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Date  
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Dear James

## Consultation on Mid-Period Review parallel works

This response is from SP Transmission plc (SPT) the onshore Transmission Owner (TO) for the South of Scotland. As a TO, SPT is subject to the RIIO-T1 price control framework and must ensure that it develops an economic, efficient and coordinated onshore transmission system.

In general SPT agrees with Ofgem's approach to the Mid Period Review (MPR) parallel work on Output Accountability (Voltage Control) and the Western HVDC, however, Ofgem's position on SPT's Generation Connections Volume Driver is inconsistent with other aspects of the consultation and is in conflict with RIIO principles in addition to Ofgem's general duties under the Electricity Act.<sup>1</sup>

On a related and highly topical matter, the Scottish Government is currently consulting on its Energy Strategy<sup>2</sup> which has a clear focus on renewables with a 100% target for installed renewables capacity by 2020. This is further evidence that now is not the time to disincentivise TOs from delivering outputs required by stakeholders.

### Output Accountability (SP Transmission Voltage Control) and WHVDC

Ofgem's approach to Output Accountability (voltage control in SPT's licence specifically), is in line with RIIO principles. SPT agrees that if the need for a particular output is delayed, its delivery should also be delayed. However, if an emerging need has arisen elsewhere on a company's network it should be funded, as such circumstances cannot be forecast and are entirely outside a network operator's control.

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<sup>1</sup> The quicker solutions which SPT is now proposing be included in Special Licence Condition 6F.13 promote competition in generation in the interests of consumers, consistent with Ofgem's duties under section 3A (1A) and (1B) of the Electricity Act 1989. Furthermore, the quicker and more efficient solutions which SPT proposes are also central to the connection of low and zero carbon emission generation, which is a core interest of consumers and engages Ofgem's duties under section 3A (1A) of the Electricity Act 1989.

<sup>2</sup> <https://consult.scotland.gov.uk/energy-and-climate-change-directorate/draft-energy-strategy/>

Similarly, the position on SPT's trigger mechanism for funding overhead line works reflects the RIIO principles in that additional outputs, if efficiently delivered, will be funded.

With regard to its position on the Western HVDC, Ofgem is proposing that where funding is received ahead of expenditure, costs should be recovered for consumers. SPT accepts this in principle and looks forward to working with Ofgem to develop the required detail of the proposal further. It is SPT's view that a consultation on the financial detail will be required to be published once an appropriate approach has been determined.

### **SPT's Connection Volume Driver**

Ofgem's minded to position on SPT's Generation Connections Volume Driver is a regressive departure from the current regulatory framework where outputs lead revenues. Ofgem's position, effectively establishes a ceiling for the amount of capacity SPT should deliver, conflicting with the goals of SPT's stakeholders. This includes renewables developers and the Scottish Government who has recently re-strengthened its policy towards renewable energy.

Furthermore, Ofgem's position conflicts with the underlying principles of SPT's existing licence condition which is an uncertainty mechanism intended to accommodate the customer driven changes to the volume and location of customer driven generation connecting to SPT's network. Ofgem's position will disallow expenditure associated with efficient infrastructure solutions, which are more economic than the alternative solutions they would allow, ultimately benefitting the consumer in the longer term.

This position contradicts RIIO principles:

*"Under the RIIO price control settlement, companies are required to deliver agreed outputs for consumers and are funded to cover the costs of delivering these. The eight-year price control settlement includes a number of uncertainty mechanisms to take account of the fact that some outputs and funding cannot be set with certainty at the start of the period."<sup>3</sup>*

In addition, it does not follow the principles behind the RIIO T1 Final Proposals which state that the Volume of new shared use infrastructure uncertainty mechanism is a:

*"Volume driver for shared use infrastructure to flex revenues as customer requirements for installed capacity of assets during RIIO-T1 exceed the baseline capacity output 1,073MVA"<sup>4</sup>.*

It is clear that the policy intent behind the Final Proposals was to provide a flex to revenues to ensure that SPT was protected from uncertain events beyond its control.

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<sup>3</sup> Decision on a mid-period review for RIIO-T1 and GD1 12th May 2016

<sup>4</sup> Final Proposals 23rd April 2012, page 23

If implemented, Ofgem's position would constitute a fundamental shift away from its regulatory approach to connecting new renewable generation specifically, only funding network companies to deliver outputs generally. This is inconsistent with its position on other aspects of the MPR and the parallel work and is not of benefit to stakeholders, including the consumer.

