



**Strategy Consultation for the RIIO-ED1 Electricity Distribution  
Price Control issued 28<sup>th</sup> September 2012 (Ref 122/12)  
SP Energy Networks Response to Annex – Reliability &  
Safety**

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**Ofgem Strategy Consultation for the RIIO-ED1 Electricity  
Distribution Price Control  
Issued 28<sup>th</sup> September 2012 (Ref 122/12)  
SP Energy Networks Response to Annex – Reliability & Safety  
23<sup>rd</sup> November 2012**

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## OVERVIEW

The long term reliability and safety of our network is a fundamental part of our asset management policy. We welcome the continued focus within RIIO-ED1 on delivery of primary outputs and secondary deliverables and will continue to work with Ofgem to ensure the comparability of output measures and assessment of risk.

Safety of our network for staff, contractors and members of the public is a key primary output and compliance with HSE legislation is an essential requirement for which financial incentives are unnecessary. We support the continued opportunity to be rewarded for improved reliability of our network as measured through the Interruptions and Incentives Scheme (IIS) mechanism.

Separating planned and unplanned interruptions targets will provide more transparency between performance under fault conditions and performance during outages required to carry out necessary network investment. We support up front target setting for both planned and unplanned interruptions to reduce the level of uncertainty in our business plans, and agree that the level of revenue exposure is appropriate. We do not believe it is necessary to incentivise short interruptions but do believe a simplified worst served customer scheme is required to improve the performance for customers who experience a high volume of interruptions.

A reduction in the Guaranteed Standards from 18 hours to 12 hours will require a review of our working practices. Such a review must carefully consider the safety risks associated with any proposed changes and how we ensure the continued protection of the public, our staff and contractors. Moving to an automatic payment to all customers whilst desirable, is not easily achieved in practice.

We are supportive of the development of the Health Index framework into a Risk Index framework although further work to develop a common methodology across DNOs is required and extension to additional categories will be subject to the availability of the necessary data. Extension of health indices to ESQCR clearances and Internal Mains are appropriate in RIIO-ED1.

Load index methodologies differ between DNOs and although we support a common banding for Load Index, further work is required to understand the assessment of the parameters used. Consideration of network risk is required to avoid unnecessary investment ahead of need balanced against providing adequate capacity in a timely manner when required. During RIIO-ED1 it is likely that more generation dominated substations will appear and a DG Index may be appropriate at the midpoint review. Uncertainty around the quantity and demand profiles associated with the uptake of low carbon technologies could result in reinforcement which can't be accurately forecast but this can be catered for through the proposed volume driver.

We are supportive of the proposed measures of network resilience to assess whether DNOs are adequately investing to manage the impact of increasingly unpredictable disruptive events, such as flooding and Black Start. We would also consider an additional metric measuring OHL network resilience under storm conditions.

**QUESTIONS RESPONSE**

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## 1. CHAPTER ONE – INTRODUCTION

No questions posed.

## 2. CHAPTER TWO - OVERVIEW OF RELIABILITY AND SAFETY

- 2.1** *Question 1: What are your views on the primary outputs and secondary deliverables for reliability and safety? In particular: (a) Do you agree that these are appropriate areas to focus on? (b) Are there any other areas that should be included?*

SPEN agree with Ofgem's proposals for primary and secondary deliverables for reliability and safety as outlined in the consultation document. Further detail is required on the Criticality Index and extension of Health Indices and it is assumed that this will be outlined in the February policy decision document. We agree that these are appropriate areas to focus on and do not believe there are other areas that require to be included.

## 3. CHAPTER THREE – SAFETY

- 3.1** *Question 1: What are your views on the proposed primary output and secondary deliverables relating to safety?*

SPEN agree with Ofgem's proposals for primary and secondary safety deliverables as outlined in the consultation document.

- 3.2** *Question 2: Are these appropriate areas to focus on and are there any other areas that should be included?*

These are appropriate areas to focus on and there are no other areas that we believe need to be considered at this time.

- 3.3** *Question 3: Do you agree with our proposal not to place a financial incentive on the primary safety output?*

We agree that a financial incentive is not a suitable incentive mechanism to drive the safety performance of DNOs.

- 3.4** *Question 4: Do you agree with our proposal to create an incentive framework for secondary deliverables for electricity distribution safety?*

We agree that the existing Asset Health incentive framework is a suitable secondary safety deliverable and that developing the existing asset health framework into a Risk Index framework further links this secondary deliverable to safety.

