

Email: RIIO-ED1@ofgem.gov.uk

Date
21st June 2019
Contact / Extension
Jim McOmish
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Dear Colleague,

Informal Consultation on RIIO-ED1 Price Control Reopeners (May 19)

Thank you for providing SP Energy Networks (SPEN) with the opportunity to comment on the May 19 RIIO-ED1 price control reopener proposals.

SPEN owns and operates the electricity distribution networks in the Central Belt and South of Scotland (SP Distribution) which serves 2 million customers, and Merseyside and North Wales (SP Manweb) which serves 1.5 million customers. We also own and maintain the electricity transmission network in the Central Belt and South of Scotland (SP Transmission).

We submitted six of the twelve reopener proposals, two from SP Distribution and four from SP Manweb. Our review process for each of our submissions has provided us with assurance that each one meets the qualifying criteria set out in Special Licence Condition CRC3.F. We also believe we provided detailed evidence to justify that our expenditure is economic and efficient, and we will separately respond to provide additional information in response to Ofgem's supplementary questions to ensure there are no gaps in understanding. Therefore, the remainder of this response focusses on our comments to the submissions that were made by other DNOs.

Street Works

All of the DNOs redacted significant amounts of data in their published submissions (often complete appendices). This has made it difficult to comment with certainty on the specific details of each submission, so we feel it is more appropriate to make the following general points which apply across all submissions.

- All DNOs should have a proportion of their street works activity which is eligible for direct customer funding. This is categorised in the RRP M9C tables as 'Outside Price Control' (OPC) and should be excluded from all proposals.
- The costs of penalties and overstay fines do not fall within the SLC 3F definition of 'Specified Street Works Costs' and should be excluded from all proposals.
- We would expect the 15/16 – 18/19 Permit Fee Costs within the proposals to relate to the figures submitted within the RRP M9C tables, unless there is clear justification to the contrary.

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SHEPD Pentland Firth East HVP

We believe the needs case for this proposal is comparable to the 33kV Cable Systems application made by SPEN, and have two observations to make below.

- SHEPD have proposed that Risk Points form the main part of their output assessment. We believe that a reopener proposal should be ring-fenced from the DNO's main ED1 risk point target and must not trigger re-basing of licence risk point targets. Whilst we recognise risk points provide a reasonable method for assessing the benefit of asset replacement where condition is the principal driver, it is important to distinguish between the activity proposed under this proposal and the baseline asset replacement activity licensees are committed to deliver under their current allowance. Risk point reduction achieved under this proposal should be excluded from their regulatory output target under SLC 51.
- Although the redacted proposal does not provide enough information to allow us to assess replacement unit costs, we trust that the efficiency of the activities within the project can be reasonably benchmarked for efficiency by Ofgem to ensure best value is achieved for SHEPD's customers. Given the proposed activity can principally be defined as replacement of 40km of 33kV Sub Sea cable, we believe there is reasonable opportunity to assess the efficiency of the project against industry outturn and ED1 Ofgem expert view unit cost assessments.

SEPD Great Western Railway Electrification

The SEPD published submission is heavily redacted and this has made it difficult to comment with certainty on the specific details.

In principal, we have no fundamental comments relating to an application for Rail Electrification Costs where the diversion of the electrical plant and apparatus is required as a result of a major rail project. We note that the project was announced by the Secretary of State in 2009, but there is insufficient information in the redacted document to determine if there was sufficient certainty to include these costs in the Opening Base Revenue at the start of ED1 (as per CRC 3F.8a).

Lastly, we would like to make the general point that some of the redactions in the proposals appear to relate to information that would otherwise be in the public domain. For the subsequent formal consultation, we believe there would be merit in limiting the level of redactions.

If you would like to discuss anything raised in this letter in more detail, please do not hesitate to contact me.

Yours sincerely,

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SP Energy Networks

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