In adopting the above approach, Ofgem considers that delivering necessary investment efficiently to create additional required capacity constitutes an over spend. Its proposal fails to recognise that the output associated with shared use infrastructure is measured by the relevant asset capacity measured in MVA and this output is subject to a volume driver above a certain baseline threshold.

This can be construed as not providing equitable treatment in comparison to other TO's who similarly have outputs based on capacity (MVA), subject to a volume driver.

Ofgem's position undermines RIIO principles and incorrectly applies the TOTEX sharing mechanism. In contrast, SPT's proposal will enable the delivery of economic and efficient solutions to connect renewable generation and encapsulates the principles of the TOTEX mechanism.

The description of this issue and Ofgem's interpretation of SPT' proposal in the consultation document does not accurately reflect the situation in its entirety and is misleading. In SPT's opinion it will therefore be difficult for respondents to properly understand its potential ramifications and be disadvantaged in providing a comprehensive response.

Detailed responses to this consultation are included within the attached appendix.

Yours sincerely,



Scott Mathieson  
**Director, Network Planning and Regulation**  
SP Energy Networks

## Appendix 1: Answers to Specific Questions

### Chapter 1

#### **Question: Do you agree with the scope of the MPR parallel work?**

SPT agrees the scope is reasonable given that other areas such as the discretionary reward scheme will be considered elsewhere. However SPT would highlight in respect of its generation connections volume driver that the changes it is proposing are consistent with the scope of the MPR parallel work which states:

*1.3. The RIIO price controls included a mid-period review (MPR) to address changes in government policy, and changes to consumers' and network users' needs. The MPR provides a mechanism to add, remove or adjust outputs to reflect these changes. The MPR recognises the forecasting difficulties of an eight year price control period.*

Ofgem's position on this aspect of the parallel work does not appear to adhere to this principle.

### Chapter 2

#### **Question: Do you think we are right to focus on the output purpose where there is ambiguity to decide when an output is delivered? If not, please explain why and provide evidence.**

Yes SPT agrees, in principle, that a focus on an output purpose is often appropriate. This allows for efficient solutions to be deployed. A good example of this is Generation Connections (shared infrastructure) where the output purpose is increased capacity to accommodate new generation. The solutions deployed to achieve this should be the most economic and efficient available on a case by case basis. Deploying such efficient solutions will benefit customers the most.

In the Consultation Ofgem acknowledge that focusing on the purpose of the outputs 'will encourage companies to find alternative ways of delivering and manage changing circumstances - it also avoids the risk of companies building things that are not needed' (para 2.6 of the Consultation). SPT has taken the approach of finding the most efficient solution to achieve the purpose of accommodating new generation and is penalised for doing so.

#### **Question: What do you think about our alternative options including focusing on the detailed output specification or output declassification? Will they achieve our purpose? Can you think of any other alternatives?**

TOs are obliged to deliver an economic, efficient and co-ordinated network. This requires them to make appropriate decisions on asset management and network investment. The focus of output accountability should be on recognising where this is achieved and where it is not. This may well require a case-by-case approach where different outputs require different considerations. Ofgem

should therefore continue to consider both output specification and output purpose in their approach to output accountability.

**Question: Do you agree with our proposed approach to hold NGGT to account if it complies with the IED requirements? If not, please explain why and provide evidence.**

SPT does not wish to comment on the specifics of a Gas Transmission output. However, the following comment is offered on the basis of a direct parallel with SPT's generation connections volume driver.

SPT agrees with Ofgem's position as it encourages efficiency and innovation and consumers will benefit via the TOTEX sharing mechanism. This approach is in stark contrast to the approach proposed for SPT's connections volume driver which disallows more efficient solutions which are proposed, rather than adhering to those that are specified.

**Question: Do you agree with our approach to consider the output delivered if SPT manages voltage across its network efficiently? If not, please explain why and provide evidence.**

SPT, as a Transmission Owner, offers solutions to the GB System Operator (SO) to allow them to manage voltage. The original need to respond to the potential closure of Hunterston B has been delayed, which is outside the control of SPT. The need for voltage control in another part of SPT's network was jointly identified by SPT and the SO following the early closure of Longannet power station among other factors. It is appropriate to allow this on the basis that the output purpose was voltage control.

