

Graeme Barton

Your ref

Ofgem

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Our Ref

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Date

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27th June 2022

Contact / Extension

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Dear Graeme,

Consultation on NGET MSIP Applications

This submission is from SP Transmission (SPT) which holds the transmission licence for south and central Scotland. SPT is part of SP Energy Networks (SPEN) and the wider Iberdrola group.

This response relates to the consultation on NGET's Melksham, Cellarhead and Frodsham MSIP applications published on 30th May 2022. Our response is limited to Ofgem's proposed treatment of contractor costs (Question 4). Our response is not confidential.

It is acknowledged that the calibration of the Opex Escalator is specific to each TO and we cannot comment on the detail of NGET's RIIO-T2 business plan submission but there is a clear issue of principle that has a direct read-across to SPT's future submissions.

Ofgem state (paragraph 5.9) that contractors' site management and detailed design costs had been miscategorised as Direct and that the Opex Escalator provides funding for these activities. This is an erroneous application of the Opex Escalator.

The RIIO-T2 business plan RIGs¹ define contractors' costs as "the total charges invoiced by external contractors for the primary purpose of performing direct activities" and that "where contractors have recharged the licensee for the primary purpose of performing direct activities which include costs for indirect activities but these are not explicitly costed in their invoice, all costs will be treated as direct". On this basis, SPT classified all contractor costs as Direct in the RIIO-T2 business plan submission. Therefore the Opex Escalator calculation for SPT will not fund any element of contractor costs. That is, if SPT had provided costs using the definition that Ofgem have begun to use in this consultation rather than as defined in the RIGs in place at the time of submission, CAI costs would have been higher and Direct costs lower which would have increased the Opex Escalator rate. The application of the Opex Escalator rate calculated on one basis to costs defined on another is an error.

There are two possible remedies:

1. Re-calibration of the Opex Escalator by re-allocation of some contractors' costs from Direct to CAI. These elements of contractors' costs would be excluded from MSIP applications and would be funded by the Opex Escalator.
2. Retention of the existing Opex Escalator and inclusion of efficient contractors' costs as Direct in MSIP applications.

¹ https://www.ofgem.gov.uk/sites/default/files/docs/2019/09/riio-et2_final_data_templates_and_associated_instructions_and_guidance_1.zip

Option 1 is impractical at this point in time because of the extent of data re-calibration that would be necessary and offers no advantages over option 2 which is simple and transparent.

It is essential that Ofgem apply the Opex Escalator in a way that is consistent with its definition. The proposed approach will not provide funding for the incurred costs of necessary activities.

Yours sincerely,



Craig McTaggart
Transmission Asset Strategy Manager