## 4. CHAPTER FOUR - INTERRUPTIONS INCENTIVE SCHEME

- 4.1** *Question 1: Do you agree with our proposal to align the IIS incentive rates with those proposed as part of RIIO-T1?*

We believe that the IIS incentive scheme has worked reasonably well in recent years and we believe that current incentive rates are correct. We are therefore pleased that Ofgem have stated (para 4.13) that their initial analysis is that that incentive rates under this proposal will not be significantly different.

**4.2** *Question 2: What are your views on applying the efficiency incentive rate to the IIS incentive rates?*

We disagree with the application of the efficiency incentive as we believe that at a general level IIS incentive works. Applying the efficiency incentive is likely to result in a much weaker incentive arrangement.

**4.3** *Question 3: Do you believe we need to introduce a rolling incentive mechanism for IIS, along the lines of the shrinkage rolling incentive proposed in RIIO-GD1, and if so outline your views on the merits of this approach for the IIS?*

In addition to more work to realign plans and reporting, we believe the use of a rolling mechanism will add an additional level of uncertainty into our business plans. We therefore support the option of setting targets at the beginning of ED1.

**4.4** *Question 4: What are your views on the level of revenue exposure and do you believe we need to reintroduce a cap on outperformance?*

We believe that the level of revenue exposure is correct. In practice, a cap on out-performance that is symmetrical with the cap on under-performance is unlikely to be reached and therefore should have little impact.

**4.5** *Question 5: Do you agree with our proposal to set separate planned and unplanned interruptions and minutes lost targets under the IIS?*

We agree with this proposal as this should give more transparency to faults and network enhancement performance.

**4.6** *Question 6: Do you have a preference amongst the options which we have outlined for planned interruptions and minutes lost target setting in RIIO-ED1?*

We prefer targets to be set based on the planned forward workload of the DNO as submitted in their ED1 business plan. We do not see the option of setting pre-arranged allowances on the basis of stakeholder engagement as workable as we expect that all stakeholders would prefer not to have their supplies interrupted at all. For such an arrangement to be workable the work plans would need to be supported by stakeholders with DNOs then forecasting the planned interruptions that would be necessary to deliver such work plans. The option to set Pre-A allowances based upon historic performance will result in penalties for DNOs with increasing work programmes and rewards for those DNOs that forecast reducing work programmes. The proposed arrangements only seem reasonable if they are maintained in place over an extended period (more than one Price Review period).

**4.7** *Question 7: Do you have a preference amongst the options which we have outlined for unplanned interruptions and minutes lost target setting in RIIO-ED1?*

Targets for unplanned interruptions should be set up front rather being set on a rolling basis. This will allow robust long term business plans to be developed and implemented. We agree that historic data should be used to establish benchmark targets, our view is that a 1.5% improvement is unsustainable over the 8 year period and that a 0.5% improvement over all voltages would be a more realistic target.

**4.8** *Question 8: Do you agree with our proposals on exceptional events?*

Yes, we believe the existing arrangements broadly strike the right balance of exposure and protection for DNOs. Whilst the proposed arrangements increase DNOs' financial exposure to one-off exceptional events, we support Ofgem's proposals for customers to receive GS payments during such

events. This does, however, increase the importance of maintaining a fair and reasonable process for the exclusion of such events from a DNOs performance.

**4.9 Question 9:** *Do you agree with our proposed approach to smart electricity meters?*

There is currently insufficient granularity around the impact that smart meters will have on network performance, We would like to understand the impact of smart meter rollout before we make substantive comment on this element of the strategy.

**4.10 Question 10:** *Do you agree with us not incentivising short interruptions in RIIO-ED1?*

Yes, our experience is that customers prefer short interruptions rather than the long interruptions they replace and customers only become concerned when they experience numerous short interruptions in a relatively short time period. We have effective procedures for investigating and resolving such situations when they arise.

## 5. CHAPTER FIVE - LOAD INDICES

**5.1 Question 1:** *What are your views on our proposals on load indices (LIs)?*

We agree with retaining the Load Indices and arriving at a comparable Load Index across all DNOs. Delivery against a Load Index target does require some flexibility to cater for factors outside the control of the DNO.

**5.2 Question 2:** *Do you agree with our proposed common LI bandings?*

We agree with the proposals to have common LI bandings amongst DNOs, although we have concerns regarding how these might be interpreted given the definitions applied to the LI Rank in Table 5.1 of this chapter. This has a potential for a significant increase in capital requirements, if through stakeholder engagement it is thought that we should move towards creating 'adequate capacity' on the network. Further work is required to understand the assessment of the parameters used. Consideration of network risk is required to avoid unnecessary investment ahead of need balanced against providing adequate capacity in a timely manner when required.

