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1 October 2024

Dear Evan and Eliska,

Draft Determinations on RIIO-2 re-opener applications 2024: Electricity Distribution

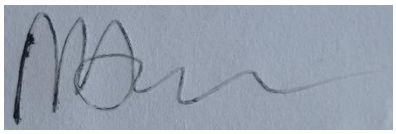
SSEN Distribution welcomes the opportunity to respond to Ofgem's consultation published on 3 September 2024 on its Draft Determinations on RIIO-2 re-opener applications made in January 2024. SSEN Distribution is the trading name of Scottish Hydro Electrical Power Distribution plc and Southern Electric Power Distribution plc. This response is being submitted on behalf of those licensees. SSEN Distribution made applications to the Storm Arwen and Hebrides and Orkney Whole System (HOWSUM) re-openers in January 2024. We provide our feedback on the specific questions posed on Ofgem's Draft Determinations for those re-opener applications in separate appendices below. We broadly welcome the proposals Ofgem has made in the Draft Determinations and recognise the work of the Ofgem teams in assessing such a range of projects across different sectors. There are a couple of key points we wish to highlight in particular in our response to the Storm Arwen re-opener Draft Determinations.

Firstly, we are concerned that Ofgem has not included an assessment of how it has been assured that none of the projects it proposes to fund under the Storm Arwen re-opener will deliver benefits to DNOs under the Interruptions Incentive Scheme (IIS), in RIIO-ED2. We were clear that our projects deliver benefits in storm conditions, not in BAU. We would like reassurance that other DNOs have taken the same approach and this is not evident in the level of detail published on DNO proposals or within Ofgem's Draft Determination. A vital element of the IIS is that targets are set based on funding levels in Final Determinations. If a DNO receives additional funding for projects which deliver IIS improvements in RIIO-ED2, the targets need to reflect this. Otherwise, customers will be paying twice, once for the project and again for the IIS performance improvement (which comes in the form of financial rewards for the DNO and its shareholders). It is therefore critical that Ofgem evidences how it is satisfied that there are no IIS improvements in RIIO-ED2 from the schemes it proposes funding, or indicates how IIS targets will move to account for the IIS improvements the schemes will deliver.

Secondly, we are concerned over how consistently Ofgem has applied its assessment of projects submitted under the Storm Arwen re-opener. This includes what it has deemed as Closely Associated Indirect (CAI) costs and removed from funding requests, as well as how it has assessed what is BAU activity and therefore what is out of scope of the re-opener. There is little detail of individual projects available to validate that Ofgem has been consistent in its approach, and the details which are available have caused us to question the level of consistency applied. We would urge Ofgem to be much clearer on these areas ahead of its decision.

Again, we welcome Ofgem's engagement throughout the development of our re-opener applications. If you have any questions in relation our response, please do not hesitate to get in touch.

Yours sincerely,



Mark Askew
Head of Regulation, SSEN Distribution

Appendix 1: SHEPD Hebrides and Orkney Whole System Uncertainty Mechanism (HOWSUM) re-opener application – background and specific comments

Background and context to Hebrides and Orkney Whole System Uncertainty Mechanism and application

HOWSUM was implemented as part of the RIIO-ED2 suite of uncertainty mechanisms, to allow SHEPD to request additional funding for costs associated with the outcomes of additional whole system analysis and ensuring security of supply in the Scottish islands. Two windows were defined in our licence, in January 2024 and January 2025.

The Scottish island groups share common drivers for change but form geographically and electrically separate areas, with more interactions with the adjacent sections of the Scottish mainland than with each other. Recognising this, we have applied a similar methodology to the three main island groups of the Outer Hebrides, Inner Hebrides (Mull – Coll – Tiree and Jura – Islay) and the Orkneys. However, we have progressed each area separately, subject to specific island group drivers. This approach allows us to adapt the options developed to meet the need of specific communities and industries, whilst also allowing us to understand and leverage learning opportunities from our approaches. Across all three island groups we have considered future system needs through to 2050. We are taking a whole system view to understanding the future energy needs and ensuring our proposals consider factors such as transmission developments, the use of flexibility and emerging technologies.

This approach informed the targeted use of the re-opener windows as follows, focusing first on near-term least regrets options requiring to be progressed in RIIO-ED2, and subsequently on longer term whole system requirements, encompassing necessary capacity increases, and long-term resilience.

