

Decision



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RIIO-ED1 Reopener Decision – Rail Electrification Costs

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Context

The RIIO-ED1 price control sets the outputs that the electricity distribution network companies need to deliver for consumers and the associated revenues that they are allowed to collect for the eight-year period from 1 April 2015 until 31 March 2023.

For cost categories in respect of which there was a significant degree of uncertainty about expenditure requirements at the time of setting allowances, the price controls include a “reopener” mechanism. The mechanism allows network companies to propose adjustments to baseline expenditure allowances for these costs when there is more certainty. The reopener mechanism specifies a window in May 2019, during which adjustments to allowances may be proposed.

We have received reopener submissions in the following cost categories:

- High Value Project Costs
- Rail Electrification Costs
- Enhanced Physical Site Security Costs
- Specified Street Works Costs

This document sets out our decision on applications received under the “Rail Electrification” category of uncertain costs.

Associated documents

[Informal consultation on RIIO-ED1 price control reopeners \(May 2019\)](#)

[Consultation on RIIO-ED1 price control reopeners \(August 2019\)](#)

[RIIO-ED1 Price Control Financial Handbooks \(fast-track and slow-track licensees\)](#)

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1. Executive summary

- 1.1 In the May 2019 reopener application window, we received two submissions from Distribution Network Operators (DNOs) requesting an adjustment to their expenditure allowances in relation to Rail Electrification Costs. We received one submission from Scottish and Southern Electricity Networks (SSEN) on behalf of its Southern Electric Power Distribution (SEPD) licensee and another submission from Scottish Power Energy Networks (SPEN) on behalf of its Scottish Power Manweb (SMPW) licensee.
- 1.2 On 2 August 2019, we published a consultation document setting out our initial views on the submissions received in the May 2019 window and sought views from stakeholders on our minded-to positions.
- 1.3 We received five responses to this consultation. We have reviewed the consultation responses we received and taken these into account in our final decision.

Summary of decisions

- 1.4 A brief summary of our decisions is set out below:

SSEN (SEPD) Great Western Railway Electrification

- 1.4.1 SSEN requested an additional £17.2m¹ in funding for its SEPD licence area to accommodate the Great Western Railway Electrification project. We have decided to amend SSEN's proposal, and to adjust allowances by £16.0m.

SPEN (SPMW) High Speed 2 Rail Electrification

- 1.4.2 SPEN requested an additional £12.06m in funding for its SPMW licence area to accommodate diversionary works required for HS2. We have decided to reject SPEN's proposal.
- 1.5 This document summarises the responses we received in the consultation, sets out our updated view of the submissions and our final decision.

¹ Unless otherwise stated, all prices in this document are in a 2012-13 price base.

Next steps

- 1.6 Our decisions will be implemented through the 2019 Annual Iteration Process, which means that adjustments to the DNOs' allowed revenues will take place from 2020-2021.

2. SSEN (SEPD) Great Western Railway Electrification

Background

- 2.1 In the May 2019 window, we received a submission from SSEN requesting an additional £17.2m in allowances for its SEPD licensee for Rail Electrification Costs.
- 2.2 SSEN's proposal relates to 59 diversions, of which two are still to be completed. As set out in our consultation, 57 of the 59 diversions were subject to tendering processes, which we considered to have been carried out in an efficient and economic manner. Two proposed diversions are still in the planning stage and they will also both be subject to a competitive tendering process. In response to our supplementary questions, SSEN identified a more efficient solution at a cost of £1.2m less to consumers for one of the diversions that is still to be completed. This solution involved SSEN choosing to raise the conductors for the diversion as opposed to pursuing an undergrounding option.
- 2.3 Our initial assessment was that we were satisfied with the efficiency of the costs that SSEN submitted, including the alternative solution proposed for one diversion. On this basis our initial view, as set out in our consultation document, was to amend the proposed adjustment submitted by SSEN and adjust allowances by £16m.

