

Interested parties

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Opex Escalator– Statutory Consultation on Licence Changes

In our RIIO-2 Final Determination¹, we set out our decision to create an Opex Escalator licence condition that would create an uplift to both Closely Associated Indirects (CAI) and Network Operating Costs (NOC) revenue allowances for the listed applicable Uncertainty Mechanisms (UM). This allowed for a mechanistic calculation of the efficient uplift to CAI and NOC allowances for each UM based on the methodology employed in setting CAI baseline allowances in our RIIO-2 Final Determination² and the historical relationship observed between NOC and asset additions.

The purpose of this statutory licence consultation is to seek stakeholder views on the proposed modification to Special Condition 3.36 (Opex Escalator) of the Electricity Transmission Licence (the licence) that is required to implement our revised position on the applicability of the Opex Escalator to certain UMs.

The licence condition

The proposed modification to the licence required to implement our decision is available alongside this letter. We are proposing to amend Special Condition 3.36 (Opex Escalator) of the licence to remove the Large Onshore Transmission Investments (LOTI) term from the list of applicable UMs subject to the opex escalator.

Reason and effects

¹ Pg 57 [ET Final Determination](#)

² [ET Final Determination](#)

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The reason for the proposed modification is that the bespoke nature of LOTI projects makes them unsuited to a mechanistic CAI/NOC uplift. For example, in our review of the SHET (Scottish Hydro Electric Transmission Plc) Shetland HVDC Link Project submitted through the LOTI reopener application³ we have seen evidence of CAI costs that would not normally be found in a typical Transmission infrastructure project. These were not present in the historical capex programme and associated CAI costs that our RIIO-ET2 baseline allowances were predicated on. Similarly, NOC costs for such projects are not representative of the historical trends or unit cost assumptions made in our RIIO-2 Final Determination.

We are also aware that under certain procurement models, particularly those utilised for large atypical projects such as the Shetland HVDC Link Project, it can be difficult to separate out direct and indirect costs. Allowing for a more bespoke assessment of these costs enables Ofgem to take an holistic view of how and where costs are allocated within the project so we can ensure they are not being funded twice. Accordingly, we have decided that it would not be appropriate to apply the opex escalator to LOTI projects. Instead, we will remove the reference to LOTI projects from the opex escalator mechanism and determine the funding of CAI costs and any applicable NOC uplift on a project specific basis as part of each LOTI re-opener decision.

Responding to this consultation and next steps

Stakeholders are invited to provide views on the proposed modifications published alongside this letter by 27 September 2021. Responses should be sent to mark.cassidy@ofgem.gov.uk, and copying in RIIO2@ofgem.gov.uk

Subject to feedback received via this consultation, the table below provides an indicative view of the next steps towards the finalisation of the Opex Escalator licence condition.

Milestones on the licence change	Date
Publication of this statutory consultation	27 August 2021
Deadline for responses to statutory consultation (28-day consultation)	27 September 2021
Ofgem decision to modify licence (thereafter 56-day standstill)	End October 2021

³ Special Condition 3.13: Large onshore transmission investment Re-opener (LOTIAt and LOTIREt) of SHET's Electricity Transmission Licence

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Licence comes into effect	End December 2021
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Yours faithfully,

Min Zhu

Deputy Director, Electricity Transmission, Networks

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