	January 2024 re-opener		July 2024 addendum		January 2025 re-opener		ED3 and beyond	
	Needs case, technical solution	Costs	Needs case, technical solution	Costs	Needs case, technical solution	Cost	Needs case, technical solution	Cost
Pentland Firth East 3 (Cable solution implemented)	✓	✓	-	-	-	-	-	-
Uist-Eriskay solution (Causeway solution recommended)	✓	✓	-	-	-	-	-	-
Eriskay-Barra solution (Cable solution recommended)	✓	✓	-	-	-	-	-	-
Skye-Uist solution (Cable solution recommended)	✓	-	*	✓	-	-	-	-
Skye-Harris solution (Cable(s), flexibility, alternative solutions proposed)	Outline information subject to further whole system optioneering		-	-	✓	✓	✓	✓
Next phase Outer Hebrides solutions	-	-	-	-	✓	✓	✓	✓
Next phase Inner Hebrides solutions	-	-	-	-	✓	✓	✓	✓
Next phase Orkney solutions	-	-	-	-	✓	✓	✓	✓

* Delivery optimisation proposals included in July 2024 addendum.

Figure 1 – Scottish islands re-opener approach

January 2024 application

Our January 2024 application focused primarily on the near-term needs of the Outer Hebrides, recommending specific interventions for South Uist-Eriskay, Eriskay-Barra and Skye-Uist-Harris. It also addressed the Pentland Firth East 3 (PFE3) project which is now complete, as mitigation to an unexpected fault in 2022.

- *Phased approach for Skye-Uist*

We requested a phased assessment for the Skye – Uist project, whereby we submitted the Needs Case / Preferred Option in the January 2024 application, and submitted the formal cost element in July 2024. This was agreed with Ofgem to allow us to secure estimated pricing from the market through a procurement process. This approach has allowed Ofgem to assess our technical solutions and for all projects for which cost submissions were included in the January 2024 application (all projects except Skye – Uist), and a consultation on Skye – Uist is expected to follow this Autumn.

- *Pentland Firth East (PFE) 3 context*

We applied for retrospective funding for the PFE3 solution in the January 2024 application. PFE3 was energised in 2023/24. The inclusion of PFE3 in HOWSUM was agreed with Ofgem as part of RIIO-ED2 Final Determinations. PFE3 was a reactive cable replacement under fault conditions. We did not anticipate early failure given the cable had been in operation for only 3 months. Therefore, we did not have detailed whole system plans for its future replacement at that stage. Our priority was to secure supplies quickly, given the significant supply, export, cost and carbon risks being carried.

ED.Q1 Do you agree with our assessment of the needs case for the projects under Hebrides and Orkney Re-opener submission

We **agree** with Ofgem's assessment that there is a need for the individual projects submitted in our January 2024 re-opener application, with the following specific needs cases:

- For South Uist - Eriskay, the existing cable has a high network risk and is in need of replacement, and there is associated impact / cost should the cable fail in service;
- For Eriskay – Barra, the existing cable is in poor condition and predicted to decline to HI5 within ED2; and
- For the PFE3 project, there was a need for the replacement solution of the faulted PFE2 cable, which unexpectedly failed in January 2021, in order to maintain security of supply to Orkney.

We note that in line with our phased Skye – Uist application, Ofgem's assessment of need for that project will follow in a subsequent consultation.

ED.Q2 Do you agree with our assessment of the preferred option for the projects under the Hebrides and Orkney Re-opener submission?

We **agree** with Ofgem's assessment that SHEPD has considered all viable options and, in arriving at our preferred options, that we have correctly rejected the ones that are less optimal from a consumer perspective. Ofgem has agreed with the following preferred options:

- For South Uist – Eriskay, replacing the existing subsea cable with a land-based solution through the Eriskay causeway (150mm^2 7MVA), where Ofgem has confirmed that the land-based solution is cheapest and is adequately sized for the future;
- For Eriskay – Barra, augmenting the existing cable with the same size (95mm^2) cable, where Ofgem has agreed the proposed cable is sufficient to meet forecast demand to 2050 and that augmentation ahead of existing cable failure provides additional resilience and is in the interest of the consumers; and
- For the PFE3 project, the selection of a 33kV 500mm^2 subsea cable rated at 35.5MVA, where Ofgem has confirmed that the preferred option is acceptable based on short term cost of the risks.

