

# Consultation

## **Statutory Consultation on proposed modifications to the ED1 Price Control Financial Instruments to implement the decision on Scottish Hydro Electric Power Distribution's allowed costs for the Shetland Extended Interim Energy Solution**

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**Contact:** Penny Harandy, Senior Finance Manager

**Team:** Regulatory Finance, Systems and Networks

**Response deadline:** 23 August 2019

**Tel:** 020 7901 7098

**Email:** Penny.harandy@ofgem.gov.uk

We are consulting on proposed modifications to the ED1 Price Control Financial Instruments that are required to give effect to our decision on allowed costs for Scottish Hydro Electric Power Distribution (SHEPD) relating to the Shetland Extended Interim Energy Solution. We would welcome responses from all stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [Ofgem.gov.uk/consultations](http://Ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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## Executive summary

We<sup>1</sup> are consulting on proposed modifications to the Handbook and the PCFM:

1) The introduction of the three new Variable Values, UCSEFEC, UCSESPC and UCSEBC, into the PCFM and Handbook for SSEH would allow it to recover the costs associated with the Extended Interim Energy Solution for Shetland from 2019/20 to 2022/23, along with the ex-ante cost allowances set out for each term.

The introduction of these new Variable Values requires functional modifications to the PCFM, which we consider to be significant. The increase in ex-ante variant cost allowances of £85.4 million will have an estimated allowed revenue impact of £24.1 million over the final four years of the RIIO-ED1 price control.

If, having considered responses to this consultation, we decide to proceed with the changes then we will seek to issue directions to this effect in August 2019. These would modify the RIIO-ED1 Price Control Financial Instruments<sup>2</sup>. We intend for the related PCFM revisions to be reflected in the upcoming November 2019 Annual Iteration Process, setting allowed revenues for the year 2020/21.

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<sup>1</sup> The terms "the Authority", "Ofgem" and "we" are used interchangeably. The Authority is the Gas and Electricity Markets Authority. Ofgem is the Office of the Gas and Electricity Markets Authority.

<sup>2</sup> As defined in CRC 1B (Interpretation of Part 4): the ED1 Price Control Financial Handbook (which contains the ED1 Price Control Financial Methodologies) and the ED1 Price Control Financial Model.

## Context and related publications

### Context

1.1. The RIIO Price Control Financial Models (PCFMs) determine adjustments to the annual revenue allowances for the companies that own and operate the transmission and distribution networks. As they are a part of the network licences, changes to the PCFMs are subject to the normal processes for making licence revisions. This includes functional modifications of the PCFMs and changes in previously agreed allowances, as is the case for this consultation. There are some exceptions that are listed in the licences and can be broadly categorised as either "insignificant" modifications that do not have a material impact on allowed revenue, or changes arising from the RIIO Annual Iteration Processes. On this occasion, the changes proposed are significant and therefore require this statutory consultation to be issued.

### Associated documents

Consultation on Costs of Extended Interim Energy Solution for Shetland

[https://www.ofgem.gov.uk/system/files/docs/2018/05/shetland\\_-\\_interim\\_solution\\_cost\\_assessment.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/05/shetland_-_interim_solution_cost_assessment.pdf)

Decision on allowed costs of Extended Interim Energy Solution for Shetland

[https://www.ofgem.gov.uk/system/files/docs/2018/06/decision\\_on\\_shetland\\_interim\\_solution\\_-\\_final\\_1.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/06/decision_on_shetland_interim_solution_-_final_1.pdf)

Statutory consultation on proposed changes to Scottish Hydro Electric Power Distribution plc's licence associated with the costs of the Extended Interim Energy Solution for Shetland from 2019/20 to 2022/23

[https://www.ofgem.gov.uk/system/files/docs/2018/06/supplementary\\_annex\\_1\\_-\\_shetland\\_licence\\_drafting\\_final.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/06/supplementary_annex_1_-_shetland_licence_drafting_final.pdf)

Decision on changes to SHEPD's licence in respect of costs associated with the Extended Interim Energy Solution for Shetland

[https://www.ofgem.gov.uk/system/files/docs/2018/10/shetland\\_interim\\_solution\\_-\\_licence\\_decision\\_-\\_ls\\_0.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/10/shetland_interim_solution_-_licence_decision_-_ls_0.pdf)

## 1. Implementing SHEPD'S allowed costs for the Extended Interim Energy Solution for Shetland

### Summary

1.1. In October 2018, we modified the Electricity Distribution licence held by SHEPD to allow costs associated with the Extended Interim Energy Solution for Shetland from 2019/20 to 2022/23 to be recovered. We also updated our June 2018 decision on the amount of those costs in light of information received from SHEPD in its response to the consultation on the proposed modifications. In this consultation we propose to make modifications to the Price Control Financial Instruments in order to implement the recovery of those costs.

