



**Strategy Consultation for the RIIO-ED1 Electricity Distribution
Price Control issued 28th September 2012 (Ref 122/12)
SP Energy Networks Response to Annex - Business Plans
and Proportionate Treatment**

**Ofgem Strategy Consultation for the RIIO-ED1 Electricity
Distribution Price Control
Issued 28th September 2012 (Ref 122/12)
SP Energy Networks Response to Annex – Business Plans &
Proportionate Treatment
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OVERVIEW

We welcome the opportunity to comment on Ofgem's Strategy consultation for RIIO ED1 – Annex Business Plans and Proportionate Treatment – reference 122/12 published on 28th September 2012.

QUESTIONS RESPONSE

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1. CHAPTER ONE – INTRODUCTION

No questions posed.

2. CHAPTER TWO - BUILDING ON OUR EXPERIENCE FROM RIIO-T1 AND GD1

No questions posed.

3. CHAPTER THREE - BUSINESS PLAN ASSESSMENT – PROCESS

3.1 Question 1: *Do you have any comments on the timing and stages of the assessment process?*

We note the revised timing and stages of the assessment process, including the shortened three stage process proposed following the RIIO-T1 and GD1 Price Reviews. Having participated in RIIO-T1, we are concerned that the proposed approach removes the opportunity for DNOs to fine-tune their business plans based on initial Ofgem feedback. We believe this undermines the principle of focusing regulatory attention where it is likely to produce greatest value and may lead to a reduction in the number of DNOs achieving fast track status. We consider this to be a regressive step in the RIIO framework, leading to greater, rather than less, regulatory scrutiny within the ED1 process.

3.2 Question 2: *Do you agree with the three stage assessment process for RIIO-ED1?*

We would have preferred the same assessment process for RIIO-ED1 as practised in RIIO-T1. Having participated in the RIIO-T1 process previously, we consider the methodology to be robust and fit for purpose.

3.3 Question 3: *Do you think the additional reward for fast tracking is appropriate?*

We do not consider it necessary to provide additional reward for fast track companies over and above the advantages outlined within Ofgem's strategy consultation. We believe the direct benefits of fast track status plus the reward achieved through an appropriately calibrated IQI incentive (e.g. rewarding companies for bids that match the efficient view) would provide sufficient reward.

4. CHAPTER FOUR - ASSESSMENT CRITERIA

4.1 Question 1: *Does the categorisation of the assessment criteria remain appropriate?*

We believe the categorisation of the assessment criteria does remain appropriate and note the proposed simplification of the framework used for RIIO-T1 and GD1. We envisage this facilitating ease of comparison between DNOs in determining the outcome of the assessment process and the proportionate treatment applied.

4.2 Question 2: *Are there any criteria which we should add or amend in the context of RIIO-ED1?*

We agree with the criteria as specified in the Policy Strategy Consultation and would not suggest any additions or amendments at this time.

5. CHAPTER FIVE - GUIDANCE ON PRESENTATION AND STRUCTURE

5.1 **Question 1:** *Is there anything else, in the context of the presentation and structure of the business plan, which we should provide guidance on?*

We welcome the summary of stakeholder views on the RIIO-T1 and GD1 business plan submissions contained within the Policy Strategy Consultation and will endeavour to address these points within our own submission in July 2013. We also note Ofgem's guidance on the presentation and structure of the business plan. We do not seek any further guidance on these aspects at this time.

5.2 **Question 2:** *Should we require DNOs to conform to the proposed document structure (set out in figure 4.1), some other prescribed structure, or let the DNOs structure the plans as they see fit?*

We note the feedback from RIIO-T1 and GD1 stakeholders that the structure of the business plan was very important to them. We agree with the proposed high level document structure as presented in the Strategy Consultation – Business Plan and proportionate treatment. This will aid comparison and assist readers finding the information they require.

