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Ofgem
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Dear Victoria,

Informal consultation on RIIO-ED1 price control reopeners (May 2019)

Citizens Advice has statutory responsibilities for representing the interests of energy consumers in Great Britain. This response is completely non-confidential and may be published on your website.

We have provided specific comments on the individual company submissions below. Before that, we have outlined a number of issues that are relatively common across the various submissions:

1) For many of the submissions, it is not possible to determine whether the planned (or in some cases already incurred) expenditure is economic and efficient because many of the planned (or incurred) expenditure amounts have been redacted as well as the supporting material. The extent of the redactions is a considerable impediment to the consultation and they appear to have been overly applied given this information is for companies that are licenced monopolies. It is not possible to reach an informed view on economic and efficient costs in cases where costs have been redacted.
2) The act of redacting information has not been done in a uniform way across the submissions. This suggests that some bids are not providing as much information as they should be. An example of this is in the Street Works Costs submissions, where fees incurred to date are well detailed in some submissions and redacted in others.
3) We are concerned that some of the costs being claimed are not justified as economic and efficient, in part (but not always) due to the two points outlined

above. Further compounding this issue is the quantity (over 400 pages) of detailed material associated with this informal consultation, coupled with the short timeframe for review (10 working days).

4) We think that Ofgem should clarify in the first instance its own view of whether the submissions meet the criteria of SLC CRC3.F. It would have been helpful if links were provided for these licence criteria as they exist in different forms for each company. Further, we have found it practically impossible to retrieve all fourteen via Ofgem's website / the electronic public register, which puts stakeholders who are not network companies at a significant disadvantage to those who are.
5) Some submissions include activity, such as basic monitoring of networks, which in our view should form part of RIIO-1 business as usual for a responsible company. The need to develop networks into Smart Grids, which includes more extensive monitoring, was well understood and taken into account during ED-1 planning[1] and can therefore be reasonably expected to come out of existing allowances (see SPEN's Accelerated Electric Vehicle Investment submission). Having visibility of networks, and their constraints, is essential to making future reinforcement decisions that are based on evidence and therefore economic and efficient. Coupling both these elements (monitoring and reinforcement) into the same submission cannot be reasonably considered to be economic and efficient and we question why companies have not been investing in this monitoring work to date.

High Value Project Costs

SPEN (SPD and SPMW) – 33kV Cable Systems

We would like to see details on what redress arrangements SPEN has with the manufacturer of the faulty cable joints. Where manufacturers have supplied equipment leading to "excessive fault activity", it does not appear economic and efficient that consumers should shoulder these costs and seems at odds with Ofgem's more general approach that those parties who hold the risk should be those who are able to influence

[1] Strategy decision for the RIIO-ED1 electricity distribution price control Outputs, incentives and innovation, Ofgem 2013 https://www.ofgem.gov.uk/sites/default/files/docs/2013/02/riioed1decoutputsincentives_0.pdf

these decisions. Further, if no suitable redress arrangement formed part of the contract then this should be justified, along with reassurance that similar contractual issues will not occur again. On a broader (but more pressing point), if SPEN has installed faulty cable joints then it should look to remedy the situation with its own funding, rather than seeking to make consumers pay to rectify an error by SPEN.

It would be helpful if SPEN could clarify from which date they will be applying marginal voltage reduction measures, why this action was not taken sooner and what analysis they have undertaken to estimate the benefits (and costs) they expect to realise from this action.

The 'Identifying Trifurcating Joint Locations' section (para 4.4.1 onwards) would benefit from a more detailed explanation. It is not clear the extent to which different joint variables (e.g. date of manufacture, installation date, joint type, and so on) impact on the outcome of the algorithm. The input variables listed appear to be quite general, and it's not obvious therefore how robust the algorithm is. Without further detail we are concerned that the planned expenditure has not been justified as necessary and there is no evidence therefore that the planned expenditure is economic and efficient. Similarly, the validation tests outlined on page 10 need more detail, including whether the input variables from the different tests are independent or exhibit collinearity.

In some respects, the submission does not provide adequate evidence of whether the planned expenditure is economic and efficient because many of the planned expenditure amounts have been redacted. We would expect to see evidence from Ofgem that they have compared these costs with similar equipment replacement across other ED networks, in order to benchmark these costs and arrive at a view on whether they are economic and efficient. Similarly, we would expect Ofgem to provide some commentary on whether other networks use these same joints and what their failure rates have been.

Finally, we are surprised to see that when cable joints have been installed, this has not always been recorded accurately in legacy asset data. SPEN provide no supporting evidence for this approach, which appears to be hindering their ability to accurately assess the scope (and therefore cost) of this problem. This approach should be explained more thoroughly by SPEN.

SPEN (SPD) – Accelerated Electric Vehicle Investment

We agree with SPEN that network investment is needed in the LV and HV system in order to enable a smooth EV transition and minimise economic disruption. However, we are not convinced by the evidence provided regarding the immediacy of this need, nor the extent

of SPEN's proposed anticipatory approach. As outlined below, we have a number of concerns including the apparent lack of existing visibility of network constraints. Following this, we propose a different approach to reinforcement than that detailed by SPEN, which could provide a better safeguard against stranded assets, allow for alternative technologies and improve the known efficiency of spent consumer money.