### Background

1.2. SHEPD is the holder of an electricity distribution licence granted under section 6(1)(c) of the Electricity Act 1989.

1.3. On 30 November 2017, we set out our decision to reject the costs of the Shetland New Energy Solution (SNES)<sup>3</sup>. This was based on external developments and new information, which affected our assessment of the best energy solution for Shetland. Following this, it was agreed that SHEPD would manage an extension of services to meet electricity demand on Shetland to 2025, and would prepare a revised cost submission setting out the associated costs.

1.4. On 11 May 2018, we published a consultation on our minded-to position with regard to the proposed costs for the period in the current RIIO-ED1 price control (2019/20 to 2022/23)<sup>4</sup>. The three key cost areas consulted on were:

- the Extended Interim Energy Solution for Shetland;
- the preparatory work for an enduring solution post 2025; and
- the costs incurred by NG Shetland Link Ltd (NGSLL) since the publication of our minded-to decision on the SNES in July 2017.<sup>5</sup>

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<sup>3</sup> Decision on Shetland New Energy Solution:

<https://www.ofgem.gov.uk/publications-and-updates/decision-shetland-new-energy-solution>

<sup>4</sup> Consultation on the costs of Extended Interim Energy Solution for Shetland:

<https://www.ofgem.gov.uk/publications-and-updates/costs-extended-interim-energy-solution-shetland>

<sup>5</sup> <https://www.ofgem.gov.uk/publications-and-updates/consultation-cost-new-energy-solution-shetland>

1.5. On 29 June 2018, we published our decision with regard to those costs along with another statutory consultation on proposed modifications to SHEPD's licence to allow SHEPD to recover those costs.<sup>6</sup>

1.6. We published our decision to modify SHEPD's licence in respect of these Shetland costs in October 2018 to introduce the new licence terms to facilitate this cost recovery. In this decision we made changes to CRC 2A: Restriction of Allowed Distribution Network Revenue, CRC 2B: Calculation of Allowed Pass-Through Items and CRC 3F: Arrangements for the recovery of uncertain costs and we introduced CRC 2R: Shetland Extension Variable Energy Cost Pass-Through Items into the Licence for SHEPD.

1.7. The modifications made to SHEPD'S licence introduce a number of new licence terms, which are necessary for SHEPD to be able to recover its costs through increased cost allowances. Some of these terms will result in a pass-through allowance and others require an ex-ante, variant cost allowance to be input in the PCFM. We are proposing to modify the ED1 PCFM and the ED1 Handbook by including three new licence terms and their relevant ex-ante cost allowances. These cost allowances will be assessed on an annual basis and the required adjustment to allowed revenue will be calculated by the PCFM a part of the Annual Iteration Process (AIP).

## **Proposed modifications to the RIIO-ED1 Financial Handbook**

1.8. We propose to include the new licence terms UCSEFEC, UCSESPC and UCSEBC, in the Handbook to align the Handbook with the recently modified Electricity Distribution Licence.

1.9. A breakdown of these revisions is shown in Appendix 3 and in the draft modified Handbook in Appendix 6.

## **Proposed modifications to the RIIO-ED1 PCFM**

1.10. We propose to include the following three new terms in the PCFM:

- UCSEFEC values in respect of Shetland Extension Fixed Energy Costs;
- UCSESPC values in respect of Shetland Enduring Solution Process Costs;  
and
- UCSEBC values in respect of Shetland Extension Battery Costs.

