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30 August 2019

Dear Victoria

Consultation on RIIO-ED1 price control reopeners (May 2019)

Thank you for the opportunity to respond to Ofgem's consultation published on 2 August 2019, setting out initial views on the May 2019 Price Control Reopener submissions. SSEN has provided its response to each of the questions set out in the consultation document below.

High Value Projects

SSEN is mindful that the reopeners were provided for under RIIO-ED1 to address uncertainties regarding the need for projects, timing and costs at the time of setting RIIO-ED1 Business Plans. The primary purpose of reopeners is to review evidence and justification for projects, including costs at a point when there is sufficient certainty to confirm expenditure is economic and efficient. As such it is critical that any submission meets the basic criteria set out under Special Licence Condition CRC3F. SSEN is concerned that several projects submitted do not appear to meet basic requirements set out in the Licence.

SPD's Accelerated Electric Vehicle Investment High Value Project:

SSEN agrees with Ofgem's assessment and the proposal to reject the request for an adjustment.

We agree with SPEN that there has been a "material change in circumstances" since RIIO-ED1 submissions were prepared, in relation to the accelerated update of EVs. We expect the impact leading into RIIO-ED2 to be even more significant following recent Government announcements in relation to net zero carbon emissions by 2050. While this will undoubtedly have a material impact on the need for network reinforcement, and in

particularly the need for anticipatory investment, we do not believe this is sufficiently well understood at this stage and more importantly, we agree with Ofgem's assessment that the submission does not align with the criteria set out in Licence for a High Value Project. In particular, it not clear from the information provided that costs relate to a specific project or number of projects. It appears that this will be determined at a later stage. As such we do not believe there is sufficient certainty of need or efficiency of expenditure.

SPMW's High Speed 2 High Value Project:

We agree with Ofgem's assessment of this project and the proposal to reject the request for an adjustment.

Our experience of the HS2 project in the SEPD Distribution Services Area has been that all the work we have been required to undertake has been funded by the project and there has been no additional requirement for wider customer funding. Also, our assessment of proposals presented by SPMW indicate the need for investment following wider growth in demand, caused by increased economic prosperity as a result of HS2 is not sufficient certain and has not been sufficiently justified. It also does not appear to relate to a single project. As such it does not meet the basic requirements of a High Value Project as set out in the licence.

SPEN (SPD and SPMW) 33kV Cable Systems

We agree with Ofgem's assessment of this project and agree with the proposal to reject the request for an adjustment.

SSEN feels the salient point in this case is that this appears to relate to a contractual matter and therefore it is not apparent that the full risk should be borne by customers. The fundamental regulatory principle is usually that some risk should sit with those best able to manage it.

SHEPD's Pentland Firth East Subsea Cable Replacement High Value Project

We are pleased that Ofgem has recognised the need to replace this critical part of electricity distribution network infrastructure and have provided, in Appendix 1, details of the further analysis requested by Ofgem to demonstrate the proposed option (Option 1) is the most economic and efficient solution overall, when compared to the other 5 Options developed and assessed by SSEN. Option 1 is capable of meeting critical criteria, particularly in relation to delivery timescales to maintain security of supply.

In response to Ofgem's concerns regarding consistency of data regarding current and future demand, Appendix 1 provides details of the methodology used to forecast future demand and the demand forecast as set out in SHEPD's 2017/18 Long Term Development Statement used for planning purposes. We note that other figures presented to Ofgem at different points in time relate to different circumstances or different time periods and are not the basis on which planning is carried out.

As can be seen in Appendix 1 under Option 1, when taken together, the proposed replacement cable for Pentland Firth East (30MVA) and Pentland Firth West (30MVA) are capable of providing combined capacity of **60MVA**. This is sufficient to meet future demand as set out above and provides additional headroom for future years to accommodate continued demand growth. However, planning standards also require consideration of ability to meet demand with the loss of one subsea cable. As is currently the case, the loss of either cable would continue to require the operation of Kirkwall Power Station. As this can provide up to 15.5MW this is sufficient to meet current and future demand as set out above.

Kirkwall Power Station (standby generation) is currently considered to be in good condition and planned to operate through to 2035. We believe this is a sufficiently long lead time to justify the proposed solution. There are also several options available to address future needs; including innovative and flexible solutions. We are also discussing with Ofgem the option of SHEPD contributing to a Transmission link from the Mainland to Orkney. Ofgem has recently consulted on this proposal. Given the anticipated asset life for Kirkwall Power Station we do not believe this is a risk or that it detracts from the solution proposed.

In terms of ensuring a holistic approach is taken to meeting all future needs on Orkney, as discussed with Ofgem previously, Option 1 has been identified as being the most economic and efficient solution while also achieving the critical timescales.

In terms of meeting future generation requirements, **none of the distribution options presented are capable of meeting future generation requirements, as presented to Ofgem under the Transmission Needs Case.**

Given the critical nature of this project and the timescales required to maintain security of supply, the solution proposed by SHEPD (Option 1) is currently being progressed by SHEPD and is due for installation by the end of April 2020.

SHEPD's Great Western Railway Electrification Project

We are pleased that Ofgem has concluded there is a need to carry out the works and that costs presented are economic and efficient. We note comments in the informal feedback consultation regarding insufficient information to form a view but believe full detail has been provided to Ofgem.

SPMW's High Speed 2 Rail Electrification Project

We agree with Ofgem's assessment of this project and the proposal to reject the request for an adjustment. HS2 is a separate project and is separately provided for. As stated above, we have also worked with the HS2 project and our experience has been that all relevant work has been appropriately funded by the project.

NPG's Enhanced Physical Site Security Costs

We agree with Ofgem's assessment of this project and agree with the proposal to accept the request for an adjustment. At the time of the informal consultation the published version of NPG's submission for Enhanced Physical Site Security Costs appeared to present a clear and well justified case for funding. Ofgem's minded to position (despite reducing the requested adjustment amount) appears to confirm this view.

If you have any questions on the information we have provided please do not hesitate to contact me.

Yours sincerely

Beverley Grubb

Acting Head of Networks Regulation (Electricity Distribution)