Certainly we agree that SPEN should be doing more than they have to date to better understand and map the existing constraints on their system. However, we do question why monitoring of the kind proposed has not been a priority to date and part of business as usual. It seems reasonable to expect a quality network company to have good visibility of their system constraints - given the importance this has for efficient system management of new types of generation and demand response technologies. SPEN have not justified the status quo and without this, their argument for urgency is somewhat undermined by their lack of proactive monitoring action to date.

We would also expect to see SPEN's consideration of the risk of stranded (or underutilised) assets as a result of the proposals. This appears to be a gap in SPEN's plan, indicating that not enough thought has gone into this. Given the considerable risks associated with the proposals, we would recommend that SPEN and Ofgem consider alternative risk-sharing arrangements. For example the types of approaches that are being considered for connecting service-station EV chargers along motorways via National Grid's Transmission system (a commercial, not consumer funded, approach) or enabling local authorities or charge point developers to underwrite some of the risk.

On a related point, we do not know if SPEN have considered the fairness issues associated with network reinforcement costs that arise due to technologies that are most likely to benefit the relatively more affluent consumers in society. This is not a new issue[2], and this submission provides an opportunity for SPEN to provide robust assurances of how they will seek to alleviate this problem.

We would like to see SPEN provide a thorough cost benefit analysis of delaying action. This would help to put figures on the concerns raised in the executive summary and elsewhere, however this should be done in a non-binary fashion. There are implementation options that sit between immediate action in full (as proposed in SPEN's submission) and delaying any action to such an extreme extent that thermal, voltage or fault level limits are breached.

[2] See the article written by Simon Roberts in Citizens Advice's 2018 publication 'A Price Control for Everyone' (available: https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/RIIO-2%20Vulnerability%20Essays_FINAL%20%281%29.pdf) and para 4.2 of Ofgem's recently published 'Draft Consumer Vulnerability Strategy 2025' (available: https://www.ofgem.gov.uk/system/files/docs/2019/06/draft_consumer_vulnerability_strategy_2025_0.pdf).

In line with this, we would strongly encourage Ofgem and SPEN to approach this evident reinforcement issue via a form of volume driver. The proposed approach is anticipatory, which we do think is justified to some degree, but the exact extent of the necessary works is unknown (not least because of SPEN's lacking network visibility) and therefore the submission by SPEN cannot be regarded as the most economic and efficient. Our view is that a potentially better approach, that may minimise the risk of stranded (or underutilised assets), would be for Ofgem to provide a load related allowance which incorporates a well evidenced and independently observable system constraint threshold, at which point specific works could commence. Whilst the risk-based approach to works outlined by SPEN goes some way towards this model, it does not allow for *actual* future EV peak demand to drive spending decisions; has a higher risk of manifesting as less efficient than other routes (by locking in potentially unneeded spending decisions); and doesn't allow for alternative[3] (non-reinforcement) options to be considered (beyond those enabled by improved monitoring per se).

We would expect further considerations from SPEN regarding how the use of smart meter data could fulfil the same purpose as monitoring equipment but at a lower cost.

We have identified several issues that appear not to be answered in the submission but would be helpful in determining the extent to which SPEN's plans could be deemed economic and efficient:

- First, it would be good for SPEN to clarify how their Capacity Index (and subsequent deployment matrix) will be updated as network visibility improves.
- Second, SPEN should detail the expected life of the monitors proposed for installation (para 4.3.2) and explain whether there will there be a competitive tender process for this supply and installation work (Table 9 details some of these cost items).
- Third, what are the smart limitations of the proposed ESSM systems?

Finally, in terms of the fourth consultation question ("Is there any other relevant information we should consider before making our determination?"), we would expect Ofgem to consider SPEN's submission in the context of the relevant proposals and actions of the other network operators and it should not be taken in isolation.

[3] Whilst some alternative intervention options are touched on in Annex B, they have not been given due weight or analysis in SPEN's considerations.

SPEN (SPMW) – High Speed 2 High Value Project & Rail Electrification

With heavily redacted forecast figures and data, we do not think that this submission provides adequate evidence that the planned expenditure is necessary ahead of RIIO-2. Further, this lack of evidence inhibits our ability to give a view of whether the planned expenditure is economic and efficient.

Based on the non-redacted information in the submission, it would be helpful if SPEN could outline the extent to which improved system management could be used to alleviate pressures on capacity caused by the construction works per se. Beyond this, the growth forecasts run well into the future (e.g. 2040) and we are concerned that SPEN's suggested approach locks in technological solutions that may not in all cases be necessary to implement ahead of RIIO-2 and may inhibit other more efficient options. Consequently, we would like to see a more granular breakdown of the expected costs and stronger evidence for each component regarding the urgency of the works and considerations of alternative approaches.

