Scottish & Southern Electricity Networks

POWER CUT? CALL 105

North of Scotland 0800 300 999

Central Southern England 0800 072 7282

Sara McGonigle
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02 March 2018

Dear Sara,

SHEPD Response to Ofgem's minded to position to defer the application window for the Subsea Cable Costs uncertainty mechanism under Charge Restriction 3F.11(a).

Scottish Hydro Electricity Power Distribution plc's (SHEPD) support Ofgem's minded to position to defer the application window for SHEPD Subsea Cable Costs uncertainty mechanism from the current window of 1 May-31 May 2018 to 1 February-28 February 2019.

As detailed in Ofgem' s letter date 1st February 2018[1], Scotland's National Marine Plan[2] policies introduced the potential requirement for SHEPD to fully protect or bury any submarine electricity cables replaced during the RIIO-ED1 period. This is a substantial change from our previous practice of surface laying submarine electricity cables, which had proven to be both a cost effective and efficient method of electricity distribution.

SHEPD support the Scottish Government's aims to ensure safety and environmental sustainability in the waters around our coast. That said, as we noted in our response to

[1] https://www.ofgem.gov.uk/system/files/docs/2018/02/subsea_application_window_consultation_2.pdf
[2] http://www.gov.scot/Publications/2015/03/6517

Marine Scotland's consultation on this matter[3], we feel the requirements for cable protection as set out in Scotland's National Marine Plan were made with telecommunication and renewable energy cables in mind and with less consideration to existing submarine electricity distribution cables. The additional requirements have necessitated a significant reappraisal of the business plan for our ongoing maintenance and replacement programme of our submarine electricity cables, not least due to the potential additional costs involved with the burial and/or protection of cables versus our previously preferred approach of laying cables directly onto the seabed.

We have 111 distribution submarine electricity cables[4] providing power to some of the most remote communities in Scotland; in doing so these cables are essential for providing heat and light to our island customers. Our primary aim is to provide a safe and reliable supply of electricity to these communities. We must, however, achieve this while being mindful of our wider social and environmental responsibilities, as well as ensuring that all of the above is achieved while efficiently operating and maintaining the network.

We understand that the replacement of our submarine electricity cables impacts local communities, economies, environment and industry. We have engaged with a range of stakeholders whose views have enabled us to better understand and meet the requirements of the new policies and those of our SHEPD customer base. We have achieved this by collaborating with these groups to develop an innovative cost benefit analysis model, helping us understand the impact of installing every cable in its unique environment, and informing the marine licensing process as we finalise our installation techniques and routes for each cable.

This work has been one of the major factors in our request to defer the application window for the Subsea Cable Costs uncertainty mechanism, but has now left us better placed to forecast the required allowances for the remainder of the RIIO ED1 period, while continuing to work closely with our key stakeholders.

The CBA methodology[5] which underpins our Submarine Cable replacement programme allows us to assess 18 impacts across 4 broader sustainable categories. These categories are Health and Safety, Socio-economic, Environmental and wider economic and engineering impacts. The latest methodology introduced factors considering the health impact of fuel poverty and the natural capital value of the seabed.

We have been granted a Marine Licence to replace the submarine electricity cable between Rousay and Westray in Orkney, which is a 10.4km cable requiring partial protection and burial, and the granting of this license has taken approximately one year to finalise. Due to

[3] http://www.gov.scot/Resource/0044/00440798.pdf
[4] http://news.ssen.co.uk/media/147341/Sub-Elec-Cables-Networks-Locations-merged.pdf
[5] http://news.ssen.co.uk/media/238994/SSEN-CBA-Report.pdf

the extensive consultation undertaken through the development of the CBA methodology, and whilst we consulted on our installation proposals, we were able to incorporate all concerns around the impact our cable would have on safety, environment, and socio-economic factors within our engineering solution. This extensive upfront work has meant that our Marine License was granted with no objections. We plan to continue with this approach to ensure that future applications are determined on as quickly as possible.

The replacement Rousay-Westray cable will be installed by June 2018 and this will substantially inform our reopener application, along with further cables that we are also targeting to replace during the remainder of 2018. These will support our ability to evaluate the additional costs that arise as a result of the additional requirements introduced by the Marine Plan.

We have embarked on a submarine electricity cable inspection programme which is assisting us in better understanding the asset health of our cables and the environment they operate in, to a far greater level of detail and clarity than was available previously. The continuation of this will enable us to provide a risk based assessment of the level of protection which will be required on a cable by cable basis.

The application for and granting of Marine Licences to replace our submarine electricity cables will also provide information on the level of protection required as this is assessed on a case by case basis. Our cable replacement programme and licence application schedule will be informed by the outcomes of our inspection programme in conjunction with our CBA methodology.

It is our opinion that the best course of action in approaching a reopener mechanism for the recovery of uncertain costs is to remove as much of the uncertainty around those costs as possible. The work we have done in developing the CBA methodology and discussions with Marine Scotland over Marine Licences for cable replacement, and engagement with other key stakeholders will enable us to demonstrate a well evidenced cost assessment. This will be further evidenced by the cable replacement projects and inspections that will have been completed over the course of 2018.

SHEPD therefore support Ofgem's minded to position to defer the Subsea Cable Costs uncertainty mechanism from the current window of 1 May-31 May 2018 to 1 February-28 February 2019.

Should you require any clarification on any of the points raised please do not hesitate to contact me.

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Yours sincerely,

Kenny McAllister

Networks Regulation