### Chapter 3

**Question: Do you agree with our proposed approach to delay allowances due to the delivery of the Western HVDC? If not, please explain why and provide evidence.**

Both companies through their joint venture are completely committed to delivering the project as efficiently, effectively and timeously as possible. However, SPT considers Ofgem's proposed approach to delay allowances is reasonable and will benefit the consumer.

**Question: Do you have any views on how we should delay allowances? Please explain and provide evidence.**

SPT agrees with Ofgem's 'minded to' position which proposed to delay the allowances to align with actual spend. SPT looks forward to working with Ofgem to develop the necessary detail of the proposals and suggest that this is consulted on at a later date.

**Question: Do you have any view on how we should treat payments and in-kind benefits from suppliers paid to compensate for the delay? Please explain and provide evidence.**

SPT agrees with Ofgem's proposal in principle that consumers should share in any cash benefit accrued from suppliers to mitigate delay, rather than passing these on in full. This is consistent with RIIO principles and ensures TO's are incentivised in contract negotiations to maximise benefits for consumers.

**Question: Do you agree that we should accept National Grid Gas Distribution's (NGGD) proposal to return £53.9 million? If not, please explain why and provide evidence.**

No Comment.

**Question: Do you agree with our proposed approach not to amend SPT's connections volume driver? If not, please explain why and provide evidence.**

SPT does not agree with the proposed approach which undermines a key principle of the RIIO framework that necessary outputs which are efficiently delivered are fully funded. SPT will now set out in detail why it has taken this position.

### **Ofgem has Misunderstood our Proposal**

SPT's proposal is intended to fill a gap in the RIIO framework by calibrating its licence condition 6F to include all the necessary and innovative solutions which it is currently developing to efficiently deliver shared use infrastructure capacity. The existing licence includes a limited set of solutions, as envisaged prior to the commencement of the price control, to calculate an allowance for capacity measured in MVA above SPT's baseline target output of 1073MVA.

SPT is proposing to add additional assets to the licence condition to reflect the economic and efficient solutions it is deploying to deliver the required output. In a circumstance where the licence is not updated as Ofgem propose, SPT will be placed in an untenable position – development of solutions that exactly fit the existing mechanism but may not be the most efficient or potentially delay works until they can be appropriately funded. SPT does not consider that this provides the most appropriate funding approach and is therefore not in the best interests of any stakeholders, whether they be customers, consumers or government.

Ofgem's minded to position misrepresents SPT's proposal by suggesting it is seeking additional funding of £81m for a fixed output. This highlights a lack of understanding of the existing licence condition and the purpose of SPT's proposal. The minded to position is consequently inconsistent with RIIO principles and detrimental to consumers. It is therefore important for all stakeholders that SPT clarifies its position as follows.

### **Our Existing Licence Condition 6F**

Special licence condition 6F specifies the basis for the calculation of Allowed Expenditure for the connection of new or additional generation to SPT's transmission system. The licence condition

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comprises an ex ante base line allowance and a volume driver for both sole use and shared use infrastructure.

The ex-ante allowance for sole-use infrastructure comprises £68m<sup>5</sup> to deliver 2503MW of new generation – with additional capacity funded on a £k/MW basis. As Ofgem is aware, SPT's current forecast is below this figure and, on this basis, SPT will be returning allowance to consumers. As a result, and despite deploying efficient technical solutions, SPT is forecast to over-spend of c£32m against allowance for an output of 2090MW of new generation capacity. This illustrates that companies do not always benefit financially as a result of reduced outputs.

The ex-ante allowance for shared-use infrastructure includes £112million to deliver 1073MVA capacity of shared infrastructure. If additional capacity is required above this value a volume driver is utilised based on a set of assets including substations, overhead lines and civil works which are used to determine the allowance to be recovered for the increase in capacity. SPT forecast to deliver 4229MVA capacity in RIIO-T1. Ofgem agreed that the most appropriate approach for SPT in the development of shared use infrastructure was utilisation of a set of unit cost allowances for assets delivering additional capacity. By way of comparison, had SPT utilised a £k/MVA approach<sup>6</sup> and delivered the forecast increase in capacity this would translate to an under-spend against allowance of c£260m in RIIO-T1.