**5.3 Question 3:** *Of the two options outlined for determining the LI deliverable, which do you think is the most appropriate?*

Of the two options described within consultation document our preference would be for Option 2. This is based on a bandwidth around a target level and would cater for factors outwith the reasonable control of the DNO. Such factors could include large demand customers ceasing operation or a significant cluster of low carbon technologies appearing. Whilst a DNO should be planning their network to cater for demand, the timing of the network reinforcement may be delayed by planning or network access considerations.

**5.4 Question 4:** *Where significant numbers of substations that predominantly cater for demand arise, do you agree that the development of a Distributed Generation (DG) index for generation-dominated substations would be feasible and appropriate to implement at the mid-period point of RIIO-ED1?*

We believe that as RIIO-ED1 progresses the amount of embedded generation being installed will lead to a greater number of substations becoming generation dominated. Consequently, the mid-point of the Price Review period would be a suitable point for introduction of such an index.



## 6. CHAPTER SIX - HEALTH INDICES

### 6.1 **Question 1:** *What are your views on our proposals for health indices (HIs)?*

We are generally in favour of the direction in which Ofgem wish to develop Health Indices including both the development of Criticality and the broadening of Health Index reporting, however it must be noted that availability of data is likely to be a significant limiting factor on these developments.

### 6.2 **Question 2:** *Do you agree with our proposals to introduce criticality into the HI framework?*

SPEN agree that the current Health Index mechanism should be extended to include Criticality information and support the ongoing developments of the DNO subgroup tasked with defining a common Criticality assessment methodology. It should be noted however, that this work is currently at the early stages of development and therefore, it may be difficult for DNOs to create investment plans fully justified based on a Criticality/Risk Index.

### 6.3 **Question 3:** *Do you agree with our proposals for applying financial consequences in the case of material under or over delivery?*

We agree that where under/over delivery cannot be justified there should be an incentive mechanism in place. What is unclear from the consultation document is how the justification for over/under delivery will be assessed.

### 6.4 **Question 4:** *Do you agree with our proposals to require greater consistency in the types of assessments that the DNOs should feed into the calculation of the asset health indices?*

SPEN agree with Ofgem's proposals, however, there are two main areas of concern associated with aligning asset health assessments. Firstly, any common assessment should not preclude the fact that DNOs manage the risk on their own network and may have differing views on how they assess asset health and risk. Secondly, if a common assessment requires data not readily available for specific DNOs, concessions may be required to allow time to capture and process the required data.

### 6.5 **Question 5:** *What are your views on the suggestion that we would mandate DNOs to develop and maintain HIs in specified asset classes?*

We would be willing to report on additional asset categories and in some cases we are already developing Health Indices for additional assets (e.g. Link Pillars), however any mandate to report on additional asset categories would be dependent on available data and/or asset health assessments.

## 7. CHAPTER SEVEN - GUARANTEED STANDARDS

### 7.1 **Question 1:** *What are your views on our proposals for the guaranteed standards?*

We agree that more focus must be put on improving the service for the customer, but to ensure that we mitigate our exposure we must ensure that there is much more transparency in the process for both the customer and the DNOs.

### 7.2 **Question 2:** *Do you feel that we should conduct a mid-period review of the guaranteed standards?*

No, as it is unclear what this mid-period review would achieve.

**7.3** *Question 3: Do you agree with our proposal to remove the potential double exemption of one-off exceptional events under the IIS and the guaranteed standards?*

Whilst increasing DNOs financial exposure to one-off exceptional events we support Ofgem's proposals for customer to receive GS payments during such events. It does however increase the importance of maintaining a fair and transparent process for such events to be excluded from a DNO's performance.

**7.4** *Question 4: Do you agree with our proposal to remove all of the Highlands and Islands customer exemptions?*

We agree with the proposal to remove all of the Highlands and Islands customer exemptions. We believe customers should receive a consistent standard of service irrespective of their geographical location.

**7.5** *Question 5: What are your views on our proposal to reduce the normal weather standard from 18 to 12 hours, the associated changes to payment levels and options for funding?*

A reduction in the Guaranteed Standards from 18 hours to 12 hours will require a review of our working practices. Such a review must carefully consider the safety risks associated with any proposed changes (for example, the more frequent use of mobile generators) and how we ensure the protection of the public, our staff and contractors.

