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Dear Anna,

The regulatory instructions and guidance for the next electricity distribution network operators price control, RIIO-ED1

SSEPD appreciates the opportunity to comment on the draft regulatory instructions and guidance (RIGs) for the RIIO-ED1 period. We support the decision to review the commentary templates separately from the current consultation. There is a lot of detail to be reviewed and it is very important this is carried out thoroughly. We will continue to work with the industry working group, supporting the development of comprehensive and effective RIGs, appropriate for RIIO-ED1.

In our response to the draft consultation we have sought to focus on key issues which we believe warrant consideration before the final publication. Each of the RIGs annexes has detailed issues logs compiled and managed through the individual working groups. We have not reproduced these in our response in keeping with the guidance provided by Ofgem.

We would draw attention to the specific issues highlighted in our response to question 5 of the consultation.

Responses to Ofgem's main questions plus other key points for us at this stage in the process follow.

1. What are your views on the proposed structure? Does the proposed structure appropriately split reporting between different annexes?

We support the proposed structure, but do have some outstanding concerns about how the various annexes (for example Annex G - Connections) will integrate with the Costs and Volumes tables. It is important to ensure that all DNOs are completing the tables in a way which permits consistency in the subsequent analysis and interpretation of the information. As significant changes have been made for RIIO-ED1 it will also be important to carry out checks to ensure all the links within and between sections are correct and information flows appropriately.

We understand Ofgem are actively considering when to incorporate a stage for DNOs to carry out this type of cross-checking exercise into the timeline for finalisation of the RIGS, and support the conclusion of the RIGs Steering Group (19th February 2015) discussion that it will only be possible once the contents of all packs have been finalised and could be postponed until after the end of the financial year without any negative impacts.

While this testing period can be expected to pick up many errors, inevitably some may be missed. Where any errors or inconsistencies are found at a later date we will raise them with Ofgem as soon as identified to enable prompt resolution through the RIGS change control process. While the process is yet to be finalised it should allow for timely correction of minor errors within years.

2. What are your views on the information DNOs are being asked to forecast?

Our view is that there should be a clear justification for all forecasts DNOs are required to provide i.e. that forecasts are valuable where the information is of use to stakeholders in understanding and evaluating our ongoing performance against ED1 commitments. Forecasts should allow simple comparisons without the need to conduct price control level adjustments, and should be treated appropriately under the Data Assurance Guidance to reflect the subjective nature of the return.

We believe that forecast data which becomes overly detailed will dilute the benefits from being able to compare and contrast DNO plans. Therefore forecast information should remain at a level where output delivery is demonstrable and the interaction of network Totex decisions across activities is evident.

3. We and DNOs may publish information contained in the RIGS. What information would you like to see published? What format would you like to see it published in?

We believe all publication should be carefully considered and controlled to ensure that what is published is of real use to stakeholders, does not represent an information overload and is produced consistently and accurately by all licensees. As an asset based business annual reporting would be appropriate. However we would not want to pre-judge stakeholder requirements by making more detailed recommendations at this stage. The process followed to determine what information should be published should be comparable to that for the price control review to ensure the right stakeholders receive the right information in the right format.

The potential detrimental effects of public reporting on DNOs should also be taken into account when developing this element of the RIGs. As we have experienced post Final Determination information in the public domain relating to DNO allowances and forecast investment programmes has already impacted negotiations with commercial parties. This has the potential to weaken a DNOs' ability to procure competitive services during ED1 and limit Totex savings which would otherwise be passed back to customers. While stakeholders value transparency, we recommend the risks and benefits of sharing information are fully evaluated and that there is robust justification prior to publishing market sensitive information.

4. We are consulting in parallel on the Environment Report. Most of the data to be included in the Environment Report will be collected in the RIGs. What are your views on this approach? Do you think some or all of the data in the Environment Report should be collected separately?

We think the data in the Environment Report should be collected once, in a single location, and it is most practical and efficient to do this via the RIGs which can then be used to populate the Environment Report as required. A separate data collection process for the Environment Report would add complexity and undesirable fragmentation. It is simpler to keep this within the RIGs. Please see our response to the Environment Report consultation for specific comments on the relevant tables in relation to the structure of the RIGs.