Example: illustrating the efficiency of SPT's request if it applies the same basis to its shared use infrastructure as was applied in SHETL's:

	<b>MVA</b>	<b>£m</b>
<b>Baseline</b>	1073	112.2
<b>Additional Required</b>	3156	457.6 <sup>7</sup>
	<b>SPT Forecast Costs</b>	-311
	<b>SPT Outperformance</b>	<b><u>258.8</u></b>

The full set of solutions SPT is deploying to deliver the shared use capacity is not fully represented in the existing licence. For example, there are no cable or overhead line uprating solutions. The allowance SPT would recover for these solutions cannot therefore be explicitly calculated using the existing licence. SPT's proposal is to close this gap by updating the licence with a comprehensive set of assets that reflect the full set of solutions that are now utilised by SPT.

SPT's proposal – to extend the range of unit cost solutions – can be delivered at reasonable cost to all parties. SPT recognise that there is a degree of under-spend against allowance for shared use infrastructure of c£37m (10%), with much of this arising in achievement of the baseline target. In overall terms however, for generation connections, SPT's proposals and forecast translate to a potential marginal under-spend against allowance of c£5m (1%). This appears to SPT to be a fair

<sup>5</sup> 2009/10 prices

<sup>6</sup> Rate determined on same basis as sole-use infrastructure

<sup>7</sup> 3156MVA x £0.145m (The Unit cost allowance of £0.145m equals the total project costs of £155.6m/total MVA to deliver 1073MVA)

and reasonable outcome of a properly calibrated incentive mechanism. SPT's proposal ensures that it can continue to help stakeholders in delivering government renewable targets whilst asking consumers to fund only necessary, economic and efficient works.

### **SPT's Proposal is to Update its Licence with Economic and Efficient Solutions**

The additional set of assets that SPT include the uprating of existing assets such as overhead lines, extensions to existing substations and the use of wood pole overhead lines and cable solutions. This would allow for a more accurate expenditure allowance for these solutions to be calculated.

It is therefore highly misleading and erroneous for Ofgem to state (para 3.65):

“SPT forecasts that adding assets to the volume driver would increase its allowance for shared use connections by £81 million.”

SPT's proposal is not a request for additional funding – rather it is a proposal to ensure that SPT is appropriately funded to deliver the most economic and efficient solutions to meet customer needs. The requirement for additional expenditure is triggered by the need for additional capacity. SPT's proposal is intended to benefit consumers by developing a more accurate mechanism for calculating its allowance for shared use infrastructure. It is closing a gap in the RIIO framework – a fundamental driver behind the MPR – to reflect the economic and efficient solutions SPT is deploying to deliver the necessary additional output.

For example, SPT is extending an existing 275kV substation but the nearest equivalent allowance is a 400/132kV substation. Where SPT is uprating existing overhead lines, the only equivalent solution in the mechanism is a new double circuit construction. The allowance for these solutions is significantly more than the incremental solutions it is able to deploy. SPT has brought forward its proposal to improve the licence condition to reflect the inclusion of these solutions. This, in fact, has the effect of reducing the potential allowance SPT can legitimately recover. Where this allowance would exceed expenditure it would be shared with consumers according to the Totex sharing factor.

Ofgem must recognise that what is proposed is a solution to improve the licence and potentially reduce SPT's allowance to better reflect the economic and efficient solutions SPT is deploying, and is in the best interests of consumers.

### **Ofgem's Position Reflects an Incorrect Interpretation of the Existing Mechanism**

SPT notes that Ofgem does not appear to recognise that the necessary provision of additional shared-use infrastructure capacity above its target of 1073MVA is an additional output:

*3.68. We recognise that SPT may be required to spend more than the funds the connections volume driver provides. However, this is no different to SPT being required to spend more than what a fixed allowance provides. We also see this risk as being similar*

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*to SPT needing to do additional work that was not foreseen or the scope of a project expanding resulting in an overspend. SPT bears this risk in the price control settlement.*

In SPT's discussions with Ofgem, it has confirmed this position is based on an understanding that increased capacity above SPT's baseline (SPT's forecast is 4229MVA) is not an additional output but an overspend resulting from an inaccurate forecast. SPT considers that this view is incorrect and not consistent with key RIIO principles.

SPT considers Ofgem's proposal reflects a misunderstanding of its RIIO licence. For example, the RIIO-T1 Final Proposals – Supporting Document, para 6.28 states:

*“Therefore, we have agreed with SPTL to set an **output** for the shared use infrastructure programme in its baseline **on the maximum installed asset rating**...”*

Referring to clause 6F.14 of SPT's licence condition, the Relevant Installed Asset Rating capacity in MVA Delivered by Shared-use Generation Connections is defined by the “NAR” term and the threshold *Capacity* above which the volume driver applies is set is when the  $NAR > 1073MVA$ . The calculation of variant allowed expenditure includes components that are expressed in terms of the Relevant Installed Asset Rating capacity in MVA.

