

Email: RIIO.ED1@ofgem.gov.uk

Date: 12 April 2016

Dear colleague,

Request from Scottish Hydro Electric Power Distribution Plc to defer the application window for the Subsea Cables Costs uncertainty mechanism under Charge Restriction Condition 3F.11(a) of its electricity distribution licence

Scottish Hydro Electric Power Distribution Plc (SHEPD) is the holder of an electricity distribution licence granted under section 6(1)(c) of the Electricity Act 1989. On 4 March 2016, SHEPD submitted a request to the Authority,¹ as set out in Appendix 1, seeking a deferral of the Subsea Cables Costs uncertainty mechanism application window from the current application window of 1 May to 31 May 2016² to 1 May to 31 May 2018, or later.

This letter explains the background to SHEPD's request. We are minded to direct a new application window between 1 May 2018 and 31 May 2018, or such later dates as directed by us. We are inviting views from stakeholders on our minded-to position.

Background

In 2015, Marine Scotland published the National Marine Plan,³ which provides a framework for all marine activities in Scottish waters, including how submarine electricity cables are laid and protected on the seabed. The National Marine Plan states that subsea cables should be buried to maximise protection, unless it can be demonstrated that burial is not a feasible option. In these cases, cables should be suitably protected "where practicable and cost-effective and as risk assessment directs".

SHEPD have 111 subsea cables, 110 of which are surface lay (ie are not protected). As part of the RIIO-ED1⁴ settlement, we have funded SHEPD for the replacement of 36 of these subsea cables. However this allowance does not cover costs relating to the protection of subsea cables under the National Marine Plan. Because protection costs were uncertain at the time we set the price control, we included an uncertainty mechanism, enabling SHEPD to apply for additional funding to cover the costs of any cable protection required in order to comply with the National Marine Plan.

SHEPD's request

Since 2015, SHEPD have been developing a risk assessment tool (based on Cost Benefit Analysis (CBA) techniques) to understand if it needs to change its engineering practices to

¹ References to the "Authority", "Ofgem" "we" and "our" are used interchangeably in this document to refer to GEMA, the Gas and Electricity Markets Authority. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work.

² as provided for under Charge Restriction Condition (CRC) 3F.11(a) of its electricity distribution licence.

³ <http://www.gov.scot/Publications/2015/03/6517>

⁴ RIIO-ED1 is the current electricity distribution price control which runs from 1 April 2015 to 31 March 2023. For more information, please see the RIIO-ED1 infographic available on our [website](#).

meet the requirements of Scotland's National Marine Plan, in terms of how subsea electricity cables are installed on the seabed.⁵

SHEPD explain (in Appendix 1) that deferring the Subsea Cable Costs uncertainty application window to May 2018 or later will give them the time needed to:

- test the CBA model on eight subsea cables during the marine licence application process with Marine Scotland⁶, commencing in spring 2016 and requiring extended dialogue with all interested marine stakeholders;
- assess what level of reliance they can place on the CBA and its conclusions to inform their cost forecasts; and
- incorporate evidence of cost efficiency from actual cable replacement projects from the year following the Marine Scotland licence award (2017).

This will reduce the uncertainty in their application for additional funding to Ofgem.

Ofgem's minded-to position

In view of the points raised by SHEPD, we consider that it would be appropriate to agree to their request and defer the uncertainty mechanism application window for Subsea Cables Costs under CRC 3F.11(a) to a **window that opens on 1 May 2018 and closes on 31 May 2018, or such later dates as directed by Ofgem.**

Question - Do you agree with Ofgem directing a new application window that opens on 1 May 2018 and closes on 31 May 2018, in respect of Subsea Cable Costs?

Views invited

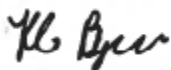
We welcome views from interested parties on our minded-to position to agree to SHEPD's request to direct a new application window under CRC 3F.11(a) for Subsea Cables Costs that opens on 1 May 2018 and closes on 31 May 2018, or such later date as directed by us. The direction, if made, would take effect on or before Tuesday, 31 May 2016.

Interested parties are requested to submit their views on or before **Tuesday 10 May 2016** to Tessa Quinton at Ofgem, 3rd Floor, Cornerstone, 107 West Regent Street, Glasgow, G2 2BA, or by email to RIIO.ED1@ofgem.gov.uk.

We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as confidential. We prefer to receive responses in an electronic form so that they can be placed easily on our website.

If you have any queries in relation to the issues raised in this letter, please feel free to contact Tessa Quinton at RIIO.ED1@ofgem.gov.uk.

Yours faithfully,



Kersti Berge
Partner for Networks and
Head of Ofgem in Scotland

⁵ <http://news.ssepd.co.uk/submarinecables/>

⁶ Certain activities require a marine licence before they can be carried out in Scotland's seas, including how subsea electricity cables are laid and protected on the seabed. Decisions on marine licensing are taken in accordance with the Scottish National Marine Plan and marine licences are issued by Marine Scotland on behalf of the Scottish Ministers.

Appendix 1: Letter from SHEPD entitled "CRC 3F - Arrangements for the recovery of uncertain costs: subsea cable costs" 04 March 2016

A copy of SHEPD's letter to Ofgem can be found on our website at:

<https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-consultation-deferral-application-window-shepd-subsea-cables-costs-uncertainty-mechanism>