1.11. The licensee's opening levels of allowed expenditure for these terms are set out in appendices to CRC 3F as shown below:

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<sup>6</sup> [https://www.ofgem.gov.uk/system/files/docs/2018/06/supplementary\\_annex\\_1\\_-\\_shetland\\_licence\\_drafting\\_final.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/06/supplementary_annex_1_-_shetland_licence_drafting_final.pdf)

**Figure 1: UCSEFEC values in respect of Shetland Extension Fixed Energy Costs**

<b>APPENDIX 9:</b> <b>Opening level of allowed expenditure for Shetland Extension Fixed Energy Costs</b> <b>(£m, in 2012/13 prices)</b> <b>(see paragraphs 3F.4 and 3F.30)</b>									
	Opening level of allowed expenditure								Material Amount
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	
SSEH	0.00	0.00	0.00	0.00	22.9	18.4	17.4	16.8	7.6

**Figure 2: UCSESPC values in respect of Shetland Enduring Solution Process Costs**

<b>APPENDIX 10:</b> <b>Level of allowed expenditure for Shetland Enduring Solution Process Costs</b> <b>(£m, in 2012/13 prices)</b> <b>(see paragraphs 3F.4 and 3F.30)</b>									
	Opening level of allowed expenditure								Material Amount
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	
SSEH	0.00	0.00	0.00	0.00	1.4	0.9	0.7	0.4	0.3

**Figure 3: UCSEBC values in respect of Shetland Extension Battery Costs.**

<b>APPENDIX 11:</b> <b>Level of allowed expenditure for Shetland Extension Battery Costs</b> <b>(£m, in 2012/13 prices)</b> <b>(see paragraphs 3F.4 and 3F.30)</b>									
	Opening level of allowed expenditure								Material Amount
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	
SSEH	0.00	0.00	0.00	0.00	6.32	0.063	0.063	0.063	0.65



1.12. The new licence terms UCSEFEC, UCSESPC and UCSEBC would be included in the PCFM as allowed expenditure Variable Values<sup>7</sup>. This would require the insertion of three additional rows within the PCFM Variable Values Table (or the "Blue Box") in rows 34 – 36. These three rows would be added to the "Input" sheet and in each of the purple Licensee specific sheets; however, they would only relate to SSEH and it is only the SSEH sheet that would contain any cost allowances in the Blue Box. This is because the functionality of the PCFM "Input" sheet requires the Blue Boxes for all of the individual licensee sheets to be kept consistent.

1.13. In order for these allowed costs to flow through the PCFM correctly, they must be allocated to the appropriate Totex categories, by using fixed allocation rates. We propose to fully allocate the UCSEFEC, UCSESPC and UCSEBC allowed costs to the "Controllable Opex" cost category.

1.14. For each of these three new variable values in the Blue box, we must insert a corresponding allocation table, which captures the values for each term along with a fixed allocation percentage rate. Our proposed modifications include three new tables in rows 245 – 270 to capture the new variable values and to fully allocate them to the "Controllable Opex" cost category by setting that category at 100% and all other categories at 0. This has been done on the "Input" sheet and on each of the purple Licensee specific sheets to ensure consistency across the PCFM, but again, would only impact SSEH's allowance.

1.15. For the UCSEFEC, UCSESPC and UCSEBC costs to correctly flow through the Totex calculation, we have also proposed updates to the dependent formulae in cells AJ272:AQ278. These formulae calculate the sum of each category of variant allowed cost.

1.16. A breakdown of these revisions is shown in Appendix 2 and in the modified PCFM in Appendix 5.

1.17. The sum of the opening level of allowed expenditure for all three of the new Variable Values is £85.4 million, as per Figures 1-3, above. Based on the calculations in the PCFM, an increase in SHEPD's variant cost allowances of £85.4 million would have an estimated allowed revenue impact of £24.1 million over the final four years of the RIIO-ED1 price control. This increase in allowed revenue would flow through automatically as part of MODt terms for 2020/21, which will be determined in November each year after the Annual Iteration Process for the last four years of the price control.

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<sup>7</sup> Please note that the proposed changes would be made to the existing ED1 PCFM, which was published on our website on 30<sup>th</sup> November 2018. The modified ED1 PCFM ("*RIIO-ED1 PCFM CC07*") has been published in Appendix 5 to this Consultation document.

