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Date: 24th November 2014
Contact: Alan Kelly
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Dear Kersti

Consultation on the assessment of the Caithness Moray (CM) transmission project

SP Transmission plc (SPT) welcomes the opportunity to respond to this consultation. As part of the RIIO-T1 price control we are familiar with the strategic wider works (SWW) mechanism for funding large scale infrastructure projects. We have three such projects identified in our price control arrangements and have been working directly with SHE transmission and NGET in the development of these projects. Our experience on the design and delivery of the Western HVDC project also provides us with a comparable project to inform our views.

The low carbon, sustainable electricity system required to meet government targets has led to a massive increase in renewable generation and our RIIO-T1 £2.6billion investment plan is primarily driven by the need to extend and increase the capacity of our existing transmission infrastructure to accommodate renewable generation connections both in our area and across GB. The uncertainty on the timing and location of new generation arriving and the lifetime of existing plant makes the decision making on the scope and scale of transmission infrastructure extremely challenging. The development of offshore solutions and HVDC technology adds greatly to the technical and delivery challenges being encountered by the onshore transmission owners (TO's). Nevertheless, we recognise the scale of SWW projects in general and Caithness Moray in particular and the corresponding diligence and scrutiny they require from a regulatory perspective to ensure value for money for consumers.

Based on the information in the consultation and consultants report SPT does not agree with the proposed efficient costs for the CM project for the following reasons:

The level of efficient resourcing that has been proposed would appear to be very low. Adequate supervision and monitoring of contractor performance is essential to ensure safe, efficient and effective delivery. This is the case on any contract but is particularly important on a project of the scale and technical complexity of an HVDC link. We believe that further analysis is required in this area to consider the optimum level of resource required by SHE Transmission. This analysis should consider available benchmark data from similar projects. In particular, consideration should be given to the role that effective project management and supervision plays in minimising construction costs.

The 60.9% reduction in risk suggests a lack of understanding of the commercial aspects of an EPC contract. Such contracts are not risk-free from the client's perspective and there are many risks that are best managed by the client. In addition, minimising the uncertain elements of a contract and tendering a firm scope of work significantly reduces tender return prices and provides a firm basis for competitive assessment of alternative bids. The cost sharing mechanism in the RIIO-T1

arrangements incentivises the TO to manage this risk effectively. Reducing the project risk by such a significant value may not provide a reasonable sharing of risk between consumer and TO.

The proposal to allow the update of SHE transmissions revenue model in January is appropriate, particularly given the scale of costs involved.

We hope that this is helpful. Please do not hesitate to contact me should you have any queries.

Yours sincerely,



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Alan Kelly
Head of Transmission Regulation and Commercial Policy
SP Energy Networks