We note that in line with our phased Skye – Uist application, Ofgem's assessment of preferred options for that project will follow in a subsequent consultation.

With reference to PFE3, Ofgem notes its view that the selected cable size rules out a number of possible long-term options for the whole system solution for the Orkney islands, and it will determine if there is any detriment to the long-term interest of consumers by requesting cost benefit analyses to compare future investment proposals with the counterfactual where a larger size cable had been installed, and may adjust the funding level for future investment if it identifies quantifiable detriment.

We remain firmly of the view that the selected cable size was the most appropriate choice readily available under fault conditions, and to avoid further unnecessary delays in implementing a replacement solution. This is supported by the assessments of options, costs and risks reviewed by Ofgem to date, demonstrating that it would take at least two years to facilitate the selection of larger cable options. This would have meant two years of reliance on the reconnected PFE 1 cable which had already faulted twice. Given the risk on that cable and subsequent customer and cost impact associated with it faulting, our CBA analysis shows that our decision to secure supplies as quickly as possible outweighs any potential avoided future costs in scenarios where larger cables are required. In this context, and given Ofgem agrees with our assessment, we are unclear on what basis Ofgem should compare future investment proposals with larger counterfactuals, or on what basis it can adjust the funding level for future investment. We have to take decisions based on evidence available at the time and this would be retrospective. We will work with Ofgem on the Orkney whole system proposals over the coming months, ahead of our submission in January 2025, and it is clear to us that PFE3 will play a substantive role in Orkney's whole system solution.

Ofgem has also noted that we should ensure adequate consideration of larger / high voltage subsea cables for future submissions, and that for other projects with a longer planning horizon, it expects we should arrange necessary type tests for larger 33kV and 66kV subsea cables so that a comprehensive list of options is available for consideration which can be immediately progressed, rather than type testing while optioneering.

In order to pass a type test, a section of the specified cable must be manufactured and undergo various tests, including an accelerated ageing test (which can take up to 2 years). Type tests are specific to each cable manufacturer and cable specification, therefore even if SHEPD held an approved type test for 66kV cable with a manufacturer, there are no guarantees that this supplier would win a tender for future cable supply under planned or unplanned events. Undertaking type testing with a multitude of possible future manufacturers would be expensive, and we do not have assigned funding for this in RIIO-ED2. These combined aspects make it very challenging to have these in place in unplanned events, such as the fault on PFE2. We are assessing the process, costs and benefits associated with type testing to understand how to progress this in an optimum way. We have been actively engaging

with suppliers to understand if there are existing type tests on similar kinds of cables, and whether and how we could do a gap analysis on non-type tested cables and undertake partial tests to achieve fully type tested options. SHEPD also require to be commercially sensitive with this process, as undertaking this exercise with an individual or specific supplier could mean giving an unfair advantage within future regulated tender events. We also note that under different contract types the contractor is responsible for the procurement and supply of the submarine cable and SHEPD cannot dictate which suppliers must be used.

There are procurement, delivery and operational factors to assess when optioneering network asset sizes. The majority of SHEPD's network is developed at 33kV, and as a result future interventions at that voltage level benefit from a range of efficiencies associated with maintaining a standard voltage given existing procurement processes, established supply chain partners and availability of 33kV-compatible assets, stock of procured assets, compatibility with the existing network, and staff trained to install, operate and maintain the network at that voltage. There are potential inefficiencies associated with moving to 66kV, one example being the requirement to install transformers to enable stepping up and down to convert between 33kV and 66kV. However, there may be benefits in some cases, where supported by the needs case and DFES, to bypass 66kV and instead implement 132kV solutions, which are already utilised within SSEN. We also highlight that for the Scottish islands, given the nature of the environment, impact of loss of supply and challenges with fast network restoration, combined with uncertainty on demand projections, there may be greater benefits in increased resilience through implementation of multiple smaller cables, as opposed to fewer larger ones.

ED.Q3 Do you agree with our assessment of the efficient costs of projects under the Hebrides and Orkney Re-opener submission?

We **agree** with Ofgem's position that the costs submitted for the individual projects are efficient, and note that Ofgem has not provided any specific commentary on individual project costs other than to note that it has adjusted the costs for ongoing efficiency in line with RIIO-ED2 Final Determinations.

