

BY E-MAIL

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Your ref

Our Ref

Date

30th August 2017

Contact / Extension

Jim McOmish
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Dear Steve,

Ofgem Open Letter: ED1 Potential Mid Period Review

This response is from SP Energy Networks. SP Energy Networks holds three electricity network licences. We own and operate 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 the above Open Letter and are supportive of Ofgem's proposed timescales. In relation to the process followed, it is our view that the Scope of a Mid Period Review, which was published within the DNO ED1 final proposals, is narrow, therefore, it is likely to be difficult for Ofgem and companies alike to 'trigger' a Mid Period Review (MPR) unless there are specific changes to government policy that require to be facilitated.

We have listed below some examples of policy areas that we consider could be subjects of an MPR, but for which insufficient detail is presently available to make a final decision.

Timescales

The proposed timescales are sensible; however, we believe it is important that the MPR and the RIIO-2 Strategy workstreams are carefully considered, to ensure that key milestones do not coincide. This will ensure the companies are able to respond as best as they can, as many company resources will also be involved with RIIO-2.

We also note that you propose to consult on changes to outputs as a result of a potential MPR during the summer of 2018. We believe it is important that any consultation takes place after the 31st July, as companies resources are consumed due to the 31st of July deadline for submitting the relevant Regulatory Reporting submissions.

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Scope

“The scope of this review will be restricted to material changes to outputs that can be justified by clear changes in government policy, and the introduction of new outputs that are needed to meet the needs of consumers and other network users.”

We do not believe that any outputs meet the definition of the Scope above. However, we do wish to highlight the following areas, as these should be closely monitored by both Ofgem and companies. If the below items had clearer outcomes at this stage, we do believe they would trigger a MPR. The below items highlight the increasing uncertainty for DNOs. To date, such uncertainty has been resolved by utilising the relevant re-opener windows in the ED1 price control, however, this is likely to become more complex in RIIO-2.

1. EU Policy - Clean Energy Package

Member States are required to implement the EU Clean Energy Package into legislation by the end of 2018. The Clean Energy Package will place new obligations on network companies. For example, Electricity Regulation Article 12.6 will require Network operators to compensate renewables or high efficiency co-gen for any constraints. This would result in increased costs for Networks operators and would require increased funding as this output would be as a result of a change to Government Policy.

2. UK Government Policy - Brexit

The financial impacts of BREXIT are not yet measurable. However, there may for example be an increased risk to the financeability of network operators. This cannot accurately be measured at this stage, however, if this was measurable, this would be a MPR item.

3. UK and Scottish Government, and Welsh Assembly policies – Electric Vehicles

In BEIS’ “Upgrading our energy system: a smart systems and flexibility plan”, it states that the Government is seeking powers in the Automated and Electric Vehicles Bill to set standards for EV charging points. It is not yet clear whether any obligations will be placed on DNOs. If, for example, an obligation is placed on DNO’s to roll out charging points this would require increased funding.

The Scottish Government will continue to provide interest-free loans to enable the purchase of Electric Vehicles (EVs) until at least March 2020. This is further enhanced with the proposed introduction of a Diesel scrappage scheme by the UK Government. The scheme is likely to incentivise drivers to not buy diesel powered vehicles going forward. The UK Government has stated that clearly the UK consumer is already turning away from diesel and the UK Environment agency has indicated that it will place ban on new Diesel/Petrol vehicles by 2040. Additionally, in March 2018, The Office for Low Emission Vehicles (OLEV) will release a new strategy, leading towards a new legal framework, providing new powers to help improve electric vehicle infrastructure.

Ultimately, the above policy proposals will result in the increased uptake and potentially greater acceleration of uptake of EV's than has been previously forecast, which will have a dramatic impact on our distribution network. It has been demonstrated that the introduction of only one EV in 8 cars, will result in voltage fluctuations on the network which could interfere with and ultimately damage our customers' appliances.

The precise nature of the costs that DNOs will face as a result of this transition are unclear, and may merit new funding arrangements or uncertainty mechanisms.

4. UK Government Policy – Resilience and Black start

Wider resilience issues such as Black start and Flooding may require additional funding in the near future. DNOs will need to manage the risk associated with increased black start recovery times far beyond the 72 hours considered at ED1. BEIS have also indicated that there may be an increased requirement for network resilience to flooding.

5. UK Government Policy – Cyber Security

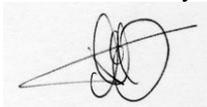
The Network Information Systems Directive, which is currently being consulted on¹, may result in increased security costs for network companies. It is not yet clear to companies what the associated costs will be. Therefore, we believe it may be helpful for Ofgem to review the relevant network companies responses to this consultation for further information. This consultation is due to close on the 30th September 2017.

Conclusion:

It is likely that the outputs associated with the issues we have mentioned above would meet the Scope of a MPR if definitive financial values and policy were associated with each at this stage. As we do not yet have clarity on the above issues, it is our view that we are not aware of any outputs which meet the Scope of a MPR at this stage. However, the policy developments detailed above clearly merit continued monitoring and may require new funding or uncertainty mechanisms to be established through the MPR process.

Please do not hesitate to contact me should you have any queries in relation to our response.

Yours sincerely



Jim McOmish
Head of Distribution Networks

¹ by the Department for Digital, Culture, Media and Sport
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/636207/NIS_Directive_-_Public_Consultation_1_.pdf