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30 August 2019.

Sent by email to: RIIO-ED1@ofgem.gov.uk

Dear Victoria,

Consultation on RIIO-ED1 price control reopeners (May 2019)

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group.

We agree with the minded-to positions on the requests for adjustments relating to Enhanced Physical Site Security, Rail Electrification and Specified Street Works Costs. We also agree with the minded-to positions on SPEN's proposed High Value Projects.

We note the proposed approval of the Pentland Firth East Subsea Cable Replacement project provided SSEN can, by the close of this consultation, demonstrate the proposed solution is economic and efficient across a range of scenarios. We expect the decision whether to proceed with the Orkney Transmission Link is likely to materially affect the efficiency of any proposed solution. Both projects should be considered and assessed holistically, to protect consumers' interests. We recommend:

The decision on the Pentland Firth East Subsea Cable Replacement project should be delayed until a decision on the Needs Case for the Orkney Transmission Link has been made.

Also, we believe arrangements governing the reopener mechanisms should be improved ahead of the RIIO-2 price controls.

The decision on the Pentland Firth East Subsea Cable Replacement (PFE) project should be delayed until a decision on the Needs Case for the Orkney Transmission Link has been made:

In the recent consultation on the Needs Case for the Orkney Transmission Link, Ofgem proposed to approve the project provided that, by December 2019¹, SSEN can demonstrate a total of at least 135MW of new generation on Orkney:

- has been awarded a Contract for Difference in the 2019 Auction or
- has secured planning consent and secured finance².

We note the proposed approval of the PFE project provided SSEN can, by the close of this consultation, demonstrate the proposed solution is economic and efficient across a range of scenarios. The supporting information SSEN is required to submit includes:

“An options assessment, which demonstrates that the rating of the cable to be installed is economic and efficient for present and future consumers. This will include analysis on the option of least regret with regards to proposals for the proposed SHETL Orkney Transmission Link.”³

We agree with this requirement. We expect the decision whether to proceed with the Orkney Transmission Link is likely to materially affect the efficiency of any proposed solution. However, it is unclear whether the least regret analysis considering the Orkney Transmission Link can sufficiently mitigate the risk that any solution proposed by SSEN at this stage could be inefficient from the consumer perspective.

We recommend the decision on the PFE project is delayed until a decision on the Needs Case for the Orkney Transmission Link has been made, to protect consumers' interests. If it is decided the Orkney Transmission Link should be progressed, it would be appropriate to consider the extent to which an adapted form of that project could satisfy the network needs that the PFE project would. It is necessary to demonstrate that the connectivity between Orkney and mainland Scotland has been optimised and represents value for money for consumers.

We recognise SSEN's applications to defer the application window in respect of the Subsea Cable Costs reopener were granted. In its second application for deferral, SSEN highlighted concerns that the limited information available constrained its ability to accurately forecast expenditure requirements. SSEN stated:

“In turn, this prohibits SHEPD from making an application under the current uncertainty mechanism which would satisfy the requirements of the mechanism or provide it with the

¹ Emphasis added.

² “Orkney transmission project: Consultation on Final Needs Case and Delivery Model”; paragraph 2.47: https://www.ofgem.gov.uk/system/files/docs/2018/12/orkney_final_needs_case_consultation.pdf.

³ “RIIO-ED1 Reopener Consultation – High Value Projects”; paragraph 6.35: https://www.ofgem.gov.uk/system/files/docs/2019/08/riio-ed1_reopeners_consultation_-_high_value_projects.pdf.

assurance that future protection costs could be successfully justified and therefore recovered through revised RIIO-ED1 allowances”⁴

We recommend a similar approach is adopted. It is unclear to us whether a robust decision on the FPE project can be made ahead of the decision on the Orkney Transmission Link.

Arrangements governing the reopener mechanisms should be improved ahead of the RIIO-2 price controls:

We believe improvements should be made to the reopener mechanisms for the RIIO-2 price controls, especially since it is likely greater proportions of expenditure will be subject to reopener mechanisms compared to the RIIO-1 controls.

In our response to the informal consultation, we highlighted that several applications were not compliant with requirements, or did not appear to be well-evidenced or well-justified. The RIIO-1 price control review arrangements include an incentive (the Information Quality Incentive or IQI) that is designed to encourage companies to provide accurate and ambitious cost forecasts. The IQI seeks to ensure that the optimal position is to seek funding at an efficient level (and so companies would be worse off seeking funding above the level that is justified) There is not an equivalent mechanism for reopener applications, meaning companies are no worse off submitting applications that are not justified. This is not ideal.

For RIIO-2, we recommend a methodology for encouraging companies to propose only adjustments that genuinely meet the qualifying criteria and intent of the respective reopeners and to provide only accurate and ambitious cost forecasts in submissions, especially since a greater number of reopeners may be included in the RIIO-2 settlements.