We ensured the recommendation of cost-efficient interventions through the following means:

- For South Uist – Eriskay, the cost estimates that have been presented for delivery of the submarine cable have been compiled using SHEPD internal RIIO-ED2 unit rates for the associated onshore assets which aligns with the costs of recent comparable works. CBA was carried out for all options. The preferred option was confirmed as significantly cheaper than any of the submarine cable solutions, whilst delivering maximum consumer and network benefits. This solution is also anticipated to have an extended asset life over a subsea cable solution.
- For Eriskay – Barra, the cost estimates that have been presented for delivery of the submarine cable have been compiled using Ofgem's defined RIIO-ED2 unit rate for HV subsea cables. CBA was then carried out for all options, confirming the preferred option based upon NPV, and delivering maximum consumer and network benefits.
- For PFE3, we have submitted outturn costs for the project, which was subject to an open market competitive tender and subsequently evaluated to ensure the most efficient and technically capable bid was selected. SHEPD delivered the project for less than the initial project estimate.

We note that in line with our phased Skye – Uist application, Ofgem's assessment of cost efficiency for that project will follow in a subsequent consultation.

ED.Q9 Do you agree with Ofgem's assessment of SSEN's request for allowances? (HOWSUM only)

We **broadly agree** with Ofgem's assessment but note the following points. We note that Ofgem has adjusted costs for ongoing efficiency in line with RIIO-ED2 Final Determinations (1.0%). This adjustment is captured below (Table ED2 from the ED Annex) as a £0.11m reduction to the Eriskay-Barra project. The defined unit rate for HV Sub Cable is already extremely difficult to achieve, given significant market challenges since ED2 Final Determinations. We are seeing significant cost increases across subsea works and are delivering projects as efficiently and effectively as possible, including bundling and campaigning of planned and reactive works. These delivery strategies are being maximised to give us the best chance of delivering to the unit rate, but are extremely challenging. Reducing this allowance is highly likely to mean we will be underfunded on this project. We would ask that under these circumstances Ofgem consider these implications and remove this reduction for Eriskay – Barra, reverting back to our original ask of £11.25m.

Table ED2: Draft Determinations on the Hebrides and Orkney Re-opener submissions in 2024

Sector Group	Network	Company Proposed Project	Company requested - Forecast costs (£m)	Ofgem's DD - Cost adjustment (£m)	Ofgem's DD -Allowances (£m)
Scottish and Southern Energy	SSEH	SSEN-D Pentland Firth East 3 (PFE3)	34.67	-	34.67
Scottish and Southern Energy	SSEH	SSEH South Uist-Eriskay solution	0.36	-	0.36
Scottish and Southern Energy	SSEH	SSEH Eriskay-Barra solution	11.25	-0.11	11.14

We also note that in Appendix 3 of the ED Annex (below), the total proposed modification to licence term HOt is £45.81m, implying a reduction to funding of c.£0.47m rather than c.£0.11m. We understand through engagement with Ofgem that the correct proposed reduction is £0.11m, and the total proposed allowance adjustment is £46.17m, as reflected elsewhere in the consultation. We would welcome Ofgem implementing this correction in its Final Determinations.

Appendix 1

Uncertain Costs without Evaluative Price Control Deliverables allowances (£m)

	23/24	24/25	25/26	26/27	27/28	Total allowance (all years)
$PSUP_t$	0	0	0	0	0	0
REC_t	0	0	0	0	0	0
ESR_t	0	0	0	0	0	0
EVR_t	0	0	0	0	0	0
SWR_t	0	0	0	0	0	0
$DIGI_t$	0	0	0	0	0	0
SAR_t	0	0	0	0	0	0
LRE_t	0	0	0	0	0	0
HVP_t	0	0	0	0	0	0
WDV_t	0	0	0	0	0	0
HO_t	~~0~~34.67	0	0	~~0~~11.14	0	~~0~~45.81
SES_t	0	0	0	0	0	0
$SEFEC_t$	0	0	0	0	0	0

Appendix 2: Storm Arwen reopener - background and specific comments

Background and context to Storm Arwen re-opener and application

Our submission under the Storm Arwen reopener focused on the Ofgem and E3C recommendations that most closely related to the challenges we faced during Storm Arwen, and where we have a clear plan for how to deliver improvements to customers. We sought £10.48m (in 2020/21 prices) to deliver these improvements across five projects:

