

Consultation on the closeout methodologies for RIIO-T1 – SPT Response

28th February 2022



Internal Use

Appendix 1

The responses relevant to SP Transmission plc (SPT) are detailed in Appendix 1. Our review of the consultation identified an ambiguity in the relationship between questions and chapters (reference Appendix 1 of the Consultation). We have set out how this has been dealt with in Appendix 2.

CHAPTER 2. APPROACH TO FINANCIAL MODELLING METHODOLOGIES

Question 1: Do you agree with the proposed process in determining any financial revisions for the RIIO-ET1 closeout, including the phasing of the impact?

We agree in principle with the proposed approach set out by Ofgem in relation to the legacy revisions as this closely follows what was done for the true up in relation to the WHVDC project in 21/22.

We also believe it would be appropriate to smooth the impact over the remaining years of the T2 price control (23/24 ,24/25 & 25/26). It would be helpful if Ofgem could provide the proposed models so that we could test these to ensure that there are no further unintended consequences from extending the model, for example around the true up of inflation (TRUt) that may be required due to the proposed extension.

Question 2: What are your views on what should, or should not, be finally incorporated into the financial handbook?

We believe it would be beneficial that the legacy process (i.e. methodology) outlined within the close out document should be added to the Financial Handbook to ensure that this is captured for future reference. The close out process is currently captured within the handbook but could be extended to cover new features such as the smoothing principle that Ofgem has proposed or importantly any new terms Ofgem need to create to capture any new adjustments proposed as part of the close out document. This would require changes to the following paragraphs to reflect the close out document Table 8.1, paragraph 8.25 or there could be a new section added after paragraph 8.35 which would cover any new terms that are not currently covered by table 8.1 and to cover off the calculation process for updates that will apply to revenues for AIP 2022 , 2023 & 2024.

CHAPTER 3. ADJUSTMENTS TO TRUE-UP WITH CONNECTION PAYMENTS

Question 3: Do you agree with our proposed methodology for determining the connection activity adjustment?

We agree in principle to the proposals around the true up of both connections related contributions and annual charges, however, we do not believe the proposals in their current form reflect the required true up as stated. The principle of the adjustment is that in relation to connections activity neither party (i.e. the TO nor the GB customer) should be

disadvantaged as a result of providing connection assets during the RII0-T1 price control. To ensure that this principle is upheld both expenditure and allowance values in relation to connections activity are required to be “trued up” as set out in paragraph 3.6. Therefore, we would require that Ofgem add an additional element to paragraph 3.7 to accommodate gross capex which will deal with this issue.

We also believe that in relation to the true up of annual charges only the remedy can be amended to purely update the current annual charges forecast values in the PCFM to the actuals for the RII0-T1 period. This would give the same impact as the process in steps 4 – 6 in Ofgem’s proposals but without the need for an additional step.

Question 4: Do you agree with the proposal to apply a true-up adjustment to both sole use entry connections and sole use exit connections?

Our principle is that connection assets, whilst included in the price control to illustrate total network investment – whether they are entry (generation connections) or exit (demand connections) – are fully funded by the customer(s) requesting the connection. They are not funded by the UK consumer as part of a TO’s price control allowance, therefore, performance for such works should be neutral in relation to evaluation of price control totex.¹

CHAPTER 4. ADJUSTMENTS FOR TERMINATED WIDER WORKS PROJECTS

Question 5: Do you agree with our proposal for assessing TPWW costs?

As the proposal relates to a specific licence mechanism in T1 which is only applicable to NGET, SPT offers no comment.

Question 6: What revisions may be necessary to the T2 Licence to accommodate the assessment and recovery of all efficiently incurred costs to the point of cancellation through the TPWW mechanism?

As the proposal relates to a specific licence mechanism in T1 which is only applicable to NGET, SPT offers no comment.

CHAPTER 5. ADJUSTMENTS FOR TERMINATED CONNECTION PROJECTS

Question 7: Do you agree with our proposed methodology for treatment of terminated costs and receipts associated with user terminated generation and demand connections?

As the proposal relates to a specific licence mechanism in T1 which is only applicable to NGET, SPT offers no comment.

Question 8: What revisions may be necessary to the T2 Licence to accommodate the assessment and recovery of all efficiently incurred costs associated with user terminated generation and demand connections through the TPG/TPD mechanisms?

As the proposal relates to a specific licence mechanism in T1 which is only applicable to NGET, SPT offers no comment.

¹ Where the expenditure incurred is justified and efficient.

CHAPTER 6. SETTLEMENT OF ALLOWANCES FOR PRE-CONSTRUCTION WORKS

Question 9: What are your views on our proposed methodology to assessing PE outputs?