5.3 **Question 3:** *Should we set a page limit for the executive summary of the plan? How long should it be? Are there other areas where we should consider setting page limits?*

Based on Ofgem feedback from RIIO-T1 and GD1, consistency and ease of comparison are important to industry stakeholders, therefore, a consistent structure and content for the Executive Summary are necessary, however, we do not consider it necessary to specify a page limit for the document. Similarly, DNOs should publish concise and easily understood stakeholder facing documents that clearly explain their future plans and the process they have undertaken to produce those plans without the need for a page limit constraint.

5.4 **Question 4:** *Do you agree with the information that we are proposing should be required in each DNOs executive summary? What other information would be useful.*

We agree with the information proposed to be included with the Executive Summary and would not propose any further content to be included at this time.

5.5 **Question 5:** *What should be the common metric, calculation and assumptions for determining the impact of the DNOs proposal on consumers' bills?*

We propose to calculate the impact on customer bills in a manner consistent with other DNOs and as agreed through the Distribution Charging Methodology Forum or a subgroup of that to ensure that this is a transparent process. As an opening position we would expect that this would mean publishing average price movement information plus customer category level information as provided annually for price notifications, plus any assumptions underpinning the CDCM calculations.

6. CHAPTER SIX - COST BENEFIT ANALYSIS

SPEN strive to ensure that all of our investment activities are effectively and efficiently undertaken. The authorisation of any project or programme is undertaken only after rigorous financial and needs case scrutiny. Costs benefit analysis for every project or programme of work undertaken forms part of that authorisation process. We have established a team to review the model used for RIIO-GD1 and are modifying it to allow us to review the CBA for a number of projects (undergrounding versus OHL and transformer refurbishment)

We are happy to share the output of this review with Ofgem through the cost assessment working group.

6.1 Question 1: *Do you agree with our proposed approach to cost benefit analysis?*

We fully support Ofgem's proposal for a consistent model across the DNOs for Cost Benefit Analysis. SPEN will undertake a further review once the model has been fully developed.

6.2 Question 2: *Do you agree with our proposed approach to have a threshold level of expenditure to determine whether cost benefit analysis is required?*

A threshold level of expenditure for CBA would be useful as a guide to ensure consistency and comparability between DNO plans, however this might exclude areas that CBAs would provide significant stakeholder value.

It would be more helpful in addition to specify categories of expenditure that CBAs should be provided for. We would not expect that CBAs would be necessary to justify routine activities to satisfy DNO's mandatory obligations, but should be provided for activities that are moving from established industry practice.

For example, CBA's could be required for incremental programmes including:

- lifetime loss investments;
- future proofing;
- refurbishments to extend asset life;
- severe weather resilient overhead line costs above the industry standard specification.

6.3 Question 3: *What level of expenditure do you believe should be used as the threshold for determining when cost benefit analysis should be provided as part of the business plan submission?*

It would be more helpful to specify categories of expenditure that CBAs should cover. We would not expect that CBAs would be necessary to justify routine activities to satisfy DNO's mandatory obligations, but should be provided for activities that are moving from established industry practice.

6.4 Question 4: *Have we identified all of the relevant parameters to ensure consistency in how cost benefit analysis is undertaken?*

It is clear from the consultation Ofgem are applying their experience from RIIO GD-1 review and hopefully in RIIO ED-1 we will benefit from the lessons learned in this previous review. The parameters identified appear complete to us at this stage. Detailed guidance to ensure consistency will be essential as DNOs develop their approaches to CBA.

6.5 Question 5: *What are your views on the levels the parameters should be set at?*

The proposed use of the STPR and PTPR seems appropriate to us as does the use of the Green book for guidance on how to perform the CBA. We believe 2015 is appropriate as the base year however we do not agree a specified percentage of benefits should be assumed as realised in this first year. We feel it would be more appropriate for each individual project to be assessed on its own specific profile.



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The suggested sensitivity analysis appears appropriate to us. We would not expect the maximum economic life to be less than 60 years as underground cables have an economic life of at least this period.