- Our **Restoring Overhead Line Resilience (ROLR**) project focuses on managing the risk left by Storm Arwen in areas of our network that pass through dense forestry, targeting actions at those sites which sit outside of our BAU work pipeline. This is proposal 1 in Ofgem's Draft Determination;
- Our **HV Feeder Monitoring** project targets investment in technology to improve our ability to locate faults on the HV network, by providing more detailed information about the possible location of a fault, enabling faster restoration of customers during storms. This is proposal 2 in Ofgem's Draft Determination;
- The **Wood Pole Assessment Tool (WPAT)** project covers the roll out of dedicated, scientific tools to give consistent and accurate measurements of the condition of wood poles across our network. This is proposal 3 in Ofgem's Draft Determination;
- The **Low Earth Orbit satellite communication systems** project looks to address communication issues with our staff who work in our regions that suffer from these issues, again speeding up the overall restoration time for faults in these locations. This is proposal 4 in Ofgem's Draft Determination; and
- Finally, we explored opportunities to provide **interconnection across the network boundary**, to target interventions that benefit both us and Scottish Power Energy Networks. This is proposal 5 in Ofgem's Draft Determination

ED.Q4 Do you agree with Ofgem's assessment of the cross-boundary interconnectors proposals and the proposed funding adjustment?

We **agree** with Ofgem's assessment.

ED.Q5 Do you agree with Ofgem's assessment of the vegetation management proposals and rejecting the requests for an allowance?

We **do not agree** with Ofgem's assessment of the vegetation management proposals.

We recognise Ofgem's position that proposals relating to vegetation management, particularly where they relate to the anticipated updates to the ETR 132 technical standard, should not be funded through this re-opener. If there is a material change in the standard that all DNOs are required to work to (i.e. what we are expected to deliver through our baseline allowances), then we believe it is appropriate to review whether the allowances remain sufficient once that update is clear. We agree that, until the updates to ETR 132 are confirmed, DNOs should continue to use existing budgets to manage their work volumes.

We also agree with Ofgem's view that some of the other DNO projects put forward under the theme of vegetation management did not meet the recommendation. This is based on our understanding that these other projects constituted an expansion of the tree cutting programmes that DNOs were funded for through RIIO-ED2 Final

Determinations. The Storm Arwen re-opener was not, in our view, designed to expand BAU activities further or add to existing allowances, and we agree that projects which are looking to do that should not be funded through this re-opener.

However, we do not agree that our ROLR project is equivalent to BAU vegetation management. As set out in our submission, ROLR focuses on removing risk from the overhead line network which was directly caused by Storm Arwen. While we recognise that this activity runs in close parallel with our BAU vegetation management activities, the important distinction between the two is that the ROLR project is not about the routine maintenance of cutting trees. The project is about clearing half fallen trees which pose an active risk to the network, and ensuring these are not causing further issues for other parts of the network by restricting access. This project would allow us to clear these sites, without impacting our delivery of BAU vegetation management activities, and helping to mitigate or avoid unnecessary delays in restoring supplies around this part of the network. Without funding for this activity, we will need to take a risk-based approach on which volumes of work we undertake in ED2.

Considering this against Ofgem's original intention of the reopener, we believe the ROLR project delivers on all of Ofgem's main criteria. It delivers quick benefits for customers in that we can ramp up delivery to begin clearing these sites as soon as we have sourced the necessary equipment. It will deliver real, tangible benefits by improving the resilience of the network, as well as ensuring we are not delayed in restoring supplies at these sites because of access issues. It will allow us to prepare for, and respond to, future storms by ensuring we have managed these sites to reduce the risk of overhead line faults due to vegetation.

We would also highlight that this project is focused on very similar scenarios to other projects that Ofgem has proposed to fund through the Storm Arwen re-opener. NGED's 'Undergrounding HV OHL in wooded areas' project is focused on reducing the risk to overhead line in wooded areas to "*remove the risk of tree damage or avoid other damage caused by storms*".[1] Our ROLR project is focused on the exactly the same theme. Both projects are looking to strengthen the network in locations identified as being at risk of the impacts of a storm – ROLR addresses the source of the risk, and NGED's project moves the network assets underground, as part of a longer-term investment programme. We consider it is only right that both projects are treated in the same way. Therefore, we are unclear on why ROLR is deemed out of scope for the Arwen re-opener. We urge Ofgem to reconsider and set out why its exclusion is consistent with its minded to decisions on other DNOs' projects to remove the risk of tree damage.