## Appendices

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## Appendix 1 – Consultation Response

### General feedback

We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

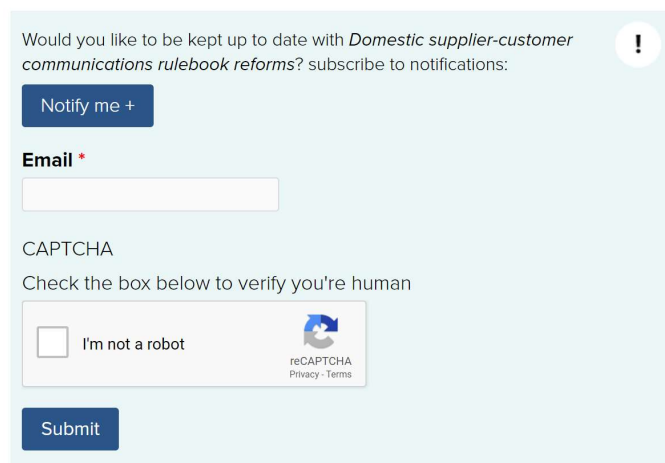
Please send any general feedback comments to [stakeholders@ofgem.gov.uk](mailto:stakeholders@ofgem.gov.uk)

### How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website.

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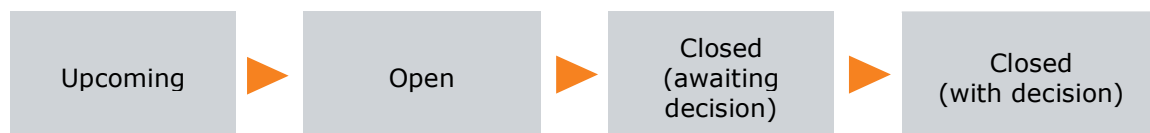
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Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:



## How to respond

We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document's front page.

We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

We will publish non-confidential responses on our website at [www.ofgem.gov.uk/consultations](http://www.ofgem.gov.uk/consultations).

Responses may be made until 5pm on 23 August 2019. Responses may be sent to:

Penny Harandy  
Regulatory Finance  
Systems and Networks  
Ofgem  
10 South Colonnade, Canary Wharf  
London E14 4PU  
Email: [RegFinance@ofgem.gov.uk](mailto:RegFinance@ofgem.gov.uk)

## Your response, data and confidentiality

You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

If the information you give in your response contains personal data under the General Data Protection Regulation 2016/379 (GDPR) and domestic legislation on data protection, the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 7.

If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

## **Appendix 2 – Proposed modifications to the ED1-Price Control Financial Model**

The proposed revisions to the PCFM<sup>8</sup> to implement SHEPD's allowed costs for the Extended Interim Energy Solution for Shetland are shown in Figure 1 and Figure 2 below. The sheet and rows that these changes would be applied to are detailed in the captions to the figures. The proposed revised PCFM is as per Appendix 5.

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<sup>8</sup> PCFM before these changes:  
<https://www.ofgem.gov.uk/publications-and-updates/riio-ed1-financial-model-following-annual-iteration-process-2018>

Statutory Consultation on proposed modifications to the ED1 Price Control  
Financial Instruments to implement the decision on Scottish Hydro Electric Power  
Distribution's allowed costs for the Shetland Extended Interim Energy Solution

**Figure 1: Proposed modifications to the PCFM to introduce the new UCSEFEC, UCSESPC and UCSEBC Variable Values in the "Blue Box"; these proposed modifications would affect the "Input" sheet as well as the 14 purple licensee specific input sheets in the PCFM, in rows 34 – 36.**