Considering both SPT's licence condition and Ofgem's Final Proposals, it is definitive that the generation connection shared use infrastructure output is capacity measured in MVA.

Having established that the existing mechanism's express purpose is to provide allowed expenditure for additional shared use infrastructure capacity, an uncertain output, it is important to address Ofgem's 'minded-to' position. This position fails to recognise that the uncertainty is addressed through a volume driver mechanism based on the additional capacity in MVA of shared-use connections infrastructure above SPT's baseline.

Ofgem does appear to understand in some parts of the consultation the need for additional capacity:

*3.59. SPT is required to offer to connect generators to its electricity transmission network. The number and cost of these connections is difficult to forecast. A volume driver was introduced to manage this uncertainty.*

*3.62. SPT forecasts to deliver 1073 MVA of shared use infrastructure over RIIO-T1. SPT now forecasts to deliver 4229 MVA of shared use infrastructure to connect new generation to the network. Much of this increase has been seen in concentrated areas. For example, in the Coalburn/Linmill area over 800 MW is contracted to connect compared to the expected 70MW originally forecast.*

This demonstrates that Ofgem acknowledges an increase to the capacity of shared use infrastructure represents an additional output delivered. On this basis it is also necessary for

Ofgem to accept the allowance for these additional outputs above the baseline is provided for by SPT's licence condition 6F as a volume driver. This was clearly acknowledged by Ofgem at the time of SPT's Final proposals:

*6.27. On the basis of the information provided by SPTL we consider there is sufficient justification to set a volume driver based on a schedule of unit costs for the shared use connections infrastructure.*

Para 6F.12 of SPT's licence provides the volume driver mechanism to calculate the allowance for shared use infrastructure above the baseline value of 1073MVA as follows:

*"For the purposes of the Principal Formula, the value of  $VSHE_k$  is to be derived in Relevant Year  $t$  for Relevant Year  $k$  in accordance with the following formula:*

$$VSHE_k = \sum_c (SHRD_{c,k} \times DFlag_c) + SOM_k$$

where:

$SHRD_{c,k}$  means the Shared-use Composite Cost for project  $c$  in Relevant Year  $k$  and is calculated in accordance with paragraph 6F.13 of this condition.

$DFlag_c$  means the proportion of Shared-use Generation Connections in Relevant Year  $k$  that exceeds the Threshold Capacity set out in Table 1 and is derived in accordance with paragraph 6F.14 of this condition.

$SOM_k$  means the operation and maintenance allowance for total amount of Shared-use Generation Connections Delivered above the threshold in Relevant Year  $k$  and is calculated in accordance with paragraph 6F.15 of this condition.

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The “Dflag” term as defined above proves the argument that this is a volume driver mechanism based on additional capacity calculated in MVA above the baseline threshold of 1073MVA. It is further clarified in para 6F.14:

*“The value of  $Dflag_c$  for all projects commissioned in year  $k$  is to be derived from such of the following formulas as is applicable:*

- (a) *If  $NAR_k \leq 1,073MVA$  then  $DFlag_c = 0$ .*
- (b) *If  $NAR_k > 1,073MVA$  then:*

$$Dflag_c = \frac{NAR_k - \max(1073, NAR_{k-1})}{NAR_k - NAR_{k-1}}$$

where:

$NAR_k$  means the Relevant Installed Asset Rating capacity in MVA Delivered by Shared-use Generation Connections as at 31 March of Relevant Year  $k$ . “

It is clear, based on SPT’s licence condition, that the increase in the shared use infrastructure capacity is a variable output driven by the location and volume of new generation that is funded by a volume driver as set out in SPT’s price control agreement.

Yet Ofgem makes the statement in para 3.63

*“ SPT reports that due to the change in location and quantity of connections, different types of assets will be required. For example, increasing the capacity of existing lines rather than building new ones. These assets are not included in the current connections volume driver. This means that SPT will receive no funding if these assets are installed. Any costs that are incurred will be considered as an overspend and shared with consumers through the total expenditure sharing mechanism. “*

For Ofgem to argue that this should be considered as overspend is logically incorrect. It is the increased capacity measured in MVA that is the output that determines SPT’s allowance and not the solutions SPT adopts to deliver this output.