ED.Q6 Do you agree with Ofgem's assessment of the Temporary Power Sources proposals and rejecting the requests for an allowance?

We **agree** that requests for additional temporary power sources should be rejected. Temporary power sources are part of a DNO's BAU activity, and it is up to DNOs to decide how many temporary power sources to acquire and deploy. We also agree that they have a significant role to play outside of storms, such as in planned works or other BAU activities, and funding their use through this re-opener would be an inappropriate use of customers' money.

ED.Q7 Do you agree with Ofgem's assessment of the Customer Care and Welfare proposals and rejecting the requests for an allowance?

We **agree** that Customer Care and Welfare proposals should be rejected. While these are laudable proposals to support customers, we agree with Ofgem's conclusion that these are largely discretionary activities that DNOs carry out and are not required by Ofgem.

[1] Page 53 of Ofgem's RIIO-2 Re-opener Applications 2024 Draft Determinations – ED Annex

ED.Q8 Do you agree with Ofgem's assessment of ENWL's request for allowances?

We **broadly agree** with Ofgem's assessment of ENWL's request for allowances under the Storm Arwen re-opener. However, as articulated later in this response, without seeing more granular detail of the cost breakdown of specific projects, we are unable to validate that Ofgem has been consistent in its assessment of what constitutes CAI costs and been removed from funding requests. We would therefore like to see these details set out so we can be assured that Ofgem has been consistent in its treatment of costs.

ED.Q9 Do you agree with Ofgem's assessment of SSEN's request for allowances? (Storm Arwen only)

Proposal 1: We **do not agree** with Ofgem's assessment of this proposal, as set out in our answer to ED.Q5. The ROLR project is not equivalent to those projects included under the 'vegetation management' section of Ofgem's consultation. The ROLR project is distinct from BAU vegetation management activities in that it is about clearing half fallen trees which pose an active risk to the network, and ensuring these are not causing further issues or other parts of the network.

Proposal 2: We **partly agree** with Ofgem's assessment of this proposal. We strongly believe that a consistent and fair assessment of projects is central to the re-opener process. We welcome Ofgem's scrutiny of all DNOs' submissions. However, we are concerned that Ofgem's justification for proposing to fund (or not to fund) particular projects is not consistent. While we have not had sight of the detailed Cost Benefit Analysis (CBA), Engineering Justification Papers, or other supporting information that was not published by other DNOs, Ofgem's assessment appears to be inconsistent across potentially comparable projects.

The costs Ofgem has excluded from our HV Feeder Monitoring project are crucial to the successful implementation of these devices. They are not CAIs, but instead are the operational costs of installing and maintaining the assets. Ofgem has rejected the costs of coordinating and managing the installation of the devices, establishing the IT systems needed to manage the data from the devices, and dedicating staff time to analysing the data from the devices and utilise these in responding to faults. This means we would be funded to install a series of assets that are effectively stranded before they can even be used.

Ofgem has justified excluding these costs on the basis that they are CAIs and set out that they do not believe these costs are in the scope of the Storm Arwen re-opener. Special Licence Condition 3.2 (Part I) does not specify that CAIs are either within or outside the scope of the UM. Further, Ofgem's Re-opener Guidance and Application Requirements Document is clear that costs "*must be provided in accordance with the following requirements…: on a gross basis including both direct and indirect costs except where the Re-opener mechanism is listed under the opex escalator (for GT and ET) or indirects scaler (for ED) term, where only direct costs should be included.*"[2]

The Indirects Scaler term in Special Condition 3.12 does not list SARt (the Storm Arwen term) as a term as part of the calculation. We therefore do not believe there is any reason why CAI costs should be excluded from the scope of the Storm Arwen re-opener. Ofgem's consultation also notes that Ofgem "*applied the Indirects Scaler to load related UMs only in our RIIO-ED2 Final Determination*". Again, given Storm Arwen is not a load related re-opener, or in the remit of the Indirects Scaler as set out in the licence, we do not believe CAIs should be excluded from the Storm Arwen re-opener. If Ofgem maintains the position that these are CAI costs, we expect Ofgem to set out which element of CAIs these constitute, and why they are not in scope of the Storm Arwen re-opener.