6	Parameter	Licence contr	Units	Term	Constant	Annual values							
7	PCFM year ending	ED1 PCFM	CC07.xlsm		31 Mar 2020	31 Mar 2016	31 Mar 2017	31 Mar 2018	31 Mar 2019	31 Mar 2020	31 Mar 2021	31 Mar 2022	31 Mar 2023
10													
11	Allowed percentage cost of corporate debt	CRC 3C	Annual Real %	CDE		2.55%	2.42%	2.29%	2.09%	1.94%	1.94%	1.94%	1.94%
12	Actual load-related capex expenditure	CRC 3B	£m 12/13 prices	ALC		4.0	8.2	7.0					
13	Actual non-load related capex expenditure - asset replacement	CRC 3B	£m 12/13 prices	ANLR		32.2	36.7	36.5					
14	Actual non-load related capex - other	CRC 3B	£m 12/13 prices	ANLO		10.7	12.1	13.6					
15	Actual faults expenditure	CRC 3B	£m 12/13 prices	AFE		10.7	8.7	8.4					
16	Actual tree cutting	CRC 3B	£m 12/13 prices	TRE		6.1	5.8	6.1					
17	Actual 100% 'revenue pool' expenditure	CRC 3B	£m 12/13 prices	ARP		7.3	7.8	6.2					
18	Actual controllable opex expenditure	CRC 3B	£m 12/13 prices	ACO		71.7	81.3	74.3					
19	Allowed Expenditure - Enhanced Physical Site Security	CRC 3F	£m 12/13 prices	UCEPS		-	-	-	-	-	-	-	-
20	Allowed Expenditure - High Value Projects	CRC 3F	£m 12/13 prices	UCHVP		-	-	-	-	-	-	-	-
21	Allowed Expenditure - Visual Amenity Projects (TIM neutral)	CRC 3J	£m 12/13 prices	VAA		-	0.2	0.7	-	-	-	-	-
22	Allowed Expenditure - Worst Served Customer Project (TIM neutral)	CRC 3H	£m 12/13 prices	WSCC		-	-	-	-	-	-	-	-
23	Allowed Expenditure - Smart Meter Roll-out costs	CRC 3E	£m 12/13 prices	SMAE		0.1	0.3	0.4	0.9	0.9	0.6	-	-
24	Allowed Expenditure - Specified Street Works	CRC 3F	£m 12/13 prices	UCSSW		-	-	-	-	-	-	-	-
25	Allowed Expenditure - Load Related	CRC 3G	£m 12/13 prices	LRRC		8.8	10.5	14.2	15.2	19.4	18.9	22.7	21.4
26	Allowed Expenditure - Rail Electrification (WPD)	CRC 3K	£m 12/13 prices	RE		-	-	-	-	-	-	-	-
27	Allowed Expenditure - Moorside Costs (ENWL)	CRC 3L	£m 12/13 prices	UCMC									
28	Allowed Expenditure - Shetland Uncertain Energy (SSEH)	CRC 3F	£m 12/13 prices	UCSFE		20.8	21.1	21.3	22.0	-	-	-	-
29	Allowed Expenditure - Shetland Competitive Process (SSEH)	CRC 3F	£m 12/13 prices	UCCPC		0.6	1.3	1.0	-	-	-	-	-
30	Allowed Expenditure - Link Boxes	CRC 3F	£m 12/13 prices	UCLB									
31	Allowed Expenditure - Subsea Cables (SSEH)	CRC 3F	£m 12/13 prices	UCSC									
32	Allowed Expenditure - Uncertain Rail Electrification Costs	CRC 3F	£m 12/13 prices	UCRE									
33	Allowed Expenditure - Innovation Roll-out Mechanism	CRC 3D	£m 12/13 prices	IRM									
34	Allowed Expenditure - Shetland Extension Fixed Energy Costs (SSEH)	CRC 3CF	£m 12/13 prices	UCSEFEC		-	-	-	-	22.9	18.4	17.4	16.8
35	Allowed Expenditure - Shetland Enduring Solution Process Costs (SSEH)	CRC 3CF	£m 12/13 prices	UCSEBC		-	-	-	-	1.4	0.9	0.7	0.4
36	Allowed Expenditure - Shetland Extension Battery Costs (SSEH)	CRC 3CF	£m 12/13 prices	UCSESPC		-	-	-	-	6.3	0.1	0.1	0.1
37	Pension Scheme Established Deficit revenue allowance	CRC 3C	£m 12/13 prices	EDE		12.9	12.9	12.9	12.9	0.7	-	-	-
38	Other legacy adjustments' price control allowed revenue adjustment	CRC 3A	£m 12/13 prices	OLREV		(4.3)							

Statutory Consultation on proposed modifications to the ED1 Price Control  
Financial Instruments to implement the decision on Scottish Hydro Electric Power  
Distribution's allowed costs for the Shetland Extended Interim Energy Solution

**Figure 2: Proposed modification to the PCFM to introduce the cost allocation table for the new UCSEFEC, UCSESPC and UCSEBC Variable Values in the "Variant Allowances" section; these proposed modifications would affect the "Input" sheet as well as the 14 purple licensee specific input sheets in the PCFM, in rows 245 – 270.**

