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24th November 2014.

Kersti Berge
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Dear Kersti,

Consultation on your assessment of the Caithness Moray transmission project

Thank you for the opportunity to respond to this consultation. This is a non confidential response on behalf of the Centrica Group, excluding Centrica Storage.

Our key concerns with regards to such necessary upgrades to the transmission network as the Caithness Moray project are:

- **Ensuring value for money for consumers**
To the extent that we are able to comment, we welcome the emphasis on attempting to ensure value for money in relation to this particular project.
- **Ensuring the impact on allowed revenues is transparent and predictable to stakeholders**
The timely communication of the impact of this project on allowed revenues, and so prices, has been poor. In particular, SHE Transmission has failed to give further details despite repeated requests.

Q: Based on the information in this consultation and our consultants' report, do you agree with our assessment on the proposed efficient costs for the CM project?

Whilst we are not well placed to offer opinion on the technical aspects of the construction cost assessment, we welcome Ofgem's desire to ensure value for money with regards to this necessary transmission network upgrade. With respect to the proposed reductions to SHE Transmission's resource and risk costs we agree with the proposals and rationale provided in the consultation.

Q: What are your views on the arrangements for dealing with uncertainty on the outturn costs?

The consultation contains very little detail on the alternative arrangements proposed by SHE Transmission other than to say that they involve consumers getting a larger share of any underspend

or overspend, reducing the SWW reopener threshold, or making additional allowances conditional on contingent events occurring. We are therefore unable to offer much of a critique of such proposals, however this indicates a real risk to ensuring value for money for consumers. If networks are able to flex, or cherry pick, the strength of the RIIO efficiency incentives, or the uncertainty thresholds, for individual projects this would undermine the RIIO approach to risk-sharing. We would not be supportive of this approach unless fully justified and accompanied by an assessment of the rate of return from such projects.

Q: What are your views on updating SHE Transmission's revenue model in January 2015 instead of November 2014 so that the allowed expenditure for the CM project is incorporated into the company's 2015/16 revenues?

As a general principle, we consider that the decision on the timing of any additional revenue allowances should take regard of the robustness of the forecast information provided to stakeholders by the networks requesting the additional revenues i.e. there is a responsibility, with the enhanced stakeholder engagement expectations under RIIO, on the network company to signal adequately to the industry the details of additional revenue requests it is planning. Where information provision has been poor, as in this case, it may be necessary to delay the application of the revenue allowances to avoid price shocks.

We are concerned about the lack of notice that has been provided by SHE Transmission and Ofgem with regards to this significant adjustment to allowed revenues. As recognised in Ofgem's October 2012 decision on '**measures to mitigate network charging volatility arising from the price control settlement**', improved information provision by networks makes network charge changes more predictable and brings benefits to the energy market. These benefits relate to a reduction in the risk faced by suppliers from changing network charges, with no related increase in the risk faced by networks. Ofgem also pointed out that it is network's responsibility to respond to the needs of their stakeholders in providing relevant information that is clear and robust.

We are therefore disappointed that prior to this consultation SHE Transmission has failed to provide any forecast information on the impacts on allowed revenues and charges of the CM project – despite numerous requests by us at various industry forums for them to do so. Even the latest forecast of 2015/16 TNUoS charges, published just last month, continues to be based on revenues that exclude any allowance for the Caithness Moray project.

We consider that revenue forecasts provided to the industry which omit a best view of revenue allowances associated with this and other similar projects, which are expected in the future, results in information which is unreliable and potentially misleading.

It is also surprising that Ofgem, despite the conclusions drawn in your decision on mitigating network charging volatility and the commitment to stakeholder engagement in RIIO, does not appear to have considered the quality of stakeholder information provided by SHE Transmission in deciding when revenues should begin to be recovered.

Whilst we understand that the large scale nature of the CM project may make it difficult, at this stage, to strictly implement a policy of placing enhanced emphasis on the quality of stakeholder information provision when considering the timing of revenue recovery, we would request that Ofgem signal strongly to the networks that the timing of future revenue recoveries of this kind will be affected if stakeholder information is poor.

We hope you find our comments helpful. Please do not hesitate to contact me if you have any questions.

Yours sincerely,

Andy Manning
Head of Network Regulation, Forecasting and Settlements