

Transmission licensees,
generators, suppliers, consumer
groups and other interested
parties



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Dear Colleague,

Decision on Scottish Power Transmission Ltd's Opening Asset Value for the B5 boundary electricity project

SP Transmission Ltd (SPT) has completed construction works to upgrade four electricity transmission substations to increase capacity across the B5 Boundary located in Southern Scotland. The project is funded under the Transmission Investment for Renewable Generation (TIRG) mechanism. The TIRG licence condition¹ requires us to determine the Opening Asset Value (OAV)² of the project after construction. This value determines the revenue allowance for the 5 years after construction.

Our Decision

Following our consultation in July³, we have determined the OAV should equal the forecast OAV set out in the licence, £11.209 million.

Post-construction revenue allowances will be treated as starting in 2011-12 rather than 2010-11. SPT is required to restate historical allowed revenues to account for this change. The operation of the correction factor in SPT's licence will then adjust revenue allowances for 2016-17.

SPT is also required to restate historical allowed revenues for its Beaulay-Denny project to account for the historical amendments to revenue allowances we determined in November 2014.⁴

The July consultation

We proposed an OAV of £11.209 million based on our view that the project has met all the criteria set out in the TIRG licence condition and has been delivered at efficient cost. Since outputs were delivered one year later than envisaged, we proposed to delay to the post-construction revenue period by one year. We thought that SPT restating historical allowed revenues and using the correction factor in its licence was the appropriate way to adjust historical revenues, both on the B5 boundary project and the Beaulay-Denny project. We favoured this approach over an alternative methodology that would have applied a larger financial penalty on SPT to account for the delay. This was due to the fact that SPT has been recovering revenues for the projects in line with its licence, rather than deliberately recovering revenue early.

¹ Special Condition 3J of Scottish Power Transmission's electricity transmission licence

² For each TIRG project, the forecast OAV set out in Schedule C of the TIRG condition is referred to as

"ETIRGORAV", whilst the OAV that we are determining here after construction is referred to as "SAFTIRG"

³ https://www.ofgem.gov.uk/sites/default/files/docs/2015/07/boundary_b5_consultation_published.pdf

⁴ https://www.ofgem.gov.uk/sites/default/files/docs/2014/11/20141121_sptbd_determination_final_0.pdf

Responses to our consultation

We received two responses to our consultation.

SPT agreed with our view of the OAV. However, it did not agree that the post-construction period should have started in 2011-12 because, in its view, the delay was beyond its reasonable control. It argues that the failure of the asset which was the source of the delay was not due to lack of maintenance but a catastrophic failure. SPT proposed the construction period should be extended, avoiding the requirement for a revenue adjustment. Where historical revenues need to be adjusted, it agreed with our proposed approach of requiring restatement of historical allowed revenues.

Scottish Hydro Electric Transmission said that, on the basis of efficiently incurred costs, it agrees with our view of the OAV. It also agreed the post-construction period should start in 2011-12 if outputs were delivered in 2010-11. It considered our proposal for adjustment of historical revenues proportionate. Finally, it was concerned that the OAVs for TIRG projects are not being assessed in a timely manner.

Our consideration of consultation responses

We note the agreement from consultees on setting the OAV. Similarly, they support a restatement of historical allowed revenues where historical adjustments are necessary.

We do not agree with SPT's argument that the construction period for the project should be extended to account for the delay. The 2004 published guidance on the TIRG mechanism sets out that, aside from in "exceptional circumstances", revenue should not be recovered during construction delays:

"In the event that the construction timetable is extended, it is not anticipated that the licensee would be able to earn a revenue allowance for the additional years of construction"⁵

We do not consider the circumstances in this case qualify as exceptional. SPT, as the licence holder is responsible for managing the risks on its network. Decisions on what assets to use and on how and when to replace them are within its control. We consider the licensee should bear the risks around these decisions. We therefore consider that it is not appropriate to extend the construction period and that post-construction revenues should only be recovered from 2011-12, the year after the project's output was delivered.

Next steps

SPT will be required to complete the restatement of historical allowed revenues for the B5 Boundary project and the Beaulay-Denny project⁶. This will allow the correction factor to flow through to an adjustment in its 2016-17 revenue. SPT will need to complete this by the end of October 2015 to allow the adjustment to feature in its draft revenue forecast to National Grid 2016/17 revenues. We will validate that the adjustment has been made correctly by the end of November to ensure that the correct final adjustment feeds into 2016/17 revenue forecasting.

⁵ <https://www.ofgem.gov.uk/ofgem-publications/56420/12320-27505.pdf>

⁶ Within SPT's revenue reporting, the revenue adjustment will be applied specifically through the restatement of the average asset value during efficiency period (*ETIRG_i*) for the B5 project, and through the restatement of the Average asset value during construction (*FTIRG_i*) for the Beaulay-Denny project

Should you wish to discuss the issues raised in this document, please contact Thomas Johns at thomas.johns@ofgem.gov.uk or on 020 7901 7046.

Yours sincerely,



Geoff Randall,
Head of RIIO, Electricity Transmission