[2] Paragraph 3.20 of Re-opener Guidance and Application Requirements Document (ofgem.gov.uk)

Coming back to these specific costs, our current processes and resourcing cannot support the increased volume of data and faults, particularly in storm conditions when this device will deliver benefits. To ensure we are efficiently processing the data and getting results, we need to establish the right IT environment. We were transparent in our application about the detail of these costs and the need for them, providing the detailed breakdown of costs that is required by the re-opener guidance.[3] There is an uneasy optic to Ofgem's assessment, in that we were the only company to provide a detailed cost breakdown of the activities involved in installing and utilising these monitoring devices, and we were the only company to receive any form of reduction to our submitted costs for these projects.

By not providing funding for the operational IT and staff costs of using these devices, we feel Ofgem expects us to use our baseline RIIO-ED2 funding to deliver services beyond baseline activities. This puts even greater pressure on existing budgets within the price control, risking our ability to deliver the baseline activities we were funded for through the price control. Ultimately this means there is a high likelihood that faults detected using the HV Feeder Monitoring devices will not be modelled, processed or located. These are the stages through which customers benefit from this project.

Separate, but linked to this, is that we are concerned that Ofgem has not applied proposed adjustments for CAI costs in a consistent way across DNOs. Ofgem has specifically called out the operational costs of our HV Feeder Monitoring project as CAIs and excluded these costs. By contrast, in its assessment of Northern Powergrid's (NPg) proposal 16 (Install Remotely Indicating Fault Flow Indicator (RIFFI)), Ofgem has stated that it is minded to accept all of this funding request. Page 42 of NPg's submission states that "*the increasing overhead line resilience… initiative includes a request for the indirect costs associated with delivering this capital investment, to cover costs such as design, project management, and clerical support*". While we haven't seen a breakdown of these costs, these types of activities would usually fall to CAI. Therefore, Ofgem needs to be clear why these are funded but our ROLR costs are not. There is not sufficient detail in the Draft Determination to enable a clear comparison across these projects. However, to ensure consistent treatment, Ofgem needs to set this comparison out in its decision.

Proposal 3: We **disagree** with Ofgem's assessment of this project. Ofgem's assessment of our WPAT project concluded that the cost of the proposal was not proportionate to the benefit. Ofgem recognised that the project met the Storm Arwen recommendations, and that the tool would deliver improvements in the condition reporting of our overhead poles.

Our CBA looked at the number of HV faults caused by ageing and wear of wood poles and assumed that these would be reduced by one eighth per year, over eight years – this was based on an eight-year asset inspection cycle which means all wood poles are inspected across an eight-year period. It also assumed that both pole inspections and pole failures would happen linearly across the year. Therefore, we assumed we would be able to intercept half of the failures in each year of the eight-year inspection cycle, which we rounded down to produce the 10 pole failures per year.

Alongside this response, we have now updated the CBA to include the avoided fault costs from more accurately detecting degrading poles, alongside the avoided cost of replacing poles which are healthy. Once these accrued benefits are taken into account, it illustrates a benefit of around £8m over a 10-year period (roughly the asset-life of the WPAT) and £10m over full 45 year period. This is a significant benefit given the investment costs being sought. While we have used CI and CML as a proxy for the benefits, these would likely be realised under storm conditions when the exceptional event threshold is triggered and therefore would not accrue to us as the DNO. We would expect

[3] Paragraph 3.20 of Ofgem guidance document includes the following detail: "*The cost evidence in the Re-opener application must be provided in accordance with the following requirements: …in a sufficient level of detail to clearly demonstrate how overall values were derived and in a way that can be easily replicated, including the use of transparent formulae; with key cost drivers explicitly identified and justified.*"

that most pole failure of this type would occur in severe weather. However, the CBA shows that over 9,200 customers will benefit from these avoided interruptions in RIIO-ED2 in storm conditions.

We have included the revised CBA with our response (*'Avoided Costs Wood Pole Assessment Tool (WPAT) CBA V2.xlsx'*) and are happy to walk the Ofgem team through the CBA to understand the logic and assumptions made. Please note we consider the CBA as confidential and not to be published.

Proposal 4: we **partly agree** with Ofgem's assessment. While we disagree that these are BAU costs, we agree that the solutions should be explored further to understand what they mean for DNOs and how this may be considered alongside initiatives from mobile network operators, Ofcom and Government.

Proposal 5: we **agree** with Ofgem's recommendation.

We have two further points to make in relation to the submissions more generally.

