

Consumers and their
representatives, energy
suppliers, network companies
and other interested parties

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Dear All,

Statutory Consultation on our proposal to modify Special Condition 6F (Baseline Generation Connection Outputs and Generation Corrections volume driver) ("SpC 6F") of Scottish Hydro Electric Transmission plc's ("SHET") electricity transmission licence

In our discussions with SHET and as part of our wider review processes, we have identified logical errors in the algebra in SpC 6F of SHET's electricity transmission licence. This condition details expenditure allowances for the Generation Connection Outputs and Generation Connections volume driver set at Final Proposals¹ and contributes to SHET's revenue allowances for its provision of electricity transmission services.

We believe the errors in SpC 6F reduce transparency in the allowance calculations. The errors primarily cause issues with the calculation of interim allowances rather than final post-reconciliation values for actual capacity delivery. To promote consistency, we have reviewed and propose changes to the algebra in SpC 6F. We believe the revised algebra more logically implements the policy intention.

Over time the impact of the errors on SHET's revenue and the cost to consumers will be approximately neutral. This is because the errors only affect interim allowance calculations. The application of these errors in the previous Annual Iteration Processes (AIP)² has meant that the interim allowances have not been reflective of the policy intention in Final Proposals. Allowances have been calculated such that when they are input into the Price Control Financial Model (PCFM) the result is a lower allowed revenue relative to the logical intention of the policy. This would only be fully corrected two years after the end of this price control period (when there is no more reliance on capacity delivery forecasts). Our proposal to clarify the algebra in SpC 6F and to simplify its implementation resolves this issue.

We estimate that had the formulae in SpC 6F been correctly written and implemented at the start of the price control, SHET's allowed revenue to date would have been approximately £16 million (6%) more. Eventually this will be reconciled (including account of the time value of money), but it is our preference to resolve these errors as soon as reasonably practicable.

This consultation seeks views on our proposals to correct the algebra in SpC 6F. We are not proposing any changes to policy in Final Proposals.

¹ <https://www.ofgem.gov.uk/publications-and-updates/rrio-t1-final-proposals-sp-transmission-ltd-and-scottish-hydro-electric-transmission-ltd>

² <https://www.ofgem.gov.uk/network-regulation-rrio-model/price-controls-financial-model-pcfm>

Appendix 1 to this consultation uses the tool MS Word "Track Changes" to show the proposed changes to SpC 6F. Appendix 2 to the consultation is an MS Excel workbook that is an implementation of the calculations as described by the proposed corrections.

Question 1: Do you agree with the proposed corrections and agree that these do not deviate from the policy in Final Proposals?

Question 2: Do you agree that the workbook is an accurate reflection of the proposed corrections and, therefore, that the workbook would be appropriate for use when determining the expenditure allowances?

Next steps

We would like to hear from interested parties about whether they agree that these corrections are appropriate. We encourage interested parties to engage with us in advance of submitting a response if they require any further explanation of the original inconsistencies, the changes we are proposing or the operation of the workbook. You can do so by using the contact details provided below.

Please include any reasoning and evidence in your answers.

You can ask us to keep your response confidential by clearly marking it confidential and providing reasons and we'll respect this, subject to obligations to disclose information such as the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. However, we would like to publish as much of your response as we can. To help us achieve this goal we would appreciate it if confidential material could be provided in a separate appendix to your main response. This should also be clearly marked as confidential with reasons provided. Unless you mark your response confidential we'll publish it on our website www.ofgem.gov.uk and put it in our library.

If the information you give in your response contains personal data under the Data Protection Act 1998, the Gas and Electricity Markets Authority will be the data controller. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000.

Responses should be received by 5pm on 13 September 2017.

Responses should be sent to:
RIIO Finance, Networks, Ofgem, 9 Millbank, London, SW1P 3GE.
Email: RegFinance@ofgem.gov.uk

General feedback

We believe that consultation is at the heart of good policy development. We are keen to hear your comments about how we've conducted 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 your comments to stakeholders@ofgem.gov.uk