Scottish & Southern Electricity Networks

TRANSMISSION

Peter Tuhumwire
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E14 4PU

09 March 2023

Dear Peter,

SSEN Transmission response to the Dinorwig-Pentir: Project Assessment Consultation

This response is prepared on behalf of Scottish and Southern Electricity Networks Transmission (SSEN Transmission)[1], the onshore transmission owner (TO) for the North of Scotland. As a TO, we have a duty to ensure that we develop and maintain an economic, efficient and coordinated onshore transmission system. We therefore welcome the opportunity to share our views on several key areas of the Project Assessment for NGET's Dinorwig-Pentir project.

As a TO, we recognise the importance of the Project Assessment stage to deliver certainty on project allowances that will ultimately enable transmission projects to be delivered. This is an exciting yet challenging time in the industry, as investment ramps up to deliver the necessary infrastructure to build a network that is fit for net zero. This challenge will require timely and efficient assessment of project allowances to ensure TOs have the certainty required to proceed with confidence in delivering these major investments.

This response highlights some of our views in relation to the Project Assessment (PA) stage, however we would welcome continued engagement with Ofgem on the PA process more widely to ensure it remains fit for purpose, for both Ofgem and TOs, to enable the delivery of these crucial transmission investments.

We have responded to the relevant questions posed by Ofgem in the consultation below:

Q1: Do you agree with our proposed cost allowances for the Dinorwig-Pentir project?

We do not have any comment on Ofgem's position on the cost allowances for the Dinorwig-Pentir project, although we wish to highlight the following key areas: Ofgem's position on the treatment of scrap; commodity price inflation; the lowering of the COAE threshold; and the options proposed for the treatment of pain share costs. Please see details of our comments below.

[1] Following a minority stake sale which completed in November 2022, SSEN Transmission is now owned 75% by SSE plc and 25% by Ontario Teachers' Pension Plan Board. SSEN Transmission encompass the licenced entity Scottish Hydro Electric Transmission Plc Registered in Scotland No. SC213461

Treatment of Scrap

Ofgem is proposing a policy change for the treatment of scrap from that published as part of the RIIO-T2 Final Determination (FD).[2] NGET's position that scrap value is set at zero is in line with our understanding of the FD decision and therefore we are concerned any change in policy may result in increased risks for TOs.

Although TOs have their own contractual relationships with the supply chain that impacts the level of risk they may be exposed to, we remain concerned that Ofgem has not fully consulted on its proposals, which may have a wider impact on other TOs. The policy change may increase the level of risk being taken on by TOs in relation to the final value of any scrap and the associated cost sharing arrangements between consumers and TOs. Ofgem's decision to move the baseline to an estimated scrap value baseline is a fundamental policy change which must be properly consulted on to understand how such a change could impact stakeholders. We are concerned about this shift in policy, without full consultation with all impacted stakeholders and ask that Ofgem considers whether further clarity is required in this area.

Commodity Price Inflation

We are concerned about Ofgem's minded-to decision to disallow costs associated with the forecast difference between consumer price index (CPI) and specific commodity costs. As a TO, we are also seeing commodity and material prices increasing higher than the headline rate of inflation. The input cost pressures that TOs are currently facing are therefore increasing significantly and there must be protections in place to address this. We appreciate Ofgem's position within the consultation document that it will consider additional evidence to justify these costs and ask that Ofgem gives further consideration to the high likelihood that commodity and material prices will continue to sit higher than the rate of inflation. We would welcome further engagement with Ofgem on this topic given that future transmission investments are likely to be similarly affected by increasing commodity prices.

COAE Threshold

A COAE event under LOTI is unforeseeable by the TOs and out with their control as such we agree it is right and proper that the costs incurred by a low probability scenario materialising, should be recoverable by the TOs. However, given that the event is out with the control of the TOs, it is important that Ofgem consider the proportionality of the threshold in relation to the capex value of the project. It is reasonable to consider circumstances could occur in which a number of individual COAE events may fail to meet the common COAE materiality threshold, but cumulatively may have a very material impact. It is important that where there is an unforeseen event, if the TOs could not have quantified or mitigated the risk and could not have economically and efficiently planned for it, then the TOs should be able to recover through a robust recovery mechanism. TO's financeabillity should not be put at risk as a result of an inflexible regulatory mechanism. The risk of such circumstances occurring should not be taken lightly, given the rapid evolution of the transmission network over the next decade.

Our objections in principle to the setting of a threshold notwithstanding, we are supportive of Ofgem's decision to reduce the Cost and Output Adjusting Event (COAE) threshold from 20% to 10% for the Dinorwig-Pentir project, bringing it into line with the COAE threshold applied to similar projects. We suggest that the COAE threshold is reflective of the value of the project, in that there can be a significant COAE on a high value project where for example £100m+ risks materialise and falls short of the 10% threshold as the project is valued at £2bn. As such we suggest an adaptive threshold is put in place to take account of each project value provided there is sufficient evidence to support the TOs claims of not being able to quantify or mitigate the risk occurring.

[2] See 11.32 – 11.36 of RIIO-2 final_determinations_-_finance_annex_revised_002.pdf.

Pain-Share of Contract Risk

We are supportive of Option 2 for the pain-share of contract risk, where NGET can recover justified and efficiently incurred future pain share costs through a new, no-threshold, ringfenced part of the COAE. We do not agree that Option 1 is appropriate as the Totex Incentive Mechanism should not be used as a risk management tool.

Q3: Do you agree with our view on the implementation the Large Project Delivery (LPD) mechanisms – Re-Profiling and Project Delay Charge – on this project? In particular, do you have a view on our proposal not to apply a Project Delay Charge?

We welcome Ofgem's view on the implementation of the Large Project Delivery mechanisms, re-profiling, and the project delay charge (PDC) for the Dinorwig-Pentir project. In particular, we are supportive of Ofgem's proposal to not apply a PDC to the project. This is in line with our understanding of the intended purpose of a PDC which is to avoid consumer detriment and compensate GB consumers where late delivery occurs. Given that there will be little to no consumer detriment in the event that the Dinorwig-Pentir project is delivered after the proposed delivery date then it is right that no PDC should apply. We believe that Ofgem should continue to consider the application of PDCs in this context, and where there is no measurable consumer detriment (e.g., if the project does not alleviate boundary constraint costs) then no PDC should be applied.

We would also note that there is currently no formal policy position on the application of PDCs from Ofgem and therefore in any case it would not be appropriate to apply a PDC in this instance without proper consultation with stakeholders. Further engagement between Ofgem and the TOs will be required if a PDC were to be set for future LOTI projects.

Please do not hesitate to get in touch if you have any questions in relation to the points raised in this response.

Yours sincerely,

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Regulation Analyst