245	Allowed Expenditure - Shetland Extension Fixed Energy Costs (SSEH)	£m 12/13 prices	-	-	-	-	22.9	18.4	17.4	16.8
246	Allocation to load related capex	%	-	-	-	-	-	-	-	-
247	Allocation to non-load related capex - asset replacement	%	-	-	-	-	-	-	-	-
248	Allocation to non-load related capex - other	%	-	-	-	-	-	-	-	-
249	Allocation to faults	%	-	-	-	-	-	-	-	-
250	Allocation to tree cutting	%	-	-	-	-	-	-	-	-
251	Allocation to 100% 'revenue pool' expenditure	%	-	-	-	-	-	-	-	-
252	Allocation to controllable opex	%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
253										
254	Allowed Expenditure - Shetland Enduring Solution Process Costs (SSEH)	£m 12/13 prices	-	-	-	-	1.4	0.9	0.7	0.4
255	Allocation to load related capex	%	-	-	-	-	-	-	-	-
256	Allocation to non-load related capex - asset replacement	%	-	-	-	-	-	-	-	-
257	Allocation to non-load related capex - other	%	-	-	-	-	-	-	-	-
258	Allocation to faults	%	-	-	-	-	-	-	-	-
259	Allocation to tree cutting	%	-	-	-	-	-	-	-	-
260	Allocation to 100% 'revenue pool' expenditure	%	-	-	-	-	-	-	-	-
261	Allocation to controllable opex	%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
262										
263	Allowed Expenditure - Shetland Extension Battery Costs (SSEH)	£m 12/13 prices	-	-	-	-	6.3	0.1	0.1	0.1
264	Allocation to load related capex	%	-	-	-	-	-	-	-	-
265	Allocation to non-load related capex - asset replacement	%	-	-	-	-	-	-	-	-
266	Allocation to non-load related capex - other	%	-	-	-	-	-	-	-	-
267	Allocation to faults	%	-	-	-	-	-	-	-	-
268	Allocation to tree cutting	%	-	-	-	-	-	-	-	-
269	Allocation to 100% 'revenue pool' expenditure	%	-	-	-	-	-	-	-	-
270	Allocation to controllable opex	%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Statutory Consultation on proposed modifications to the ED1 Price Control  
Financial Instruments to implement the decision on Scottish Hydro Electric Power  
Distribution's allowed costs for the Shetland Extended Interim Energy Solution

**Figure 3: Proposed modifications to the PCFM to update the dependent sum formulae; these proposed modifications would affect the "Input" sheet as well as the 14 purple licensee specific input sheets in the PCFM, in rows 272 - 278.**

6	Parameter	Licence contr Units	Term	Constant	Annual values							
7	PCFM year ending	ED1 PCFM CC07.xlsm		31 Mar 2020	31 Mar 2016	31 Mar 2017	31 Mar 2018	31 Mar 2019	31 Mar 2020	31 Mar 2021	31 Mar 2022	31 Mar 2023
264	Allocation to load related capex	%			-	-	-	-	-	-	-	-
265	Allocation to non-load related capex - asset replacement	%			-	-	-	-	-	-	-	-
266	Allocation to non-load related capex - other	%			-	-	-	-	-	-	-	-
267	Allocation to faults	%			-	-	-	-	-	-	-	-
268	Allocation to tree cutting	%			-	-	-	-	-	-	-	-
269	Allocation to 100% 'revenue pool' expenditure	%			-	-	-	-	-	-	-	-
270	Allocation to controllable opex	%			100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
271												
272	Variant allowed load related capex	£m 12/13 prices			8.7	10.4	14.1	15.1	19.3	18.8	22.6	21.3
273	Variant allowed non-load related capex - asset replacement	£m 12/13 prices			-	-	-	-	-	-	-	-
274	Variant allowed non-load related capex - other	£m 12/13 prices			-	0.2	0.7	-	-	-	-	-
275	Variant allowed faults	£m 12/13 prices			-	-	-	-	-	-	-	-
276	Variant allowed tree cutting	£m 12/13 prices			-	-	-	-	-	-	-	-
277	Variant allowed 100% 'revenue pool' expenditure	£m 12/13 prices			0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
278	Variant allowed controllable opex	£m 12/13 prices			21.5	22.6	22.7	22.9	31.5	20.0	18.2	17.3
279												



## Appendix 3 – Proposed modifications to the ED1-Price Control Financial Handbook

### Changes are proposed to the following sections:

#### Contents

#### Chapter 2. The ED1 Price Control Financial Methodologies

- a. Table 2.1 – PCFM Variable Values that can be revised under CRCs and the methodologies in this Handbook

#### Chapter 6. Totex Incentive Mechanism – financial adjustment methodology

- a. Table 6.1 – Charge Restriction Conditions with provisions to revise PCFM Variable Values relating to allowed Totex expenditure levels