We agree with the proposals to true up allowances related to Pre-Engineering (PE) outputs set out in LSpC 3L. SPT has informed Ofgem of progress through Table 6.7; submitted on an annual basis as part of the Regulatory Reporting Pack (RRP), with supporting narrative and visits.

CHAPTER 7. ADJUSTMENTS FOR CROSSOVER VOLUME DRIVER PROJECTS

Question 10: What are your views on our proposed approach to assessing crossover projects?

As the proposal relates to a specific licence mechanism in T1 which is only applicable to NGET, SPT offers no comment.

Question 11: What are your views on our proposed approach to assessing crossover projects?

As the proposal relates to a specific licence mechanism in T1 which is only applicable to SHET, SPT offers no comment.

Question 12: What are your views on our proposed approach to dealing with post closeout changes that occur between finalisation of RIIO-ET1 closeout and 31st March 2023 crossover projects on the following basis:

- **T1 volume driver for switching between typical and atypical categories (SHET only)?**
- **Adjustments for IWW output delivery (NGET only)?**
- **T2 Volume Driver profile adjustments for Physical Output delivery and number of connections (SHET and NGET)?**

As the proposal relates to a specific licence mechanism in T1 which is only applicable to NGET and SHET, SPT offers no comment.

CHAPTER 8. APPROACH FOR CROSSOVER PROJECTS WITHOUT VOLUME DRIVER: NGET

Question 13: Do you agree with our proposed approach?

We welcome and support the points set out in Clause 8.8. Principally, that where a project is assessed as cost efficient and successfully delivered it, ‘...will receive funding for the agreed total efficient costs for these projects, regardless of what is actually spent in T1 or T2.’ SPT Transmission have a number of schemes that are described as PCDs in Special Licence Condition 3.9, for example, that incur expenditure across a price control boundary. We highlighted through the licence condition issues logs that PCDs should indicate the efficient total project cost along with a relevant profile. This would better inform readers on the agreed funding at the point of determination (whether that be as part of the T2 price control or subsequent Uncertainty Mechanisms) and assist future deliberations when cost profiles may require to be revised.

It is our considered view that SPT are in a similar situation to both NGET and SHET and, respectfully, request Ofgem's agreement to make a submission on a similar basis as NGET (& SHET) noted under Clauses 8.13-8.15. We do acknowledge that there is scope for interaction between this area and pre-construction funding arrangements provided for in RIIO-ET1 (Chapter 6). These would be separate and distinct in any submissions prepared by us and demonstrate that funding is appropriately allocated.

CHAPTER 9. APPROACH FOR CROSSOVER PROJECTS WITHOUT VOLUME DRIVER: SHET

Question 14: Do you agree with our proposed approach?

Please refer to our response under Q. 13.

CHAPTER 10. ADJUSTMENTS FOR ENHANCED PHYSICAL SITE SECURITY COSTS

Question 15 (12): Do you agree with our proposed approach to adjusting PSUP allowances at RIIO-ET1 closeout?

We agree with Ofgem's proposals to review allowances related to Enhanced Physical Site Security in accordance with Licence Special Condition 6H.

CHAPTER 11. ADJUSTMENT FOR SPT'S CONNECTION VOLUME DRIVER CLAWBACK

Question 16 (15): Do you agree with our proposed methodology?

We agree with the proposals to true up allowances related to sole-use infrastructure outputs set out in LSpC 6F (SPT variant). SPT has delivered 1948MW (78% of target) and informed Ofgem of progress through Tables 2.3(a), (b), T4.2 and T6.10 (sole-use infra); submitted on an annual basis as part of the Regulatory Reporting Pack (RRP), with supporting narrative and visits.

CHAPTER 12. ADJUSTMENTS FOR ASSET AND RELATED LAND DISPOSALS

Question 17 (16): Do you agree with our proposed approach for disposals?

In principle we agree with the proposals to return a benefit to consumers in relation to assets that are disposed of where a cash proceed is/ has materialised. We believe, however, that the proposals should be amended to apply the net proceeds of sale before application of the Totex Incentive Mechanism (TIM) as is the case for Electricity Distribution (ED) meaning both network companies and consumers benefit. This proposal would ensure that network companies are incentivised to maximise the return that could be gained from the sale of assets that are no longer required (eg. land) which would be in the best interest of consumers. We see no reason or evidence why this approach should differ from the approach currently used in ED (i.e. pre-TIM).

CHAPTER 13. ADJUSTMENTS FOR WHVDC PROJECT

Question 18 (17): Do you agree there are no further adjustments required relating to the WHVDC project?

We agree with Ofgem's proposals associated with WHVDC adjustments. It is our understanding that this has been fully addressed through the alternative action process in 2021 and that no further adjustments in respect of the WHVDC project are required. The necessary adjustments were incorporated in our submissions for the 2021RRP process.

