

Mr Leyun Kong
Network Output Measures
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

Your ref

Our Ref

Date:

24th September 2020

Contact / Extension

David Adam
0141 614 1866

Electricity Transmission Network Output Measures Rebasing Consultation

Dear Leyun,

Thank you for providing the opportunity to comment on the results of your rebasing evaluation and the proposed modification to Special Licence Condition 2M 'Specification of Network Replacement Outputs'.

We welcome confirmation that the translation of our existing (volume based) targets to equivalent monetised targets has passed the multi-stage assessment process established by Ofgem, and that Ofgem considers the 'Rebased Targets' to be as equally challenging as our existing/ 'Original Targets', which were established at the start of RIIO-T1.

Changing the specified outputs within the final year of the RIIO-T1 Price Control period serves no purpose without a clearly defined methodology of assessing the delivery of the outputs. Our plans to achieve the Original Targets are now substantially complete, and given the lead time associated with the delivery of transmission asset replacement schemes, we are not in a position to alter these plans, either to reflect the adoption of a monetised risk approach or mitigate any consequent impacts.

We are therefore concerned with Ofgem's proposal to simply substitute the existing Table1 within Special Licence Condition 2M with a similar table reflecting the Rebased Targets, without addressing the very significant issues of how the Transmission Owners performance against these will be assessed. Through engagement, it has been acknowledged that this area needs to be addressed and that the definitions of 'materially equivalent output' cannot simply be transferred from the existing assessment methodology to the rebased version, given the significant differences in the calculation of monetised risk and in particular the monetisation of consequence, which now considers many more aspects than when the Original Targets were set.

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We note that within Network Output Measures Incentive Methodology (paragraph 1.5.1) Ofgem acknowledged that there was uncertainty with regards to the practical application of that methodology to those sectors which had not yet agreed monetised risk targets and that Ofgem would undertake a review of the applicability of the methodology once the monetised risk targets were finalised for these sectors. We believe that this would be the right time for such a review to be undertaken, and we would welcome the clarity that such a review could bring to our understanding of the assessment methodology to be applied to Electricity Transmission and how this relates to the monetised risk targets being set. Any sector specific amendments to the Network Output Measures Incentive Methodology, which may be identified by the review, could then be undertaken at the same time as the licence changes to reflect the change to monetised risk targets.

We acknowledge that further work is required throughout RII02 to ensure that the NOMs Methodology continues to be improved and kept up to date. We will continue to work with the other Transmission Owners, and where appropriate Ofgem, to refine and review the methodology going forward.

In response to the specific questions which you have posed in your consultation, our responses are as follows:

- *Do you agree with our rebasing assessment methodology?*

Yes, we agree with the rebasing methodology adopted by Ofgem.

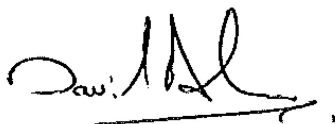
- *Do you agree with our view that the Rebased Targets satisfy the Rebasing Principles?*

Yes, we also agree that the Rebased Targets satisfy the Rebasing Principles outlined within the consultation document.

- *Do you agree with our minded-to decision to approve the ETOs' Rebased Targets and to modify their licences in order to substitute them for the Original Targets?*

Whilst we agree with Ofgem's minded-to decision to approve the translated/ Rebased Targets, we do not agree that these should be simply substituted into the Licence. The existing/ Original Targets should not be replaced within the Licence without further clarity on how TOs performance will be assessed against the Rebased Targets.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Adam', with a horizontal line underneath it.

David Adam
Transmission Network Manager,
Network Planning & Regulation