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Date

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Contact / Extension

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Dear Peter/ Offshore Cost Assessment Team,

## Dinorwig-Pentir: Project Assessment Consultation

SP Energy Networks (SPEN) represents the transmission licensee of SP Transmission plc (SPT), as well as the distribution licensees of SP Distribution plc and SP Manweb plc. SPT owns, develops, and maintains the onshore electricity transmission network in the south of Scotland. SPEN also own and operate the electricity distribution networks in the south of Scotland (SP Distribution) which serves two million customers, and Merseyside and North Wales (SP Manweb) which serves one and a half million customers.

This response is on behalf of SPT. We welcome the opportunity to share our views on Ofgem's consultation on National Grid Electricity Transmission's (NGET) Dinorwig-Pentir Project Assessment.

In paragraph 2.10, onwards ('Work Packages') there is insufficient detail for us to provide any meaningful insight into Ofgem's decision-making. It is therefore not fully clear what has occurred which has led to an allowance reduction of £8.7m in this case. We would, however, welcome clarification as to Ofgem's position in regard to relevant contractor costs which are competitively tendered in an open market, in accordance with prevailing UK/ EU procurement regulations, and arrive at a justified and efficient cost for the contract. It would seem fair and reasonable that in such cases, corrected for any inadvertent errors, tendered costs would be fully funded in this circumstance.

There is a discussion on the treatment of assets with scrap value at paras 2.13-2.15. Ofgem have stated in paragraph 2.13, *"£3.2m of cable scrap rebate costs that are recoverable from the cable works contractor"* – is this a cost or a rebate? It can be interpreted that Ofgem's key assumption is that the residual scrap value ('sale price') matches the quantified cost estimate (£3.2m) for removal. If this is the case, it is not clear what evidence Ofgem have used to support their decision as there could be considerable uncertainty around the income that may be received, which is beyond the reasonable control of the TO. Further clarity would be welcome on this matter as it may have wider ramifications across the industry.

In paragraph 2.21 Ofgem proposes to set the risk and contingency allowance at 7.5% *"top-down approach based on NGET's RIIO-T2 settlement"*. Ofgem have disallowed 50% of the request based on a generic assessment. We would like to raise our concerns regarding the overall approach in applying a risk and contingency allowance based on a typical project within the RIIO-T2 settlement against a specific and detailed cost assessment on a specific project located close to, *"… a man-made cavern within the mountain of Elidir Fawr"* in North Wales. Due to the nature of large capital projects, with specific engineering challenges, as well as associated consumer detriment, the risk and contingency requirement can differ significantly.

In paragraph 2.22 Ofgem states that *"any overspend outside this coverage would be treated through the RIIO totex sharing factor"*. Managing risk and contingency by relying on the Totex Incentive Mechanism (TIM) for pain-share of contract risk is not the most appropriate application of this mechanism as TIM was built on the basis of an efficiency mechanism, rather than a funding mechanism or risk management tool.

We welcome, and are supportive, of the approaches cited in paragraphs 2.23 and 2.24. Certain projects should merit more detailed assessment, which is proportionate to the investment and the circumstances of a project. This should be a key principle of individual large project cost assessments, through re-opener mechanisms, where a project's Risk Register is crucial to successful management of the project. It is notable that Ofgem refer to this as a 'live' document, noting that it exists for the full capital life cycle of the project. This merits a wider review of the risk treatment for large projects to ensure a fair and reasonable outcome for existing and future consumers and Transmission Owners who are delivering many schemes with significant interactions on the UK Transmission Network.

The inclusion of options (paragraph 2.23) to address the removal of specific risk allowances is welcome. Option 2 appears to be a fair and reasonable way forward to review allowances that have been reduced where the arrangement in place demonstrated justified and efficiently incurred future costs. Further clarity, however, is required in relation to, *"... costs through a new, no-threshold, ringfenced part of the Cost and Output Adjusting Event (COAE)."* It is noted (paragraph 2.30) that this option would necessitate a specific clause in LSpC 3.13 to cater for the pain-share arrangement for the project.

Paragraph 2.28 refers to an amendment to the COAE project threshold in LSpC3.13 from 20% to 10%. We welcome Ofgem's proposal; this change is consistent with the COAE threshold for projects of similar complexity and aligns with Ofgem's decision on the Accelerated Strategic Transmission Investment (ASTI) framework[1] issued on 15th December 2022. It is not clear, however, whether this adjustment is specific to certain schemes or an explicit change to LSpC 3.13.17 (a) whereby the licence threshold value of 20% is reduced to 10%.

It is noted that Ofgem propose to further amend LSpC 3.13 to include a new section (part I) to address potential benefits arising from project expenditure profiles being different from allowance (paragraph 3.7). It is of some concern that individual project assessments being processed through re-opener mechanisms are generating both 'project specific' and generic changes to licence conditions on an ad-hoc basis. Ofgem's intended approach to this would be welcome as it is not clear what such changes may look like and how, subsequently, they are to be interpreted.

Finally, we agree with Ofgem's decision to not apply the Project Delay Charge (PDC) on this project, on the basis that *"a delay beyond the proposed delivery date would result in little to no detriment to consumers"*.

We are happy to answer any questions that you may have in relation to the points made in this response.

Yours faithfully,

Lynne Bryceland

Lynne Bryceland
Head of Transmission Regulation and Policy

[1] Decision on accelerating onshore electricity transmission investment | Ofgem