Ofgem’s minded to position leads to an outcome whereby they exclude the economic and efficient solutions we are required to deliver. This undermines the RIIO-T1 principles and the basis of SPT’s price control agreement as set out in its RIIO-T1 licence.

### **Ofgem Incorrectly Assert that Funding Additional Assets is an Overspend**

Based on the facts SPT has established above, that its licence condition is a volume driver intended to calculate revenue for increased shared use infrastructure, SPT cannot accept

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Ofgem's position that its increased expenditure of £289 million to meet the target of 4229MVA is an overspend. Ofgem states in Paragraph 3.68:

*"We recognise that SPT may be required to spend more than the funds the connections volume driver provides. However, this is no different to SPT being required to spend more than what a fixed allowance provides. We also see this risk as being similar to SPT needing to do additional work that was not foreseen or the scope of a project expanding resulting in an overspend. SPT bears this risk in the price control settlement."*

This is an untenable and contradictory position: if the licence condition is a volume driver it follows that the assertion by Ofgem that SPT is seeking to vary the principles of the TOTEX mechanism as stated in para 3.69 is incorrect:

*"We consider that we should treat overspends the same as we treat underspends. If we make no changes in areas where SPT expects to underspend we should also make no changes in areas SPT expects to overspend. To do otherwise would be asymmetric and unfair to consumers. It would leave the risk of higher costs solely on consumers while allowing SPT to benefit from lower costs where they arise."*

SPT disagrees with this, and maintain its proposal is entirely consistent with the TOTEX mechanism. This is understood by recognising SPT's proposal comprises two stages:

Stage one is based on the genuine need to respond to changes in the connections environment by designing the most economic, efficient and innovative solutions to meet the changing need and generation background. Ofgem agrees with this as stated in para 3.62:

*"SPT forecasts to deliver 1073 MVA of shared use infrastructure over RII0-T1. SPT now forecasts to deliver 4229 MVA of shared use infrastructure to connect new generation to the network. Much of this increase has been seen in concentrated areas. For example, in the Coalburn/Linmill area over 800 MW is contracted to connect compared to the expected 70MW originally forecast."*

The second stage of SPT's proposal comprises the submission and agreement of efficient unit costs for each of these alternative solutions where they do not exist in its licence currently. This approach still exposes SPT to risk, as if it is unable to deliver the solutions to the agreed forecast costs, it would bear the share of overspend. Similarly, if SPT was able to deliver the solutions more efficiently, it would share the benefits with consumers through the TOTEX mechanism. This is fair and symmetrical and in line with RII0 principles.

### **Ofgem's Minded to Position Undermines Innovation and Efficiency**

SPT's proposal is to update the licence to reflect the innovative, economic and efficient solutions it is delivering to provide increased shared use capacity. For example, the use of high temperature low sag conductor. This solution was subject to a winning IRM bid in 2015 and has been deployed on existing circuits to connect new generation. The impact of this on consumers

was the avoided cost of a new double circuit overhead line, which was the traditional solution that would have to have been deployed, saving the consumer more than £55m<sup>8</sup>.

Ofgem's 'minded-to' position is, effectively, preventing the deployment of this solution by disallowing the 'business-as-usual' funding (ie. post-IRM) of this new conductor for the duration of the price control in SPT's licence area. It should be noted that other licensees could use these solutions due to the alternative mechanisms they have in place to deliver shared use infrastructure.

The other assets SPT has proposed include wood pole overhead line solutions and cables. These were not included in SPT's original price control submission due to the types of infrastructure that could be reasonably be foreseen to comprise the majority of its shared use infrastructure above its best view output of 1073MVA. By not accepting these solutions as appropriate expenditure, Ofgem is undermining the principle of efficient behaviour SPT adheres to.

### **Contradictions and Inconsistencies in Ofgem's Position**

SPT understands Ofgem's position is to reject the addition of new assets into its licence condition on the basis this would lead to an increase in SPT's allowance. As SPT has shown above, this is a misunderstanding of the mechanism which is intended to calculate an allowance based on the additional outputs. Ofgem's 'minded-to' position is therefore inconsistent with the existing mechanism in SPT's licence.