CHAPTER 14. ADJUSTMENTS FOR SHET'S VISTA ALLOWANCE

Question 19 (18): Do you agree with our proposed approach?

As the proposal relates to a specific projects which is only applicable to SHET, as part of LSpC 6G, SPT offers no specific comment.

It is notable that the issue under review (and as described), primarily, relates to an alteration of profile of project expenditure that relates to two price controls (ET1/ET2). This is not a unique situation and formalisation of consistent and enduring principles to deal with similar situations would be most welcome to provide clarity to all stakeholders. The proposed methodology (clauses 14.9-14.10) provides no indication of how actual expenditure in T2 will be dealt with for this specific example. As such, the approach appears incomplete and leaves readers uncertain as to the overall ('project') outcome.

CHAPTER 15. TREATMENT OF INNOVATION ALLOWANCES

Question 20 (19): Do you agree with our proposals?

We agree with Ofgem's proposals in relation to the close out of NIA, NIC & IRM as set out in the close out document.

CHAPTER 16. NEXT STEPS

Clause 16.1 We welcome your responses to this consultation, both generally, and in particular on the specific questions in Chapters 2 to 15.

We have provided our responses to the specific questions in the preceding sections of this document.

We have advised Ofgem throughout RIIO-T1 – in annual RRP tables, supporting narrative and visits -of our engagement with third parties in relation to diversion of existing infrastructure. This has resulted in a small tranche of expenditure² described as Non-rechargeable diversions that has remained unfunded to date. The expenditure has been reported in T4.3 of the annual RRP; no baseline allowances were provided as it was not

² Actual expenditure incurred would exceed a standard Materiality Threshold test, as applicable to RIIO-T1 (ie Actual expenditure x 50% (TIM) > Annual baseline revenue (c £266m) x 1% (2009/20 prices)).

possible to identify any schemes prior to the onset of RIIO-T1. We, respectfully, request Ofgem's agreement to make a submission alongside the other matters herein as part of the performance submission for 30 April 2022. This will set out justification for inclusion as well as the expenditure incurred by SPT during RIIO-T1.

Appendix 2

In reviewing the consultation and preparing our itemised response, we have applied the following interpretation in numerical order - for clarity (compared to aforesaid SPT Appendix 1).

The question number in brackets () is as per the original consultation in Ofgem's Appendix 1:

Ofgem Consultation Chapter	SPT Question No. (Ofgem Question No.)	Ofgem Consultation Question
2	1 (1)	Do you agree with the proposed process in determining any financial revisions for the RII0-ET1 closeout, including the phasing of the impact?
	2 (2)	What are your views on what should, or should not, be finally incorporated into the financial handbook?
3	3 (3)	Do you agree with our proposed methodology for determining the connection activity adjustment?
3	4 (4)	Do you agree with the proposal to apply a true-up adjustment to both sole use entry connections and sole use exit connections?
4	5 (5)	Do you agree with our proposal for assessing TPWW costs?
	6 (6)	What revisions may be necessary to the T2 Licence to accommodate the assessment and recovery of all efficiently incurred costs to the point of cancellation through the TPWW mechanism?
4	17 (16)	Do you agree with our proposed approach for disposals?
5	7 (7)	Do you agree with our proposed methodology for treatment of terminated costs and receipts associated with user terminated generation and demand connections?
	8 (8)	What revisions may be necessary to the T2 Licence to accommodate the assessment and recovery of all efficiently incurred costs associated with user terminated generation and demand connections through the TPG/TPD mechanisms?
6	9 (9)	What are your views on our proposed methodology to assessing PE outputs?

7	10 (Not listed in Chapter 7)	What are your views on our proposed approach to assessing crossover projects?
	11 (11)	What are your views on our proposed approach to assessing crossover projects?
	12 (12)	<p>What are your views on our proposed approach to dealing with post closeout changes that occur between finalisation of RIIO-ET1 closeout and 31st March 2023 crossover projects on the following basis:</p> <ul style="list-style-type: none"> • T1 volume driver for switching between typical and atypical categories (SHET only)? • Adjustments for IWW output delivery (NGET only)? • T2 Volume Driver profile adjustments for Physical Output delivery and number of connections (NGET and SHET)?
8 (NGET)	13 (13)	Do you agree with our proposed approach?
9 (SHET)	14 (14)	Do you agree with our proposed approach?
10	15 (not listed in Appendix 1; noted in Ch 10 as Q12 but this duplicates with Ch 7)	Do you agree with our proposed approach to adjusting PSUP allowances at RIIO-ET1 closeout?
11	16 (15)	Do you agree with our proposed methodology?
12	17 (16)	Do you agree with our proposed approach for disposals?
13	18 (17)	Do you agree there are no further adjustments required relating to the WHVDC project?
14	19 (18)	Do you agree with our proposed approach?
15	20 (19)	Do you agree with our proposals?