#### Chapter 7. Uncertain costs allowed expenditure – financial adjustment methodology [applicable to SSEH only]

- a. Section 1 – Overview
- b. **New Section:** Section 10 – Methodology for determining relevant adjustments in respect of Shetland Extension Fixed Energy Costs (SSEH only)
- c. **New Section:** Section 11 – Methodology for determining relevant adjustments in respect of Shetland Enduring Solution Process Costs (SSEH only)
- d. **New Section:** Section 12 – Methodology for determining relevant adjustments in respect of Shetland Extension Battery Costs (SSEH only)
- e. Section 13 – Determination, notification and direction of revised PCFM Variable Values for uncertain cost activities

## Appendix 4 – Glossary

### Allowed Revenue

The amount of money that a network company can earn on its regulated business.

### Annual Iteration Process

The Annual Iteration Process is the process set out in CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model) that uses revised PCFM Variable Values in the ED1 Price Control Financial Model to recalculate base revenue figures for the licensee for the Price Control Period. The product of each Annual Iteration Process is the value for the term MOD<sub>t</sub> which is a component term in the formula for the licensee's Base Demand Revenue (see below). The Annual Iteration Process is completed by 30 November in each Regulatory Year t-1 during the Price Control Period.

### MOD Term (MOD<sub>t</sub>)

The MOD term represents the incremental change to be applied to the licensee's Opening Base Revenue Allowance for the Regulatory Year concerned and the difference between the recalculated base revenue figures held in the PCFM for Regulatory Years t-1 and earlier with the appropriate Time Value of Money Adjustment. Values for the MOD term are calculated under the Annual Iteration Process

The value of MOD<sub>t</sub> is specified in a direction given by the Authority by 30 November in each Regulatory Year t-1.

### Opening Base Revenue

The amount in 2012/13 prices, represented by the term PU<sub>t</sub>, included in the licensee's Base Demand Revenue for a particular Regulatory Year. This is our estimate made at the start of the price control of the amount of money that a network company can earn on its regulated business.

### Regulatory Asset Value (RAV)

A financial balance representing expenditure by the licensee which has been capitalised under regulatory rules. The licensee receives a return and depreciation on its RAV in its price control allowed revenues.

### Total expenditure (Totex)

The term used to describe the licensee's total expenditure (with limited exceptions) on regulated business activities. It includes both capital and operating expenditure items. The Totex approach facilitates the equalisation of incentives (between capital and operating expenditure solutions) under the Totex Incentive Mechanism. There are some specified exceptions which are listed in the Regulatory Instructions and Guidance<sup>9</sup> for a list of these exceptions.

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<sup>9</sup> Latest version for RIIO-ED1:

<https://www.ofgem.gov.uk/publications-and-updates/direction-make-modifications-regulatory-instructions-and-guidance-rigs-riio-ed1-version-50>

## **Appendix 5 – RIIO-ED1 PCFM CC07**

See associated subsidiary document published alongside this consultation titled *Appendix 5 – RIIO-ED1 PCFM CC07*.

## **Appendix 6 – RIIO-ED1 Price Control Financial Handbook**

See associated subsidiary document published alongside this consultation titled *Appendix 6 - RIIO-ED1 Price Control Financial Handbook v4.1 (slow-track licensees)*.

## Appendix 7 – Privacy notice on consultations

### Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

#### 1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at [dpo@ofgem.gov.uk](mailto:dpo@ofgem.gov.uk)

#### 2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

#### 3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

#### 3. With whom we will be sharing your personal data

***(Include here all organisations outside Ofgem who will be given all or some of the data. There is no need to include organisations that will only receive anonymised data. If different organisations see different set of data then make this clear. Be as specific as possible.)***

#### 4. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for ***(be as clear as possible but allow room for changes to programmes or policy. It is acceptable to give a relative time e.g. 'six months after the project is closed')***

#### 5. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3<sup>rd</sup> parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

**6. Your personal data will not be sent overseas** (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use "the Data you provide directly will be stored by Survey Monkey on their servers in the United

States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this".

**7. Your personal data will not be used for any automated decision making.**

**8. Your personal data will be stored in a secure government IT system.** (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

**9. More information** For more information on how Ofgem processes your data, click on the link to our "[Ofgem privacy promise](#)".