Other improvements that should be considered are:

- Ofgem should review non-confidential versions of the submissions to ensure the redactions are necessary and are in consumers’ interests. The extent of the redaction in some of the non-confidential versions of the submissions prevented stakeholders from fully engaging with the process and from arriving at better-informed views.
- The period in which Ofgem is required to decide on the proposed adjustments may need to be extended to allow Ofgem to publish its initial assessment, so that stakeholders can fully engage with the process. Alternatively, the deadline for submissions can be brought forward, thereby extending the decision-making period.
- Ofgem should ensure the framework allows it to delay deciding on proposed adjustments in circumstances in which proceeding according to the prescribed schedule is not in consumers’ interests.

⁴ “Request from Scottish Hydro Electric Power Distribution Plc to defer the application window for the Subsea Cables Costs uncertainty mechanism under Charge Restriction Condition 3F.11(a) of its electricity distribution licence”; page 2: https://www.ofgem.gov.uk/system/files/docs/2018/02/2017-10-06_subsea_cable_uncertainty_mechanisms_application_for_deferral_final_0.pdf.

Answers to the consultation questions are in the attached appendices. I hope you find these comments helpful. Please contact me if you would like to discuss any aspect of our response.

Yours sincerely,

Andy Manning
Director - Network Regulation and Forecasting
Centrica Regulatory Affairs, UK & Ireland

APPENDIX 1:

High Value Project Costs

SPEN (SPD) Accelerated Electric Vehicle Investment

Do you agree with Ofgem's assessment and our proposal to reject SPEN's request for an adjustment?

We agree with Ofgem's assessment and the proposal to reject SPEN's request for an adjustment. The proposed adjustment does not relate to a scheme of works, is not compliant with licence requirements and has not been demonstrated to be efficient.

SPEN (SPMW) High Speed 2

Do you agree with Ofgem's assessment and our proposal to reject SPEN's request for an adjustment?

We agree with Ofgem's assessment and the proposal to reject SPEN's request for an adjustment. The proposed adjustment does not relate to a scheme of works, is not compliant with licence requirements and has not been demonstrated to be efficient.

SPEN (SPD and SPMW) 33kV Cable Systems

Do you agree with Ofgem's assessment and our proposal to reject SPEN's request for an adjustment?

We agree with Ofgem's assessment and the proposal to reject SPEN's request for an adjustment. The proposed adjustment does not relate to a scheme of works, is not compliant with licence requirements and has not been demonstrated to be efficient. Additionally, it is not appropriate for consumers to be required to fund the proposed adjustment: for assets that have lasted no more than a third of their expected life given SPEN adopted a procurement strategy that appears to preclude it from approaching the supplier for remediation (which was within its control).

SSEN (SHEPD) Pentland Firth East Subsea Cable Replacement
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Do you agree with Ofgem's assessment and our proposal to accept SSEN's request for an adjustment, subject to conditions?

We acknowledge the issues identified in Ofgem's assessment. However, we do not agree with the proposal to accept SSEN's request for an adjustment, subject to conditions.

We expect the decision whether to proceed with the Orkney Transmission Link is likely to materially affect the efficiency of any proposed solution. However, it is unclear whether the least regret analysis considering the Transmission Link can sufficiently mitigate the risk that any solution proposed by SSEN at this stage could be inefficient from the consumer perspective.

We recommend the decision on the PFE project is delayed until a decision on the Needs Case for the proposed Orkney Transmission Link has been made, to protect consumers' interests. If it is decided the Orkney Transmission Link should be progressed, it would be appropriate to consider the extent to which an adapted form of that project could satisfy the network needs that the PFE project would. It is necessary to demonstrate that the connectivity between Orkney and mainland Scotland has been optimised and represents value for money for consumers.

APPENDIX 2:
Enhanced Physical Site Security

Do you agree with our assessment and our proposal to amend NPgN's request for an adjustment?

Do you agree with our assessment and our proposal to amend NPgY's request for an adjustment?

The proposals to amend the licensees' requests for adjustments appear reasonable.

APPENDIX 3: Rail Electrification

SSEN (SEPD) Great Western Railway Electrification

Do you agree with Ofgem's assessment and our proposal to amend SSEN's request for an adjustment?

We agree with Ofgem's assessment and our proposal to amend SSEN's request for an adjustment. If the adjustment is made, we recommend Ofgem retains the ability to return funding to consumers beyond the end of the RIIO-ED1 price control, in the event the relevant policy decision about the funding of diversion works is made after March 2023.

SPEN (SPMW) High Speed 2 Rail Electrification

Do you agree with Ofgem's assessment and our proposal to reject SPEN's request for an adjustment?

We agree with Ofgem's assessment and the proposal to reject SPEN's request for an adjustment. The proposed adjustment does not relate to an existing railway line.

APPENDIX 4:

Specified Street Works Costs

The methodology for estimating efficient costs appears reasonable. We agree licensees should be able to achieve operational efficiencies over time. We also agree that penalty and permit variation costs should not be allowed because they are inefficient. As such, the proposals to amend the licensees' requests for adjustments, or to reject those requests where relevant, appear reasonable.