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Dear Neill,

**Notice of intention to direct electricity transmission licensees under Special Condition 2L of their electricity licences to modify the Network Output Measures (NOMs) Methodology**

Scottish Hydro Electric Transmission plc (SHE Transmission) welcomes the opportunity to comment on Ofgem's intention to direct licensees to further modify the NOMs methodology submitted by the transmission owners (TOs) on 16 February 2016. We have actively engaged with Ofgem and the other TOs to develop the NOMs methodology and remain dedicated to ensuring it facilitates the achievement of the objectives set out in SpC 2L. We believe that this is best realised through continued engagement, communication and full participation of all interested parties. The NOMs working group currently meet bi-monthly and it is encouraging to see the commitment from all the TOs to develop a coherent and comprehensive framework that is applicable across our transmission networks.

Although we believe that the working group is progressing well, concerns over differences between TO and Ofgem expectations do remain. Moreover, we are concerned that the current process guiding the development may not result in a timely delivery of the complete methodology. We therefore believe that, although beyond the scope of this notice on the proposed modifications to the NOMs directions, the process is amended to allow for the work to proceed without further delays. We discuss these concerns further below.

## **Current methodology**

The latest proposed modifications of the NOMs methodology was submitted by the TOs to Ofgem on 16 February 2016 and we note that the Authority does not intend to issue a direction to licensees requiring them not to implement the modified methodology. We appreciate Ofgem's recognition of the work that we are undertaking to deliver a comprehensive methodology and agree with that this is a step in the right direction. However, we also note the Authority's concerns that the methodology does not fully facilitate the achievement of the Objectives nor comply with the NOMs Principles. Given Ofgem's concerns, and the volume of work required to implement and bed-in a new framework, we believe it is neither efficient nor effective to implement the proposed modifications outlined in the 16 February 2016 submission, as this would arguably only function as a temporary placeholder. Rather, we propose to continue employing the previous methodology to prioritise the replacement of our assets, with no element of monetisation.

Moreover, regarding point 4 of Annex 1 of the notice<sup>1</sup>, whilst we understand and appreciate that circumstances may necessitate some small changes to the project requirements, any significant change in scope or direction could have a resulting significant impact on delivery within the given timescales. We would therefore ask that all parties are clear on the developments and subsequent outputs required to avoid further delay in the delivery of a methodology suitable to all parties.

## **Methodology expectations and limitations**

There are a number of references made in the direction which refer to Operational Expenditure and Operational Intervention plans. For clarity, it was agreed between Ofgem and the TOs that the works identified through the implementation of the NOMs methodology are non-load replacement and non-load refurbishment interventions, both of which are captured in their entirety by our Capital Intervention Plan and funded by our Base Capex Allowance. Additionally, we would like to clarify that this model is not intended to portray a real-time dynamic picture of the transmission networks. Any model or methodology will only ever be an approximate to the real world as it will not include the same level of richness and complexity. It should reflect the actual operation of the system but it will never do this 100% accurately and so the reflection will always be imperfect. We believe that clarity and mutual understanding of this point is important going forward.

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<sup>1</sup> All references to specific points in this document regard points in Annex 1: *Required modifications to the NOMs Methodology* of the 15 March 2016 notice.

Going forward, we would appreciate further clarification of points 29-31. Whilst they are factually correct in the long-term, they appear to be contradictory in the short term (over the remainder of RIIO-T1). Point 29 indicates that the outputs of the monetised risk mechanism may not result in the same set of output measures as currently specified by the Replacement Priorities in SLC 2M. However, points 30 and 31 state that the monetised risk outputs shall be used to assess variance from delivery targets. In addition, point 27 notes that the Methodology shall enable the translations of existing RIIO-T1 replacement priority targets. Whilst this is true, i.e. the Methodology will enable the translation of our existing NOMs targets within the SLC 2M from absolute targets to monetised risk targets, Ofgem should be aware that it is not feasible for the business activities to look to deliver a different set of targets within the RIIO-T1 timeframe. Given the limited time available it is not practicable to alter scheme development and delivery at this stage and using the monetised risk outputs to assess variance from the SLC 2M targets could result in an incorrect assessment of a TO's performance since the targets were set using a different approach.

We believe that the development of the NOMs methodology and the work accomplished today will particularly benefit and be of relevance in future price control periods, starting at RIIO-T2. Although we are fully committed to completing the development and implementation of the NOMs methodology in RIIO-T1, we should all be aware of its initial limitations and usefulness given the points raised above. We are of the understanding that across the TOs, we are in a good position to continue the work and trial the subsequent methodology before a final approach is agreed.

It is also important to note the limitations of comparing network outputs across other network businesses such as electricity distribution. The disparity between methodologies employed by GB TOs, GB DNOs, and other network utilities both inside and external to the UK, suggest that it is highly unlikely that outputs will be comparable across different sectors. Firstly, the financial impacts of any assets failing are different. Also, whilst in electricity distribution Customer Interruptions/Customer Minutes Lost are key factors in determining asset criticality, the inherent security in the transmission networks makes Energy Not Supplied less of a factor. Further, the TOs have priority sites identified to aid recovery in black starts, which impact our assessment of system criticality; this is not the case for DNOs.

### **Concerns over process**

From Ofgem's proposed modifications to the methodology directions it is clear that disparities remain between Ofgem and TO expectations of what the NOMs methodology can deliver and its application. We believe that it is important to align these expectations as soon as practically possible. The bi-monthly working group meetings generally consist of constructive discussions and allow all TOs to contribute and thus influence the framework. Ofgem representation at these meetings is vital to ensure that the ongoing work is meeting expectations. If concerns are addressed early and if TOs are able to raise issues or seek clarification on Ofgem directions at the meetings, delays further down the line are less likely. Additionally, we believe that a standard should be implemented so that actions from previous meetings are agreed and signed-off by both TOs and Ofgem at the start of each meeting before the working group proceeds. Again, this will reduce the potential for future delays. We also believe that there is merit in establishing a steering group, approving and signing-off on developments and deliverables from the working group. We would therefore like to propose that a steering group, consisting of senior representatives from Ofgem and the TOs is arranged as soon as practically possible and that a meeting schedule, on for example a quarterly basis, is agreed and issued.

Please do not hesitate to contact me if you would like further discussion on the concerns we have raised above.

Yours sincerely,

Wenche Tobiasson

**Network Regulation**