Ofgem's position is further undermined by its proposal that allows additional output to be funded where it is achieved by the set of asset options in the existing licence. It would appear by this that Ofgem considers that where capacity is provided by an option in the licence it is an output and will be funded by the volume driver mechanism. However, where the capacity is provided by an option not yet in the licence, Ofgem categorises this as an overspend. Rejecting SPT's proposal to fund the same output using new assets, even where they are more efficient options (attracting a lower allowance), is contradictory. This creates a paradox where SPT has identified a more efficient solution to provide the outputs which it cannot deploy as it is not funded and it cannot deploy a solution to deliver the outputs for which it is funded as it has identified a more efficient alternative. This does not appear to constitute reasonable regulation, therefore SPT would welcome an explanation from Ofgem why this is the case.

Finally, the proposed approach by Ofgem is directly contradicted by their approach to National Grid Gas Transmission's (NGGT) compressors output. In that case, Ofgem acknowledges that NGGT have identified a more efficient solution to deliver the stated output (IED compliance) and propose that the allowances should focus on the output purpose, rather than the asset specifics. This is directly comparable to SPT's connections volume driver: the output purpose is to deliver necessary additional shared-use capacity. SPT can find no logical explanation for the inconsistent treatment of outputs.

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<sup>8</sup> The total combined cost of uprating the relevant circuits using the latest HTLS conductor technology is £44.5m, whereas the BaU would cost in excess of £100m- SPT IRM Application submission.

### Is it Reasonable to make this Change?

The increase in the required shared use connection capacity since SPT's RIIO-T1 price control submission is entirely driven by the needs of network users.

At all times throughout the price control SPT has designed the most economic and efficient schemes in accordance with its licence obligation D3. SPT expected Ofgem to support this approach and that Ofgem had not intended for SPT to limit its design solutions to those sets of assets identified in licence condition 6F. Indeed Ofgem's Final Proposal Supporting document states:

*6.36. Similarly SPTL will be 100% remunerated for shared used infrastructure to connect contracted generation that exceed the baseline planned output of 1,073MVA installed asset rating from the schedule of costs in Table 6.2 below*

Table 6.2 comprised the set of assets SPT had identified at the time, but SPT has subsequently identified that in some circumstances it is necessary to deploy other options not included in this table.

Ofgem has also sought to deal with other omissions or gaps in SPT's licence throughout the price control period, for example Special Condition 6H. Arrangements for the recovery of uncertain costs were updated to capture the omission of Non-Load Related Work Costs. Special Condition 3D. Stakeholder Satisfaction Output base line values, weighting and algebra were updated based on evidence from three years of survey and KPI evidence that was not available at the beginning of the price control.

Ofgem's current position with respect to SPT could be considered to be discriminatory. There is another TO with a mechanism that is similar in nature i.e. provision of additional allowance for shared use infrastructure above a target capacity through a £k/MVA arrangement. In their case, they are also forecasting to deliver outputs above target, however, SPT is not aware that any associated infrastructure investment is being treated as an over-spend against allowance.

There seems to be no precedent to argue that it is unreasonable, or not in consumers' interests, to accommodate SPT's proposals and SPT urges Ofgem to reconsider its position.

**Question: Do you agree that we should not make changes to the NTS exit capacity incentive? If not, please explain why and provide evidence.**

No comment

**Question: Do you agree with our proposed approach to continue to monitor this output for the remainder of RIIO-GD1 and require companies to justify where they fail to meet this output? If not, please explain why and provide evidence.**

No comment.

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**Question: Do you agree that we should change the targets for the loss of supply output for the remainder of RIIO-GD1, continue to monitor performance and require companies to justify where they fail to meet this output? If not, please explain why and provide evidence.**

No comment.

**Question: Do you agree with our proposed approach to make no changes to this output for the remainder of RIIO-GD1, to continue monitoring this output and to require companies to justify where they fail to meet this output? If not, please explain why and provide evidence.**

No comment.

**Question: Do you agree with our proposed approach to this trigger mechanism? If not, please explain why and provide evidence.**

SPT agrees with this approach. The existing mechanism, Special licence Condition 6H that provides for the projects currently, unnecessarily limits the timing of the delivery of these projects. Additionally, the uncertain timing and scope of the strategic wider works project unlinks the interdependency that was envisaged at the time of SPT's RIIO-T1 price control submission. The assessment of these projects as routine non-load activity is therefore appropriate.

**Question: Do you agree with our approach to these outputs?**

No comment.