Consultation responses

- 2.4 We received five responses to our consultation published on 2 August 2019, all of which responded to this submission. These respondents were SSEN, SPEN, Centrica, Citizen's Advice and ENWL.
- 2.5 In their response, SSEN were content that Ofgem proposed to allow the adjustment and deemed that the amended amount represented economic and efficient expenditure.
- 2.6 The four third party respondents (Centrica, Citizens Advice (CA), ENWL, and SPEN) all voiced their agreement with Ofgem's minded-to position, although CA noted that the redacted version of the submission did not allow for them to reach a decision as to whether the expenditure was economic and efficient.

Our updated view

2.7 There were no points raised in the consultation responses that would impact Ofgem’s minded-to position.

Our decision: Amend

2.8 Based on our analysis of SSEN’s application and on review of the responses received, we consider that this submission satisfies the requirements of licence condition CRC 3F. Taking account of SSEN’s responses to supplementary questions, we consider that the revised costs included in the proposal represent an efficient level of expenditure. We have therefore decided to maintain our minded-to position to amend the proposal and adjust allowances by £16m.

Table 1. Proposed adjustment to allowance (12/13 prices)

	Ofgem proposed adjustment	SSEN’s proposed adjustment	Difference
	£m	£m	£m
Completed diversions	8.5	8.5	0
Proposed diversions	7.5	8.7	-1.2
Total	16.0	17.2	-1.2

Table 2. Total adjustment by regulatory year (12/13 prices)

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	RIIO- ED1 total
Costs (£m)	1.2	2.4	0.7	4.2	1.3	6.2	0	0	16.0

2.9 The revised PCFM values for SEPD will be directed by 30 November 2019. This means that adjustments to SEPD’s allowed revenues will take place from 2020/2021.

3. SPEN (SPMW) High Speed 2 Rail Electrification

Background

- 3.1 In the May 2019 window, we received a submission from SPEN requesting an additional £12.06m in allowances for its SPMW licensee for Rail Electrification Costs.
- 3.2 In our consultation we set out our proposed decision to reject the Rail Electrification adjustment proposed by SPEN. This was based on our view that the submission did not meet the license conditions set out in CRC 3F.
- 3.3 Licence condition CRC 3F.25 defines 'Rail Electrification Costs' as meaning "costs incurred, or expected to be incurred, other than those recoverable from a third party, associated with the diversion of electrical lines or electrical plant to facilitate rail electrification projects approved for funding by the Secretary of State for Transport, as may be further clarified in the RIGs."
- 3.4 In the Regulatory Instructions and Guidance (RIGs), a 'Rail Electrification project' is defined as "A Network Rail project for the electrification of a discrete rail route". HS2 Ltd is a separate legal entity to Network Rail and, therefore, HS2 is not a 'Network Rail project'. Furthermore, the RIGs define 'rail electrification' as the "electrification of an existing railway line". HS2 is a new infrastructure project and, therefore, is not an existing railway line. As a result, we did not consider the proposal to be for a relevant adjustment.
- 3.5 In addition, CRC 3F.25 states that Rail Electrification submissions should not include costs "recoverable from a third party". Ofgem's understanding is that the Master Wayleave Agreement between Network Rail and SPEN cannot be invoked, requiring SPEN to bear the costs, as HS2 is not a Network Rail project and that there are substantial funds set aside to cover the diversion of utilities for the purposes of HS2.
- 3.6 Our view therefore was that the submission did not meet the license conditions set out in CRC 3F.

Consultation responses

- 3.7 We received five responses to our consultation published on 2 August 2019, four of which responded to this submission. These respondents were SSEN, Centrica, Citizen’s Advice and ENWL. All four respondents agreed with our minded-to position to reject SPEN’s proposal.

Our updated view

- 3.8 Ofgem’s view is still that the submission does not meet the licence conditions set out in CRC 3F. SPEN were not asked any supplementary questions relating to their Rail Electrification Costs reopener submission and did not provide a response to the consultation.

Our decision: Reject

- 3.9 Following our analysis, we have decided to reject the submission by SPEN based on our assessment that this submission does not satisfy the requirements of licence condition CRC 3F.