

By Email:
Anthony.Mungall@ofgem.gov.uk

16th October 2023

Ref: RIIO-ET1 Close out: Consultation on proposed adjustments

This response is not confidential.

Dear Anthony

Thank you for the notice of proposal to finalise the RIIO-ET1 Closeout adjustments. We welcome the opportunity to provide comment on the proposed adjustments.

We have reviewed the five adjustments proposed for SPT and compared these to the submission we made in July 2022 in the form of our “SPT T1 Closeout Performance Submission”.

Of the five adjustments proposed we agree with those provided for the following areas:

- Adjustments to true-up with connection payments
- Settlement of allowances for pre-construction works.
- Adjustments for asset and land related disposals

However, we believe the values provided for the remain areas (below) are not correct as they differ from the values provided as part of our closeout submission.

- Adjustment for SPT’s connection volume driver clawback
- Enhanced physical security

We offer our views on these below:

Adjustment for SPT’s connection volume driver clawback

We can understand the value that Ofgem has provided in relation to the connection volume driver true up as this corresponds to the VSUEk value as derived in relation to the RIIO-T1 licence. However, we believe that the current value of £27.69m is incomplete as it does not take account of the following elements:

- Any reduction in volume driver allowance will also generate a reduction relating to the operating expenditure allowances which are represented by the COMk value. We believe that the reduction in the MW values would result in a further £0.28m reduction in allowances relating to the volume driver.
- The input to the PCFM should be the term GCEt which is derived by the following formula

$$\text{"GCE } t,k = (\text{BSUEk} + \text{BSHEk}) \times \text{RPEk} + \text{VSHEk} + \text{VSUEk"}.$$

As a result, we believe that this adjusted value should also take account of the BSUEk value for 2020/21 which would result in a decrease to the proposed adjust of £2.79m.

Therefore, we believe the adjustment in relation to the connection volume driver should be £24.72m. We have provided in the form of an appendix "Appendix 1 - SPTL Volume Driver 2021" which contains the calculations of how this value has been derived.

Enhanced physical security

We agree that an adjustment to allowances to reflect updated needs cases for the programme of work to enhance physical security at specific sites, as required by the UK government as part of the Physical Security Upgrade Programme (PSUP) is required as part of the RIIO-T1 closeout.

As part of our performance report submission, we outlined that there could be two scenarios to reflect this update. We have provided an extract of this file which contains both the proposed scenarios as listed out in our report "Appendix 2 – Enhanced Physical Security Scenarios".

The first scenario "base scenario" would result in the update of allowances to reflect the underspend and under delivery of the agreed T1 security improvement baseline schemes. This scenario would result in a decrease in T1 allowances of £2.46m and was listed out within our performance report adjustment summary.

The second scenario "Scenario 1" also took account of SPT's decisions to redeploy this investment for general physical security. It was our view at the time, and it remains so, that it is in UK consumers' interests to redeploy such investment to undertake general security improvements at other sites. This work ensured compliance with group policy for site security measures; reported in T4.3 under Substation Security (SP-00181). The investment has greatly assisted in a constant battle against recurring issues such as metal theft and vandalism. The outcome of this, is that in T1, we did overspend the cumulative value of both allowances to protect operational assets on behalf of UK consumers. This scenario which we believe is the one proposed by Ofgem reflects an overspend of allowance in relation to security of £1.21m (-£2.46m in relation to baseline T1 schemes above & +£3.67m in relation to general security expenditure).

Ofgem are currently proposing an adjustment of -£1.25m in relation to enhanced physical security which we think may be a combination of the two scenarios listed out in our performance report.

However, we believe this to be an error as "scenario 1" above is already an amalgamation of both element of the proposed true up (-£2.46m & +£1.21m).

Therefore, for the SPT closeout of RIIO-T1 we believe that the issues listed above and the attached appendices should provide clarity on our position which is to adjust both the Connections Volume Driver & Enhanced Security values relating to SPT accordingly.

Furthermore, we note that no reference has been made to SPT's request for consideration of allowance adjustments on a basis, where no alternative funding means are available for justified and cost efficient schemes. A key tenet of the RIIO-ET2 framework was Ofgem's development of a mechanism that sought to **provide funding on a total efficient cost basis for each scheme**. This was delivered through a combination of engineering and cost assessment by Ofgem enacted in the Project Assessment Models (PAM) that operated similarly (as would reasonably be expected) for both specific (named) load and non-load related schemes.

The mechanisms determined the total efficient cost allowance. They then allocated a portion to RIIO-T2 to create the baseline allowances stated in the Final Determination. By omission, however, no provision was made to assign baseline allowances in RIIO-T1 for those RIIO-T2 schemes that spanned RIIO-T1 and RIIO-T2 price control boundaries; where such schemes had no other means to be funded (in RIIO-T1).

We welcomed Ofgem's agreement to permit SPT to submit information in accordance with the arguments put forward above. Our provisional submission sought to highlight the scale of this matter and proposed a recognised approach whereby allowances were -re-profiled to match actual expenditure. As a result, it allocated an adjustment to allowances between RIIO-T1 and RIIO-T2. Importantly, this **adjustment did not alter the total efficient baseline cost allowance for each scheme as provided for in the RIIO-T2 Final Determination**. It would be good to better understand Ofgem's thinking in this area as crossover schemes will be a recurring matter."

Please don't hesitate to get in touch with me, should you have any questions in relation to this response.

Yours sincerely



David Holland

Regulatory Revenue Model Manager

SPEN