

SSEN Distribution Response to RIIO ED2 - Draft Determination

Overview Document, 6. Adjusting allowances for uncertainty

Question ID	Q1.
Question	Do you agree with our proposal to introduce a new funding mechanism for PoLR activities?
Response	
<p>Yes, we support the introduction of a new funding mechanism for PoLR activities. We agree with Ofgem's 'rationale for consultation position' that this is necessary for DNOs to deliver obligations under Standard Licence Condition 31F (SLC 31F). We note that a wider conversation is required at industry-level to ensure the implications of DNOs acting as a PoLR in these circumstances on electricity distribution customer bills are understood and mitigated.</p>	

Question ID	Q2.
Question	What are your views on our two proposed options, and do you agree with our preferred option of a DRS?
Response	
<p>We are in principle in support of the preferred option of using Directly Remunerated Service (DRS) as the funding mechanism for PoLR activities as opposed to pass-through, and this being applied commonly to all DNOs. However, to reach a firm position of support we ask Ofgem to provide additional detail on which category of DRS PoLR activities would come under. This is not clear from RII0-ED2 Draft Determinations – Overview Document, paragraphs 6.13 – 6.22.</p> <p>Within the existing categories of DRS, we believe only DRS9 (Miscellaneous) would give sufficient latitude to cover PoLR activities, under the terms of special licence condition CRC 5C. However, we believe there is a case for amending CRC 5C to include a new category of DRS specifically for PoLR activities given the enduring and distinct nature of the requirements under SLC 31F.</p> <p>We believe this new DRS category should be identical in approach to DRS1, DRS2, DRS3, DRS4 and DRS7 in the way charges are levied, namely, reasonable costs and a reasonable rate of return on the capital outlay represented by any expenditure incurred by the licensee during the period before payment is received of any amounts due by the person requiring the service in question.</p>	

Question ID	Q3.
Question	Do you agree with our proposal to introduce a re-opener to deal with recommendations from the Storm Arwen review, our proposed trigger and re-opener window?
Response	
<p>Yes, we agree with Ofgem’s proposal to introduce a re-opener to deal with recommendations from the Storm Arwen review, noting the need to ensure that any additional requirements and changes in standards introduced through the Arwen review must be appropriately funded through the price control settlement. We also agree with the proposed trigger.</p> <p>We do not, however, agree with the setting of the re-opener window. Given the significant potential implications associated with such a review, we consider that the storm Arwen review should be prioritised, and a clear set of recommendations arrived at in the shortest possible timeframe. However, restricting application to January 2024 only would not be in the interests of consumers and lacks agility to accommodate further requirements.</p> <p>The Energy Emergencies Executive Committee (E3C’s) and Ofgem have set out a series of recommendations from their respective Storm Arwen reviews. The purpose of the re-opener is to allow DNOs the opportunity to apply to adjust their baseline allowances where they identify a change to the scope of work they expect to deliver, because of these review recommendations. However, the timing of the RIIO-ED2 re-opener proposed by Ofgem does not acknowledge:</p> <ol style="list-style-type: none"> 1. Many of the review recommendations may lead to a change in the scope of baseline allowances that can, and should, be implemented before the 2024 re-opener window. It would therefore be unfair to deprive consumers of the benefits of these works during first winter storm season of RIIO-ED2 because of administrative issues. 2. Equally some of the review recommendations may require further code and licence changes to be complete before changes to baseline allowances can be implemented. This process could extend beyond 2024 for reasons outside DNO’s control and so consumers would benefit from flexibility in the re-opener application windows so that all recommendations can be fully implemented at the appropriate time. <p>We therefore propose:</p> <ol style="list-style-type: none"> a) An exemption is made to the common Uncertainty Mechanism parameters for the Storm Arwen re-opener to set an additional application window in the last week of April 2023, which is consistent with the position for the first year of RIIO-ED2 as set out in RIIO-ED2 Draft Determinations – Overview Document, Table 9. b) Ofgem can trigger the re-opener at any point in RIIO-ED2 to accommodate the implementation of changes to the baseline which can only be implemented later in the RIIO-ED2 period for reasons outside DNOs’ control (e.g., a dependency on additional code and licence modifications). <p>Further, we also disagree with Ofgem’s proposal to apply a materiality threshold to the re-opener. We believe this is inconsistent with the approach adopted for other compliance-based re-openers such as</p>	

Physical Security and Electricity System Restoration. We therefore propose a zero-materiality threshold for the Storm Arwen re-opener.

Finally, we would urge Ofgem to ensure that the scope of the Arwen reopener and the associated licence drafting is sufficiently broad to ensure any relevant issues may be effectively addressed. There should also be a clear process and framework for determining the issues that are within scope of the review.

