

Interconnector Delivery Team
Ofgem
10 South Colonnade
Canary Wharf
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22 January 2024

Dear Interconnector Delivery Team

CONSULTATION ON MOVING FROM RPI TO CPIH AS THE INFLATION INDEX FOR THE INTEREST DURING CONSTRUCTION RATE FOR PROJECTS UNDER THE OFFSHORE TRANSMISSION OWNER REGIME AND WINDOW 3 ELECTRICITY INTERCONNECTORS

We are pleased to respond your consultation on the inflation index used in the annual decision on Interest During Construction rates. Our response primarily reflects the perspectives of our renewables business as a developer of offshore wind generation projects.

Our answers to the consultation questions are in Annex 1 attached.

Yours sincerely,



Richard Sweet
Director of Regulatory Policy

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Q1. Do you agree with our proposal and reasoning to move from RPI to CPIH as the inflation index for the IDC rate calculation?

Yes, we agree with the rationale to move from RPI to CPIH namely to move to a more accurate measure of inflation in CPIH aligning with the Office of National Statistics (ONS) view that CPI-H is now the leading measure of inflation. We further agree with the additional rationale for this proposal being to align the approach to calculating IDC with the RIIO-2 network price controls.

Q2. Do you agree with our proposal in Approach 2 to use CPI as a proxy for CPIH, or do you consider that there is a better proxy to use for CPIH than CPI?

We agree with the proposal to use approach 2 i.e., to use CPI as a proxy for CPIH while estimates of CPIH remain limited. We note the close historical relationship between the two indices which we believe supports the use of CPI as a proxy for CPIH. We therefore do not propose any alternative proxy measures of CPIH inflation.

Q3. Do you agree with our proposal to calculate CPIH based on Approach 2 only?

Yes, we agree it is appropriate to base the IDC calculation solely on approach 2 and estimates of CPI and remove any link to RPI that would continue in approach (RPI-CPI “wedge”).

Q4. Do you have any alternatives to our proposed changes? If so, could you please elaborate on them and present evidence on the potential impact these might have on the IDC rate?

We are not proposing any alternative proposals to Ofgem’s proposed changes to the IDC calculation.

ScottishPower
January 2024