

Mark Hogan  
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Paul O'Donovan

Dear Mark,

### **Consultation on the closeout methodologies for RIIO-ED1**

We welcome the opportunity to provide our views on the RIIO-ED1 closeout methodologies. We also appreciate the collaborative approach Ofgem has taken in development of these methodologies through the ED1 closeout working group; as a result, our feedback at this stage in the process is generally positive and we are not recommending any material change in drafting.

That said, we do have one significant concern regarding details set out in paragraph 1.9 of the consultation document under 'Asset management and network planning'. This appears to introduce the possibility that Ofgem will consider recovery of ED1 funding where it considers there may be deficiencies in asset, system or incentive performance data. While the consultation links this proposal to Ofgem's recent asset data requests and site visits this is not something that has previously been raised by Ofgem with SSEN directly, or we believe through the relevant industry meetings or work groups. From previous discussions with Ofgem we understood the aims of Ofgem's current work with licensees on asset data and management was to help improve understanding of end to end processes, ensure consistency in the quality of data going into the Common Network Asset Indices Methodology (CNAIM) (within and across DNOs), understand how CNAIM informs investment decisions and ensure robustness of those decisions.

We are unclear regarding what is intended or the legitimacy of this proposals and what ED1 provisions or mechanisms Ofgem envisages it would use to determine deficiencies or justify or effect this proposal. We note that while the NASD closeout mechanism provides for clawback of ED1 allowances in relation to under delivery of outputs, it does not provide for claw back of allowances with regard to deficiencies in data, systems or processes. As a result, we would welcome further explanation and clarity around this proposal.

Our responses to individual consultation questions are set out in the appendix to this letter.



Please do not hesitate to contact me if you would like to discuss any aspect of this response.

Yours sincerely,

Jenny Rogers

**Distribution Networks Regulation**

## Appendix 1

### **Question 1: What are your views on our proposed approach to assessing the impact of demand changes, and the cost of reinforcement or alternative solutions?**

We generally support the approach proposed by Ofgem. We welcome the fact that savings on Load Related Expenditure (LRE) through use of innovative solutions will be recognised through the assessment process. This is entirely consistent with policy decisions set out for RIIO-ED1. To ensure continued efficiency, it is important that spend on innovative solutions which leads to lower expenditure on reinforcement, such as Active Network Management system costs, are rewarded and recognised as Load Related Expenditure. However, we note the precise mechanics of how this will be done still need to be determined. It is important that this is addressed before the end of RIIO-ED1 to ensure DNOs capture and provide the necessary information.

### **Question 2: Do you agree with our proposal to build on the approach taken at DPCR5 Closeout for load? Do you agree with our proposed approach?**

We agree it is sensible to build on the approach taken at DPCR5 and we consider that the proposed approach does this, updating the DPCR5 methodology to reflect the specifics of the ED1 licence.

### **Question 3: Do you agree with our approach to load indices (LIs)? Is there an alternative you believe we should use?**

We agree that setting targets for LIs would not provide a robust way to measure DNOs' performance in RIIO-ED1.

Given the various requirements of a network and alternative solutions being trialled and implemented, we do not consider LIs to be a good metric for primary reinforcement. We understand from wider industry discussions and for example, our participation in the Cost drivers sub-group of the Electricity Network Access and Forward Looking Charging Significant Code Review, that others share this view.

We note system reinforcement is not just about reducing the load index of LI4 and LI5 substations; it is also about addressing other network issues including security of supply, voltage limitations and fault level issues. SSEN is undertaking several projects which do not deliver improvements in LI but do have robust justifications. For example, we have projects which are justified in terms of improving security of supply and network resilience.

We note that innovative alternatives to reinforcement, such as Active Network Management connections and procurement of flexibility services to manage constraints are generally accepted as efficient approaches to manage the network but do not increase capacity so would not contribute to LI targets. In its current form this limitation is significant and potentially at odds with the direction that the industry is moving in. It is essential that the regulatory framework recognises and rewards expenditure on projects which do not necessarily improve LI but are proven to be efficient and justified. In line with this we recommend that paragraph 2.21 specifies that DNOs' justification may be for under as well as over delivery against LI.

**Question 4: Do you agree with our proposal to build on the approach taken at DPCR5 Closeout for NASD?**

We agree with building on the DPCR5 approach.

**Question 5: Do you agree with the manner in which we have developed the DPCR5 approach? Is there an alternative approach you believe we should use?**

We agree with the manner of development but would welcome clarity on the timescale and method by which Ofgem intend to determine the materiality threshold (deadband) for NASD output delivery. We understand that further work is needed but the continued uncertainty for licensees is unhelpful as it does not allow informed investment decision making.

We note the 'Proposed approach' section (para 3.9) does not mention the NASD reward/penalty. This appears to be an oversight since it is mentioned in the NASD assessment section (para 3.5) and the detailed methodology (Annex C).

**Question 6: Do you agree with our proposed approach to HVPs?**

We agree with the proposed approach, we see that this provides for Ofgem to make both upwards and downwards adjustments, in respect of HVPs funded through initial allowances, the reopener windows and new projects started after this window provided they meet the RIIO-ED1 licence definition of an HVP. However, we note the methodology set out in Annex D still uses DPCR5 terminology (for example HVP Efficient Qualifying Expenditure, HVP Efficient Reopener Expenditure etc.). We suggest Annex D is revised to remove these terms and ensure RIIO-ED1 terminology is used consistently throughout for clarity, and to ensure the methodology is consistent with the licence.

**Question 7: Do you agree with our treatment of the interaction between HVPs and NASD for assessing an outputs gap for non-load related HVPs?**

The principle of incorporating the HVP network outputs assessment methodology within the NASD methodology is appropriate. There is a need to avoid double counting of any adjustment made for an outputs gap for non-load related HVPs. Paragraphs C.60 and D.21 in the NASD and HVP closeout methodologies respectively attempt to provide for this. However, the current wording could be improved, and we have made specific recommendations on the draft. We also note that the Annex F Performance Assessment Submission section on assessment of outputs for non-load related HVPs can be removed as this information for non-load HVPs will be provided through the NASD assessment.

**Question 8: Do you agree with our proposal for assessing link box volume delivery?**

Yes, we agree with this proposal.

**Question 9: Do you agree with our proposal for assessing Shetland costs?**

We agree with this proposal. We appreciate that Ofgem has taken on board extensive feedback on earlier drafts but have a few minor comments as set out below:

- Table 1: Cost areas for closeout: the Shetland row should specify that SSEH can trigger the mechanism to seek additional funding in 2023 as well as 2017.
- Paragraph 6.3: the sentence on emissions targets should state that they will only apply from **2025** and 2030 (only 2030 is referenced in the current version).
- Paragraph 6.9: this states that “Ofgem’s assessment of costs will cover the expenditure for these cost categories over the whole of RIIO-ED1”. This is not correct; the licence specifies adjustments can be proposed for regulatory years 2019/20 to 2022/23 only. We suggest this is revised to “These cost categories replace historical cost categories which were in place from 2015/16 to 2018/19. Therefore Ofgem’s assessment of costs will cover the expenditure for the new cost categories over 2019/20 to 2022/23 only.”