- *Inconsistent interpretation of scope of the Storm Arwen reopener*

We have concerns about the implications of Ofgem's minded-to decisions across the Storm Arwen re-opener. There appears to be some confusion about, and inconsistency in interpretation of, the scope of the Storm Arwen re-opener. Ofgem gave clear direction that it should be focused on projects that deliver quick solutions or benefits for customers, and that are going beyond BAU activities. However, we are unclear how this has been applied within its Draft Determination.

- *IIS benefits*

For many of the projects put forward under the Storm Arwen re-opener, the focus is on increasing resilience of the network in order to enhance the reliability of service which customers receive. These are often focused on a reduction in the number of interruptions to customers' supplies, and / or the duration of any interruptions. It is important to understand the benefits these projects bring, to ensure the investments are providing value for money, as Ofgem has highlighted in its assessment.

We were very clear that the scope of our projects would not result in IIS improvements delivered through these projects. This is because the benefits are realised under storm conditions, where we do not receive the benefits. For example, our HV Feeder Monitoring project will realise the benefits during storms, through improved response and restoration times. While this has the potential for proactive detection of upcoming faults, these will not be realised without further funding in RIIO-ED3. We discussed this with Ofgem through the bilateral engagement held after our submission.

Ofgem is duty bound to ensure that it has thoroughly assessed whether any reliability improvements to customers which can flow from projects funded in this (or other) re-openers will drive improved performance against the IIS targets in RIIO-ED2. IIS targets for the price control were set based on baseline allowances that enable DNOs to deliver that target level of performance, and the incentive drives DNOs to seek out efficient ways of delivering further reliability improvements. This critical assessment is missing from the Draft Determination and needs to be completed ahead of a decision to ensure that the IIS continues to operate on a level playing field.

Without this assessment there is a risk that other DNOs are able to deliver additional reliability improvements, beyond those funded in baseline allowances. This means there will be an unlevel playing field, meaning customers in one part of the country are paying for an improved level of reliability twice – once through the funding provided in the re-

opener, and again through any reward the DNO earns under the incentive. It is crucial that Ofgem ensure customers are not financing new projects that will enable DNOs to earn additional revenue from customers through the IIS.

ED.Q10 Do you agree with Ofgem's assessment of NPg's request for allowances?

We broadly agree with Ofgem's assessment of NPg's request for allowances. However, as articulated earlier in this response, without seeing more granular detail of the cost breakdown of specific projects, we are unable to validate that Ofgem has been consistent in its assessment of what constitutes CAI costs and been removed from funding request. We would therefore like to see these details set out so we can be assured that Ofgem has been consistent in its treatment of costs.

ED.Q11 Do you agree with Ofgem's assessment of SPEN's request for allowances?

We broadly agree with Ofgem's assessment of SPEN's requests for allowances. However, as articulated earlier in this response, without seeing more granular detail of the cost breakdown of specific projects, we are unable to validate that Ofgem has been consistent in its assessment of what constitutes CAI costs and been removed from funding request. We would therefore like to see these details set out so we can be assured that Ofgem has been consistent in its treatment of costs.

ED.Q12 Do you agree with Ofgem's assessment of NGED's request for allowances?

We broadly agree with Ofgem's assessment of NGED's requests for allowances. However, as articulated earlier in this response, without seeing more granular detail of the cost breakdown of specific projects, we are unable to validate that Ofgem has been consistent in its assessment of what constitutes CAI costs and been removed from funding request. We would therefore like to see these details set out so we can be assured that Ofgem has been consistent in its treatment of costs.

ED.Q13 Do you agree with Ofgem's assessment of UKPN's request for allowances?

We broadly agree with Ofgem's assessment of UKPN's requests for allowances. However, as articulated earlier in this response, without seeing more granular detail of the cost breakdown of specific projects, we are unable to validate that Ofgem has been consistent in its assessment of what constitutes CAI costs and been removed from funding request. We would therefore like to see these details set out so we can be assured that Ofgem has been consistent in its treatment of costs.

General re-opener considerations

- *Re-opener consultation approach*

With reference to Ofgem's approach at this stage of consulting on Draft Determinations across RIIO-2 re-opener applications in bulk, we consider there are helpful aspects to this approach, such as providing stakeholders with a 'read-across', enabling them to readily identify and compare proposals and outcomes across all relevant licensees and re-opener applications. However, we can also envisage it being more challenging for stakeholders to find information on specific proposals, such as a given island project, if effectively hidden within a number of different documents.