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Electricity Transmission
Ofgem
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Your ref

Our Ref

Date

10th August 2015

Contact / Extension

Alan Kelly
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Dear Thomas

Consultation on SP Transmission plc's opening asset value for the B5 Boundary electricity transmission project

Thank you for your review and subsequent consultation of 13th July regarding our B5 boundary upgrade project. This project has delivered significant benefit to the UK consumer by increasing boundary capacity thereby reducing potential constraints costs and enabling low carbon energy to be delivered to centres of demand.

We are pleased to note your view that we have delivered the required outputs and that the relevant criteria and requirements set out in our TIRG licence have been met, and that these have been delivered at efficient cost. We agree with the proposed opening asset value; however we do not agree that the post construction revenue should be adjusted as the cause of the extended construction period was beyond our reasonable control (*please see justification in our response to question 2*). Instead we believe the construction period should be extended avoiding the requirement for a revenue adjustment in this case. Notwithstanding this, where historical revenues do require to be adjusted, we do agree the proposed option 2 is the appropriate approach to achieve this. We would be happy to work with Ofgem to calculate the appropriate adjustments to the revenue model.

If you have any queries or wish to discuss further, please do not hesitate to get in touch.

Kind regards



Alan Kelly
Transmission Commercial and Policy Manager
Network Planning & Regulation
SP Transmission plc

Appendix 1 SPT Responses to Ofgem Questions

1. Do you agree that the OAV should equal the value specified in the TIRG condition for the B5 Boundary project?

Subject to consideration of our observations that the construction period should be extended by one year to 2010/11 (with the consequential impact on OAV), we agree that the OAV for the 5 years after construction should equal the value of £11.209m (2009/10 prices) as set out in Schedule C to special licence condition 3J of the Transmission Licence.

2. Do you agree that the post-construction period should have started in 2011-12?

We do not agree that the post-construction period should start in 2011-12 as the cause of the delay was beyond our reasonable control. We are pleased Ofgem recognise our response to the incident was well managed as stated in the consultation:

“In the specific case of the B5 project, we can find no evidence to suggest that the financial impact on consumers of the delay was significant. We also consider that, once the issue at Clydes Mill was identified, SPT operated effectively and quickly to prevent further delay to the project’s delivery. Most importantly, we consider that SPT was doing the right thing for consumers in bringing forward the works (ahead of the rest of the Beaully Denny project) in the first place.”

And further in appendix 2

“We agree with SPT that the delay in the delivery of the outputs was directly attributable to the poor condition of the porcelain insulator supports at Clydes Mill substation. Work had to be put on hold until the conditions at the substation could be addressed. Also, once identified, we think, based on our review, that SPT used reasonable measures to mitigate the impact on output delivery. It installed temporary by-pass arrangements which allowed the output measures to be met in 2010-11, rather than slipping back a further year to 2011-12 with the rest of the project works.”

Although we agree with Ofgem’s view that *“SPT is responsible for the timely and efficient maintenance of its transmission assets, and is therefore also responsible for any project delays resulting from the condition of its assets.”* In this case, the cause of the failure of the asset was not due to lack of maintenance but the catastrophic failure of an asset that if repeated, presented a risk of injury or even fatality to staff and the general public. The mitigation of this risk resulted in the Suspension of Operational Practice (SOP 345 attached) and the decision to replace all similar suspect porcelain units. The timing of the catastrophic failure coincided with the placement of the contract to complete the work to deliver the two new 275kV bays at Clydesmill required in the scope of the B5 boundary project upgrade. This contract had to be terminated and a new contract tendered to replace all the bays at Clydesmill. This resulted in the extended construction period. The assets at Clydesmill were programmed for replacement under TPCR 4 due to commence in 2011/12 due to their age and condition. The catastrophic failure could not have been prevented by maintenance and was not a consequence of lack of maintenance.

The necessary output at the B5 boundary over this circuit of 1500 MVA was achieved by Winter 2010/11 as part of the temporary by-pass arrangements established to manage the outage on Clydes mill.

We would also highlight Ofgem's point that we were obliged to recover the post construction revenues from 2010/11 to ensure our compliance with the revenue return requirements otherwise we would have been in total breach of the licence.

3. Do you agree that SPT should restate its historical allowed project revenues for the B5 project to account for it entering the post-construction period one year too early?

On the basis that the extended construction period was the result of a delay beyond our reasonable control, we don't agree that we should be required to restate our historical allowed project revenues. Instead, as noted in our letter, we believe that the construction period should be extended by one year; with the consequent impact on a revised OAV in 2011/12. However, if the final decision is that we should not have collected any revenues in 2010/11, then we agree that SPT should restate its historical allowed revenues for the B5 project on the basis of the option 2 approach.

4. Do you agree that SPT should also restate its historical allowed project revenues for the Beaully-Denny project to account for the historical reduction in revenue allowance specified in the November Asset Value Adjusting Event (AVAE) decision?

We do agree that the historic allowed project revenues for our Beaully-Denny project should be restated in line with the approach explained in option 2. We would be happy to support Ofgem calculating these values.

5. Is there any other relevant information that we should take into account?

We would refer to the attached System of Operational Practice notice to support our view that the cause of the extended construction period was beyond our reasonable control and that we should be allowed to collect revenues from 2009/10.