**7.6** *Question 6: Do you agree with our proposal to keep non-domestic customers in the guaranteed standards?*

Yes, it is right to do so, particularly for small businesses. However we recognise that the GS payments are not compensation for loss of business.

**7.7** *Question 7: What are your views on the feasibility and practicality of making payments to all customers automatic?*

Whilst we would agree in principle that guaranteed standard payments should be automatic, this would be very difficult to administer in practice. We would need to put in place additional checks at the time of a customer call to ensure any payments would be directed to the correct person in the household. This would lengthen call handling during emergency incidents resulting in reduced levels of service. DNOs do not have a direct contract with customers in the same way as Supply Companies, therefore, we do not have a reliably confirmed customer name in order to issue a GS payment.

A considerable administration effort would be needed in addition to IT system changes to allow all GS payments to be automatically triggered. We are concerned that having taken these steps, customers would not cash their payments in all cases. SPEN do pay GS2 payments pro-actively at present however, for example, following the January 2012 storm SPEN proactively wrote out to customers impacted asking them to clarify if they had a bank account and also to confirm our records held their details correctly. Two letters were sent to customers to obtain this information. Following this exercise payments were made to all impacted customers however we experienced a 30% defect rate from the payments made which caused further administration and cost with no benefit to our customers.

**7.8** *Question 8: Do you agree with our proposal to make payments to Priority Service Register customers automatic?*

In our view PSR customers should not be treated differently from other customers in this regard. Whilst again we would agree in principle that guaranteed standard payments should be automatic the

administration of this is problematic for the reasons stated in question 7. A factor for consideration is that not all Priority Services customers have bank accounts and SPEN have experience of a number of customers requesting postal orders or for money to be paid to another member of the household or friend with a bank account. If all payments were automatic we feel a disproportionate amount of time would be spent cancelling and reissuing payments to customers. In addition to this, there are a wide range of categories with the Priority Services Register and for some categories it would be difficult to see why customers in these categories should be given an automatic payment when another customer who may be in more need would not.

## 8. CHAPTER EIGHT - WORST SERVED CUSTOMERS

**8.1 Question 1:** *What are your views on the proposed options that we have outlined for the worst served customers scheme? Please include what you see as the pros and cons of each of the options, whether you have a preferred option and why.*

This is complex process with a significant number of unknown factors and therefore carries a significant level of risk for all parties. We do not believe that any of the three options offer a way of addressing the performance experienced by the truly worst served customers.

- Option 1 - In our view it is unlikely that stakeholder engagement would provide justification to raise the £1k per customer to a workable level. Only a significant (>10 fold or more) increase in the £1k/customer criteria seems likely to result in truly WSC customers seeing any benefit.
- Option 2 – seems the most transparent & simple, however it is our view that any realistic level of GS payment would simply be insufficient to justify a DNO taking action to resolve the underlying performance issue. In our view this approach would simply result in worst served customers receiving GS payments.
- Option 3 - seems a complex approach and one that would almost certainly result in DNO's targeting improvements on the network for the benefit of the large numbers of customers who experience multiple but not the highest number of supply interruptions. As such this approach is also unlikely to see any real benefit for truly worst served customers.

In our view the most appropriate approach that is likely to see benefits targeted at worst served customers is that of a relatively small fixed annual allowance that DNO's can use to target their truly worst served customers. We would envisage that such an allowance would be based on a 'use it or lose it approach', it would be specifically for investment on the HV network and would come with a requirement that the DNO publishes a short report indicating where the allowance has been targeted and what benefits have been delivered from those investments that were made in the past 2-3 years.

## 9. CHAPTER NINE – RESILIENCE

**9.1 Question 1:** *What are your views on our proposals for network resilience?*

We agree that measures of Network resilience are required to assess whether DNOs are adequately investing to manage the impact of disruptive events.

**9.2** *Question 2: Do you think that our proposals cover the right areas or are there other areas that you think we should be considering?*

The requirements for flood mitigation measures have become better understood during DPCR5 and we will have a continuing programme to deliver over the RIIO-ED1 period. We agree that a measure of risk reduction would be appropriate.

Resilience for Black Start is required to ensure restoration of supplies in the event of a widespread loss of electricity supplies. We consider that this should cover both substation resilience, by way of adequately sized batteries or on-site generators and also telecoms/SCADA and voice networks resilience.

We believe consideration of a metric for OHL network resilience would also be appropriate to reflect a network's ability to stand up to storm conditions.