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Date
6th Sept 2019
Contact / Extension
Stephen Stewart
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Dear Colleague

Specified Street Works Costs (SWC) reopener consultation

SP Energy Networks (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 welcome the opportunity to respond to Ofgem's Reopener consultation, and in particular the 'minded to' decision in relation to SPEN's SWC proposal.

The SPEN SWC proposal was for £21.3m in total, or £8.8m (excluding lane rental costs). We note that Ofgem has proposed to award SPEN £8m and consider actual lane rental costs ex-post via the use of a logging-up mechanism at the end of the ED1 period.

The details for how this mechanism would work in practice have not been finalised and we seek assurance from Ofgem that it will be designed in a manner which treats all DNOs fairly and gives all the opportunity to recover an equivalent level of costs. If not designed carefully, we are concerned that the mechanism could favour those DNOs who are not granted an award during the 2019 reopener window. Appendix 3 of CRC 3F sets out a materiality threshold for Specified Street Works Costs for each licensee. If Ofgem intends to apply the materiality thresholds set out in Appendix 3 again at the end of the price control period, then it would not be in a DNO's interest to receive an award during this reopener window as it would have to pass the materiality threshold hurdle twice. Using a practical example to demonstrate this, if there were two DNOs with the same quality of data over the same time periods, each with a materiality threshold of £5m:

- DNO(A) with a proposal for £10m in 2019 and further costs of £4m to 2023, would only ever be eligible for a total award of £10m because the further costs of £4m to 2023 would not exceed the materiality threshold;
- Whereas DNO (B) with a proposal for £4m in 2019 and further costs of £10m to 2023, would be eligible to apply for a total award of £14m.

We trust that Ofgem will provide assurance that, with the help of stakeholder engagement, it will seek to design the logging up mechanism in a way that all DNOs are treated fairly. SPEN therefore requests that Ofgem provides further details of and fully consults on their proposed logging up mechanism as soon as possible to provide all DNOs with the certainty they require.

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If you would like to discuss any of the points raised further, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read "Stephen A. Stewart". The signature is fluid and cursive, with a long horizontal stroke extending from the end.

Stephen Stewart
SPM Director