Our understanding of compensation and funding mechanisms for rail projects such as this is that diversions are to be paid for in full by the company causing the diversion and that no costs should be incurred, other than those associated with planning and costing the diversion until instructions for those diversions have been received from HS2. Since costs associated with the diversionary works will be recovered in full there is no requirement for public funding and therefore these submissions appear inappropriate.

Actual consumption of electricity by HS2 will be paid for on a normal pay-as-you-go basis and expenditure to support this should be funded by consumers (once Ofgem can establish that it is necessary, timely and efficiently priced), but much of the work will be associated with the provision of new connections which will themselves attract connection charges. Connection charges are also recovered from the customer concerned and not publicly funded, nor should costs (other than planning) be incurred in advance of firm contracts being signed by HS2. We consider it a matter of urgency that Ofgem instruct SPEN to resubmit their bid, recognising and allowing for the compensation and funding mechanism for the costs incurred in diverting distribution network assets and the connection charges that will be paid by HS2. Given realistic assumptions concerning the timing of HS2 and the need to have firm signed contracts in place, remaining public funds (allowed revenue) required by these works should be provided via an allowance under RIIO-2.

Separately, it is essential that Ofgem review the whole programme of works to establish how much of the works outlined in this submission could be opened to competition.

Ofgem must also consider all current and future rail electrification projects in comparison with each other. It is only through comparative analysis and benchmarking that the question of economic efficiency can be answered. Ofgem should apply its customary approach of establishing an efficient cost frontier and rewarding progressive improvements towards this frontier.

SSEN (SHEPD) Pentland Firth East Cable High Value Project

We would welcome some further clarification as to the spread of costs between the six elements (pages 5-6) of this HVP. Similarly, it would be helpful to have access to all non-confidential aspects of the various appendices referenced in the submission. For example, without transparency on the CBAs it is impossible to take a view on whether the approach and costs are economic and efficient.

Rail Electrification Costs

SSEN (SEPD) – Great Western Railway Electrification

Our primary concern with this submission relates to the extent of redacted information, including whole chapters for which the titles are even missing in the contents section. Ofgem has requested, primarily, that consultation submissions consider four key questions. In relation to the second one ("Does the submission provide adequate evidence that the planned expenditure is necessary?"), the published version of the bid needs to allow considerably more evidence regarding the planned (and incurred) expenditure. In relation to the third question ("Does the submission provide adequate evidence that the planned expenditure is economic and efficient?"), it is not possible to arrive at an informed position on whether the planned (and incurred) expenditure is (or was) economic and efficient because almost none of this evidence is presented.

We have also made comments on SPEN's (SPMW) HS2 Rail Electrification project (above) which are relevant to this bid too.

Specified Street Works Costs

We provide comments that are relevant to all or some of the Street Works submissions.

We are uncomfortable with forecasting street works costs to the end of RIIO-1. Forecasts invariably result in an inefficient allocation of costs and we would encourage Ofgem to allow for any future street works costs in the remainder of RIIO-1 to be accounted for in the close out mechanism (or a similar process). Ofgem should provide justification for allowing a forecasting approach should they not implement a more accurate method based on actual costs incurred.

Some network bids - for example WPD's - provide no substantial evidence for their forecast figures. These *may* be presented in the existing but non-public appendices for their bid, but based on the available material their forecasts (and others) are not well evidenced. Similarly, we would welcome further explanation from networks where they have *estimated* already incurred costs, as it would be most economic and efficient to base these amounts on *actual* costs incurred. Where this is not possible, this should be justified. Finally, if forecasts are to be used (and we are strongly of the opinion that they should not), then the approach to forecasting *must* be standardised across the networks.

Further to this, the disparity of costs claimed by energy networks (e.g. see para 34 of NPG's submission) indicate that the approach to claiming these costs is not standardised. Without this, it is not possible to compare across networks nor arrive at a position regarding the economic or efficient use of allowances. On benchmarking of costs not directly associated with fees determined by non-network companies (e.g. internal administrative systems), we would encourage Ofgem to do this across all the networks submitting information on street works costs. This would help to ensure that these specific cost types are indeed being incurred economically and efficiently (in so far as benchmarking can determine this).

We challenge the position of some networks that permit penalty fees should be paid for via a reopener (or any other) allowance. The risk of incurring such penalties sits with the network companies and their operations, not consumers who will otherwise be paying these costs. Where network actions lead to penalties, these should not be shouldered by consumers and Ofgem should not permit the recovery of fines against customer funds (allowed revenue). We would also question whether the inclusion of such fines/penalties are indeed allowed under the licence definition, as SPEN's submission suggests they are not.

Enhanced Physical Site Security Costs

NPG Submission

In the 'Evidence of value for money' section (page 9), the submission would benefit from evidencing:

- which aspects (para 23.b) were not achieved through market tendering and why;
- what proportion of the overall costs were formed of these untendered aspects (the submission only suggests that they are less than 50%);
- what equipment was re-used (para 24) and the extent of the associated cost minimisations; and
- the reasoning behind the claims made in para 25.c (there appears to be no supporting evidence for this).

I hope that you find this response clear, and I would be happy to discuss any matter raised within it in more detail if that would be useful.

Yours sincerely

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