

Geoff Randall & Mick Watson
Ofgem
9 Millbank
London
SW1P 3GE

12 January 2016

Dear Geoff & Mick

Re: Consultation on a potential RIIO-T1 and GD1 mid-period review

This response is on behalf of our Transmission members (TOs) and our Gas Distribution members (GDNs). Many of our members will be responding as individual companies on the specific questions posed. This response is split into three sections. The first two sections deal with the issues in the proposed RIIO-T1 mid-period review and contain high level points which are common across all TOs. The last section deals with issue in the proposed RIIO-GD1 mid-period review and again outlines some high level messages common to all GDNs.

Gas and Electricity Transmission

One of the key tenets of the RIIO framework is the certainty provided by an eight year price control period and the benefits this could provide to customers in terms of securing access to lower cost finance. The risk with a mid-period review is that it creates two, four year price controls and loses some of the benefits of the longer term certainty within the RIIO model. Our TO members consider that the proposed scope of the RIIO-T1 mid-period review does precisely this. TOs do not consider that the issues Ofgem has identified justify a mid-period review on the scale proposed. To undertake such a review would undermine the certainty which the RIIO framework was designed to provide. This could undermine longer term investor confidence in a sector which the Government has highlighted requires up to £34bn of investment out to 2020¹. Our TO members would urge Ofgem to consider the longer term customer interest when assessing the scope of the RIIO-T1 mid-period review and not just the short terms benefits within the last four years of this price control.

Electricity Transmission

Our TO members consider that the hurdle for initiating a mid-period review should be set high and the issues identified by Ofgem do not necessitate a mid-period review. For example the changes witnessed since the start of RIIO (e.g. in the volume and timing of new connections) are within the range of uncertainty anticipated in the design of RIIO-T1 and can be managed through the existing uncertainty mechanism.

Our TO members acknowledge that there are some areas (such as ITPR, enhanced SO process, onshore competition and EU codes) where new outputs are evolving. However, many of these projects are still in the policy development stage, or there is uncertainty over the precise impacts they will have on licensees. Consequently, they may best be dealt with outside any mid-period review once the impacts are better known and using existing mechanisms. In addition, our TO members recognise the work required to develop asset health methodologies. However, they would highlight that there are existing work streams in place to progress these. Further guidance from Ofgem within these work streams would be helpful, as opposed to including them within any mid-

¹https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/394509/DECC_Energy_Investment_Report_WEB.pdf

period review.

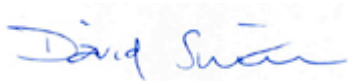
Ofgem highlight that Transmission companies do not have a consistent mechanism in relation to necessary and efficient investment in RIIO-T1 associated with the delivery of outputs in RIIO-T2. This is an area where there is a need for guidance on the treatment of projects which span a price control boundary, as opposed to requiring a mid-period review. Dealing with these issues through existing mechanisms could provide the same benefits for customers and be a better use of limited resources for Ofgem and TOs than addressing them through a mid period review.

Gas Distribution

Our GDN members agree with Ofgem's proposal for no mid-period review for RIIO-GD1. The scope of any mid-period review was clearly set out in RIIO-GD1 final proposals as driven only by material changes in existing outputs justified by changes in government or HSE policy, or the introduction of new outputs to meet the changing needs of network users. GDNs fed into the review the HSE undertook of the Pipeline Safety (Amendment) regulations (PSR). In June 2015 the HSE concluded that they are not looking to amend the PSR. Consequently, GDNs consider that the outputs set in Final Proposals remain effective measures of GDN performance. In addition, GDNs are not aware of, or received any stakeholder feedback to suggest, any new outputs which are required. Consequently, GDNs support the proposed scope of the RIIO-GD1 review and consider it is consistent with the policy decision in Final Proposals.

Our members are keen to work with Ofgem in this area. If you have any questions on the points raised in this letter, please contact mark.askew@energynetworks.org.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'David Smith'.

David Smith
Chief Executive, Energy Networks Association