

Clothilde Cantegreil
RIIO Electricity Distribution
Ofgem
9 Millbank
London
SW1P 3GE

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Dear Clothilde,

Consultation on potential RIIO-ED1 mid-period review – timetable and next steps: A call for evidence

Scottish and Southern Electricity Networks (SSEN) appreciates the opportunity to comment on a potential Mid-Period Review (MPR) for the current electricity distribution price control (RIIO-ED1).

In Ofgem's letter dated 19 July 2017, it was noted that the scope of a RIIO-ED1 MPR has already been tightly defined in The Strategy Decision¹, which stated:

“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 networks users.”

We are in full agreement that the scope of any potential MPR should be solely focussed on outputs with any new outputs meeting the changing needs of consumers, or by changes to government policy.

Given that RIIO-ED1 benefitted from the position of being the third price control to be assessed under the RIIO framework, we believe that customer needs are being addressed by existing outputs and deemed to be fit for purpose, including the British Gas Trading appeal to the CMA² against Ofgem's price control for electricity distribution companies. As part of the

¹ Strategy decision for the RIIO-ED1 electricity distribution price control – Overview:

<https://www.ofgem.gov.uk/sites/default/files/docs/2013/03/rrioted1decoverview.pdf>

Strategy Decision for RIIO-ED1 electricity distribution price control – Uncertainty Mechanisms:

https://www.ofgem.gov.uk/sites/default/files/docs/2013/02/rrioted1decuncertaintymechanisms_0.pdf

² Energy price control appeal: British Gas Trading:

<https://www.gov.uk/cma-cases/energy-price-control-appeal-british-gas-trading>

RIIO framework there are measures in place to protect consumers from unjustified underspends on Totex by a network operator, which also protect network operators where they have incurred justifiable overspends.

During our recent bilateral meeting³, a number of issues were raised including flooding, black start, smart metering and cyber security. Our specific response to all these issues can be found in Appendix 1. Our opinion across all of these categories is that, when applying the MPR tests of Government policy changes or customer need, none of these issues are substantive enough to merit an MPR.

Allowance risks from both the consumers and Distribution Network Operators (DNOs) point of view are also addressed via a number of uncertainty mechanisms which are integral to RIIO ED1. These include Load Related Expenditure (CRC 3G), asset reliability via Secondary Deliverables (CRC 5D) and net to gross adjustment for LRE (CRC 5G).

Smart flexible networks

As an industry we are alive to the wider developments concerning the development of a smart flexible energy system. Our assessment of these future developments is that they are likely to qualify as material Government policy changes. However, while the industry is working collaboratively to develop solutions and respond to the BEIS / Ofgem consultations, these changes can not be quantified at this time. We do not believe that the industry will be in a position to identify and develop robust output measures in the short term. This therefore means that the MPR is not the vehicle through which these changes, potential new output targets and incentives, should be implemented. The development of the RIIO2 framework for Electricity Distribution is a more appropriate timeframe during which this can be considered.

In the current RIIO-ED1 price control period, specific mechanisms such as Network Innovation Allowance (NIA) and Network Innovation Completion (NIC) already exist to encourage innovation and the move towards smarter electricity networks. We will continue to explore the options available to licensees by these mechanisms.

Noting that any additional output over and above those already listed would have to be limited to material issues, SSEN believe there are no specific issues which warrant a MPR.

Proposed MPR Timetable

The proposal by Ofgem to bring forward the start the MPR process to autumn 2017 in order to allow more time to gather and incorporate stakeholder views seems a very sensible course of action, as does the decision on whether or not to proceed with an MPR in spring 2018.

³ Ofgem and SSEN bilateral on Monday 21 August 2017.

It is key to the overall process timing that stakeholder views continue to contribute to the decision on whether a MPR is required. SSEN intend to engage through existing stakeholder channels to assess the performance of the RIIO-ED1 output framework against the RIIO strategy which will hopefully help to inform this decision.

In the event that Ofgem conclude that a MPR is required we believe Phases 2 and 3 of the timetable as set out in the open later seem reasonable, with any changes to outputs and allowances effective from 1st April 2019.

Stakeholder Engagement

We agree with Ofgem on the importance of Stakeholder engagement throughout the RIIO-ED1 process and the MPR process specifically. It is important that Stakeholders are in agreement with any Ofgem decision as to whether an MPR should progress, and as noted above, SSEN is looking to undertake a health check on its progress towards meeting our RIIO-ED1 Output targets. We will undertake an extensive and inclusive programme of stakeholder engagement to understand our stakeholders' views on our performance under RIIO-ED1 so far and whether our stakeholders consider a MPR necessary.

We are encouraged by Ofgem's commitment to continued bilateral and industry wide MPR workshops and are committed to playing a constructive role in these.

Should you require any clarification on any of the points raised please do not hesitate to contact me.

Yours sincerely,

Kenny McAllister
Networks Regulation