

Office of Gas and Electricity Markets (Ofgem)

FAO: Mohamed Khalif
10 South Colonnade
Canary Wharf
London E14 4P

16 March 2021

Dear Mohamed

Net Zero and Re-opener Development (“NZARD”) UIOLI Allowance Governance Document

I am pleased to enclose a response from SSEN Transmission¹ to Ofgem’s consultation on the NZARD UIOLI Allowance Governance Document.

We support both the introduction of this UIOLI allowance and the clear guidance provided by Ofgem on expenditure eligible under this mechanism. It is vital that the price control has sufficient flexibility built in to allow network companies to prepare for and deliver Net Zero at lowest cost to the consumer, while maintaining world-class levels of system reliability. The path to Net Zero remains uncertain and mechanisms such as this will let SSEN Transmission complete some of the preparatory and facilitative works needed to support delivery some of the projects we intend to bring forward at a later stage via the Net Zero Re-opener and MSIP mechanism.

We have some suggestions on how the scope of the allowance and the Governance Document itself could be improved:

- We understand why Ofgem have set strict definitions on the eligible expenditure on this mechanism, with the fund only available for early development work like desktop studies, optioneering, FEED studies, technical design and consenting. However recognising both (i) the flexibility which underpins the introduction of this mechanism and (ii) the uncertain nature of future net zero development, we suggest that Ofgem should add a general condition which allows expenditure on other activities which network companies can reasonably evidence have been undertaken to help facilitate the delivery of projects under the net zero-related re-openers.
- In a similar vein, we suggest that Ofgem allow small land purchases as eligible expenditure. As it stands, the only land-related expenditure which network companies may incur under this mechanism is to secure planning consent for the project (including planning consultations, wayleaves, legal costs, and

¹ References to SSEN Transmission encompass the licenced entity Scottish Hydro Electric Transmission plc Registered in Scotland No. SC213461.

planning applications). While welcome, this provision could be extended further to allow land purchases up to the per-project expenditure limit (provided network companies can reasonably justify such purchases as necessary early development);

- We understand the rationale behind the maximum cap which can be spent on an individual project using this UIOLI allowance but suggest Ofgem should allow network companies to flex this cap if required on an exceptional and justified basis; and,
- Section 4 of the Governance Document defines the “The Net Zero and Re-opener Development use-it-or-lose-it allowance” as “*the allowance set out in this Governance Document.*” We accept that the allowance is referred to within the Governance Document. However, the allowance is set out and established within the relevant condition in network companies’ RIIO-T2 licence (i.e. SpC 3.5 for SSEN Transmission). We suggest that the Governance Document should refer to the appropriate licence condition, in order to avoid any future confusion if e.g. Ofgem were to change the NZARD UIOLI allowance amounts.

Please note that while not explicit from the drafting in the licence, it is our working assumption that unspent funds in each regulatory year will be carried over into subsequent regulatory years. Ofgem should make this explicit in the Governance Document.

We trust that these comments are clear but please do not hesitate to contact us if you have any questions or comments about our feedback.

Yours sincerely

David Howie
Senior Regulation Analyst
SSEN Transmission Regulation