Question ID	Q4.
Question	Do you agree with our proposal to maintain the RIIO-ED1 High Value Project mechanism and focus it on non-load related HVPs in RIIO-ED2?
Response	
<p>Yes, aligned with our response to CORE-Q95, we agree with Ofgem’s proposal to maintain the RIIO-ED1 High Value Projects re-opener in RIIO-ED2 and focus it on non-load related expenditure in RIIO-ED2. We support continuation of a materiality threshold at £25m (12/13 prices) and a re-opener window in January 2026. However, we note the proposed re-opener window dates in RIIO-ED2 Draft Determinations – Overview Document, Table 7: 22nd January – 26th January 2026 would not allow for five working days to submit a re-opener application, so we propose Ofgem amends this to 26th January – 30th January 2026.</p> <p>We also ask Ofgem to clarify the operation of the HVP re-opener and whether this will continue to adhere to the RIIO-ED1 mechanism principles. Specifically:</p> <ul style="list-style-type: none"> • Will the re-opener apply to both baseline HVPs and new HVP projects? We note in RIIO-ED1 a materiality amount and 20% threshold for both the re-opener window and close out window, which effectively only applies for adjustments on existing HVPs. We would like Ofgem to confirm if the 20% threshold will remain in RIIO-ED2? • Whether the materiality threshold of a materiality amount and 20% threshold will apply for new HVPs? • Whether Ofgem will have the right, but not the obligation to trigger the re-opener at close out of RIIO-ED2? Additionally, if Ofgem have the ability to trigger the re-opener at the end of ED2 whether Ofgem can propose an adjustment for new HVPs? 	

Question ID	Q5.
Question	Do you agree with our proposal to remove the RIIO-ED1 smart meter volume driver?
Response	
<p>Yes, we agree with Ofgem’s proposals. In our final RIIO-ED2 business plan proposals for Uncertainty Mechanisms (Annex 17.1, section 7.2) we outlined that “we do not foresee a material deviation to our baseline costs for smart meter interventions in RIIO-ED2.” Accordingly, we see no substantive reason to continue with the Uncertainty Mechanisms, so long as sufficient baseline allowances are given to DNOs.</p>	

Question ID	Q6
Question	Do you agree with our proposed approach for a common materiality threshold being applied to RIIO-ED2?
Response	
<p>No, we do not agree with Ofgem’s proposed approach for a common materiality threshold being applied to RIIO-ED2. In the RIIO-ED2 Draft Determinations – Overview Document, paragraphs 6.48 – 6.51 and including Table 9, Ofgem sets out a proposal for a materiality threshold for re-openers at <i>“changes to allowances resulting from our assessment, multiplied by the TIM incentive rate applicable to that licensee, exceeds a threshold of 1% of annual average base revenues (as set out in Final Determinations).”</i></p> <p>However, in the RIIO-2 Final Determinations - Core Document for transmission and gas distribution, paragraphs 7.21 – 7.24 Ofgem determined a materiality threshold for re-openers at <i>“Adjustments to allowed revenue will only be made if the proposed adjustment as assessed by the Authority, when multiplied by the TIM rate, exceeds 0.5% of annual average ex ante base revenue.”</i></p> <p>No rationale has been provided in the RIIO-ED2 Draft Determinations for why electricity distribution should be subject to a higher materiality threshold than transmission or gas distribution. We believe the same arguments presented by <i>“the majority of respondents”</i> to the transmission and gas distribution and summarised in RIIO-2 Final Determinations Core Document (paragraph 7.22) equally apply to electricity distribution, namely:</p> <ul style="list-style-type: none"> • <i>“that the choice of 1% seemed arbitrary and did not represent an equitable balance in the context of a ‘low risk, low return’ price control</i> • <i>that the materiality threshold should be reduced to reflect the reduced length of RIIO-2: 5 years, as compared to RIIO-1 at 8 years.”</i> <p>We believe if Ofgem can accept a lower materiality threshold for transmission and gas distribution then it should apply parity to electricity distribution. There are no structural, administrative, or financial reasons for applying a different threshold. As such we think the common materiality threshold should be 0.5% of annual average ex ante base revenue, except where explicit exemptions apply.</p> <p>Finally, Ofgem have been inconsistent in their application of exemptions to the re-opener materiality threshold. We also disagree with Ofgem’s proposal to apply a materiality threshold to the Storm Arwen re-opener. We believe this is inconsistent with the approach adopted for other compliance-based re-openers such as Physical Security and Electricity System Restoration. We therefore propose a zero-materiality threshold for the Storm Arwen re-opener.</p>	