

Email: [RIIO.ED1@ofgem.gov.uk](mailto:RIIO.ED1@ofgem.gov.uk)

Date: 1 February 2018

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 6 October 2017, SHEPD submitted a request to the Authority,<sup>1</sup> 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-31 May 2018 to 1 February-28 February 2019, or later.

This is SHEPD's second request for a deferral of the application window. Following an earlier consultation and decision,<sup>2</sup> the application window was moved from 1 May-31 May 2016 to 1 May-31 May 2018.

This letter explains the background to SHEPD's current request. We are minded to direct a new application window of 1 February-28 February 2019, 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,<sup>3</sup> which provides a framework for all marine activities in Scottish waters, including how subsea 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 has 111 subsea cables, 110 of which are surface lay (i.e. are not protected). As part of the RIIO-ED1<sup>4</sup> settlement, we have funded SHEPD to replace c.85km of these subsea cables on a risk based approach. 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,

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<sup>1</sup> References to the "Authority", "Ofgem", "we", "us" 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.

<sup>2</sup> <https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-direction-defer-application-window-shepd-subsea-cables-costs-uncertainty-mechanism>

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

<sup>4</sup> 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](#).

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 has been developing a risk assessment tool (based on Cost Benefit Analysis (CBA) techniques) to understand if it needs to change its engineering practices to meet the requirements of Scotland's National Marine Plan, in terms of how subsea electricity cables are installed on the seabed.<sup>5</sup>

In its previous application for deferral of the application window, SHEPD explained that deferring the Subsea Cable Costs uncertainty application window to May 2018 would give it the time needed to:

- test the CBA model on eight subsea cables during the marine licence application process with Marine Scotland<sup>6</sup>, commencing in spring 2016 and possibly requiring extended dialogue with all interested marine stakeholders;
- assess what level of reliance it can place on the CBA and its conclusions to inform its cost forecasts; and
- incorporate evidence of cost efficiency from actual cable replacement projects from the year following the Marine Scotland licence award (2017).

This was intended to reduce the uncertainty in SHEPD's application to Ofgem for additional funding. However, if uncertainty remained, SHEPD stated that it would be likely to apply to Ofgem to reconsider the suitability of the uncertainty provision.

Progress has been made since the previous deferral application; notably, the CBA has been through a number of iterations and has been submitted to Marine Scotland for review, and SHEPD submitted and has been granted its first Marine Licence, which considers the CBA results under the new National Marine Plan (the 10.4km Rousay – Westray cable)<sup>7</sup>. However, due to the ongoing development of the CBA, fewer than anticipated replacement projects have reached licence award and subsequent delivery stage. As such, uncertainty remains. SHEPD notes in its current deferral application to Ofgem that:

- this has limited its ability to accurately forecast the level of protection that will be required by Marine Scotland over the remaining RIIO-ED1 cable programme; and
- this would not satisfy the requirements of the uncertainty mechanism or provide assurances that future protection costs could be sufficiently justified and therefore recovered through revised RIIO-ED1 allowances.

SHEPD expects there will be a steady stream of applications under the new National Marine Plan in the coming 12-14 months which, in addition to the extended seabed survey programme, will provide it with the necessary evidence and information by the end of 2018 to forecast the incremental protection costs arising from Marine Scotland's licensing decisions.

### **Ofgem's minded-to position**

In view of the points raised by SHEPD, we consider that it would be in consumers' interests to agree to its request and defer the uncertainty mechanism application window for Subsea Cables Costs under CRC 3F.11(a) to **a window that opens on 1 February 2019 and closes on 28 February 2019, or such later dates as directed by Ofgem.**

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

<sup>6</sup> 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.

<sup>7</sup> <http://news.ssen.co.uk/news/all-articles/2018/january/rousay-westray-cable-replacement-given-go-ahead/>

## **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 February 2019 and closes on 28 February 2019, or such later dates as directed by us. The direction, if made, would take effect on or before Thursday, 31 May 2018.

Interested parties are requested to submit their views on or before **Friday 2 March 2018** to Sara McGonigle at Ofgem, 3rd Floor, Commonwealth House, 32 Albion Street, Glasgow, G1 1UH, or by email to [RIIO.ED1@ofgem.gov.uk](mailto: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 Sara McGonigle at [RIIO.ED1@ofgem.gov.uk](mailto:RIIO.ED1@ofgem.gov.uk).

Yours faithfully

**Steve McMahon**  
**Associate Partner RIIO Networks, Electricity**

**Appendix 1: 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**

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-second-deferral-application-window-shepd-subsea-cables-costs-uncertainty-mechanism>