5. Specific comments on individual tables and their associated guidance and definitions.

We understand Ofgem will taken into account all comments provided through the ongoing RIGS working group meetings alongside formal consultation responses, hence we have limited our response to the following key issues we have at this stage:

- a) North of Scotland Resilience Schemes definition: the current definition limits reporting of costs to the schemes named in our Business Plan. Developments during RIIO-ED1 may show that investment in additional schemes, which it wasn't possible to identify at the time of Business Plan submission, may have significant customer benefits. We suggest the amendments in red to the current wording:

“The costs reported against these schemes are related to specific schemes that are being undertaken in SHEPD area during RIIO-ED1. These schemes will focus on delivering significant improvements in the interruptions experience of the worst served customers served on specific circuits in SSE Hydro. **These schemes were proposed** in the following four areas: Western Isles - Barra, Argyll and Bute - Islay, Argyll and Bute - Mull and Orkney – Sanday. **Costs may be reported against additional named schemes where evidence becomes available during RIIO-ED1 which shows significant improvements can be delivered in further areas.**”

- b) We suggest an additional memo table which would separately identify all Category 2 and 3 Severe Weather Events, as well as Category 1 events, would be an improvement to the final RIGs. Data on Category 2 and 3 events will be useful in setting RIIO-ED2 allowances and, if not captured in the RIGs, it would not be possible to obtain them retrospectively. We have created a memo table suitable for recording this data and circulated to the other DNOs for comment. We will discuss the feedback from other DNOs with Ofgem but suggest that this should be considered for inclusion in the final pack.
- c) Consistency of RIGs across annexes: We believe the RIGs must permit networks to remain consistent across the RIGs annexes. For example between C&V and Connections where we believe our approach to matching costs and volumes is the most accurate approach there is no evidence that the practice of other networks distorts the information such that alignment through RIGs is necessary.
- d) Revenue issues: It is clear the revenue models are not as well developed as the industry had hoped, particularly with regards to structure, whereas the PCFM is an example of a robustly designed model with inputs clearly designated in one worksheet. There are several errors around titles, worksheets presentation, formulae links, consistency with licence terms, and wider interaction with the RIGs annexes. We have provided similar feedback previously and continue to advocate a structural review of the revenue model.

Also, additional guidance would be beneficial when forecasting MOD prior to November 2015 to ensure we comply with any possible developments in DCUSA requirements. We believe that in accordance with previous practice in DPCR 5, the R2 changes log will be used to raise issues for correction albeit there is still work required in verifying the model's

formulaic operation. We also note that some DNO specific items are not included such as Hydro Benefit.

- e) Financial issues: We still strongly support the inclusion of value adding information in our annual reporting but are concerned when providing duplicate information where the additional value is not evident. For example, continuing to provide financial statements in data tables in addition to the audited regulatory financial statements, the additional segmental analysis, pension information and all the information around tax pools and tax calculations seems unnecessary.

Pension information is provided in line with the Pension RIGs as part of the PDAM and therefore no pension information is used annually. Pension information is simply duplicated in the PDAM submissions in more detail every three years. For tax workings and tax pools, the draft format indicates the provision of information is driven by submission of this in previous periods not necessarily for a future need. We would question the value and need for tax information in this detail.

We believe the approach to date requires review and simplification, something which we believe Ofgem are already seeking to do in respect of the PDAM and Pensions RIGs at a future date and in advance of the next triennial review.

We would also like to take this opportunity to comment on the requirement for DNOs to restate all DCPR5 data in the new RIIO-ED1 RIGs tables for July 2016. We understand the need for this exercise, however it should be recognised that DNOs will only be able to provide a breakdown to the same level as in the original submissions. Where there is a greater level of disaggregation in the RIIO-ED1 RIGs than the DCPR5 format, it will not be possible for us to retrospectively break figures down into the components required for RIIO-ED1 because the data was not compiled for this purpose.

We would be happy to discuss any element of our response in more detail and would welcome this prior to the final consultation and publication.

Yours sincerely

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