and build further trust within our industry. Outputs (the O in "RIIO") must continue to be a key theme of the price control.

3. Do you have views on whether the changes to the electricity or gas sectors mean we should consider alternatives to the approach taken in the RIIO-2 price control?

We have set out alternative suggestions for particulate aspects of the price control in our response to Question 2. Whilst there are many differences between gas and electricity companies and their projections, as far as the price control or business plan process is concerned, we believe the same overarching process should be followed especially with the drive to Whole Systems solutions. We have many of the same stakeholders and we must work together to achieve Net Zero for GB collectively with the ambition of delivering optimal whole systems solutions. It will not be helpful or transparent for stakeholders if GDNs follow one process and DNOs/TOs another.

4. Are there any broad frameworks or options that you think we should consider, including variants and alternatives to those we set out?

At this stage, given the limited 4 week window allowed for responding to the Open Letter we have not been able to give detailed consideration to the alternative regulatory models that might offer a better approach for more efficient (timing, cost and certainty) investment. However, this review process is incredibly important to us and to the future of networks. We look forward to working with Ofgem, our User Group/Consumer Engagement Group and wider stakeholders to understand how we can achieve a good balance of regulatory scrutiny, agility, simplification and value add as we move towards achieving Net Zero.

Should you have any questions in relation to the issues raised in this response, please do not hesitate to contact me.

Yours sincerely,



Stephanie Anderson
Head of Regulation and Policy
SP Energy Networks