

James Norman,
Head of New Transmission Investment,
Ofgem
10 South Colonnade
London
E14 4PU

26 November 2019

Dear James,

Consultation on Ofgem's assessment of capital costs for the Hinkley Seabank electricity transmission project:

Scottish Hydro Electric Transmission plc (SHE-Transmission) welcomes the opportunity to respond to Ofgem's Consultation on its assessment of capital costs for the Hinkley Seabank electricity transmission project, published on 15/10/2019.

Our response is attached below and is not confidential.

If you would like to discuss any part of our response in more detail, please do not hesitate to contact me.

Yours sincerely,

Shane Ali

Regulation.

Consultation on Ofgem’s assessment of capital costs for the Hinkley-Seabank electricity transmission project

Question 1: Regarding T-Pylons, do you agree with our initial views in relation to:

a) National Grid Electricity Transmission’s (NGET) approach to proposing T-Pylons in its planning application?

SHE-T does not have sufficient information from the consultation itself to inform a position on NGET’s approach to proposing T-Pylons as part of its planning application. We cannot comment on Ofgem’s initial views as we have not seen all the documents and evidence submitted and reviewed as part of NGET’s proposals. It would seem from the consultation that NGET believed T-Pylons were justified in order to receive the necessary planning consents.

We are aware that the Development Consent Orders (DCO) process requires resubmission of an application from the beginning if refused upon submission. It also does not allow for alternatives to be submitted as part of the submission process. As a result, refusal could work to add significant delay, costs and potentially reduce net benefits to consumers.

b) Disallowing £11.3m of T-Pylon ‘development costs’?

SHE-T does not agree with Ofgem’s reasoning for disallowing £11.3m for development costs attributable to T-Pylons.

SHE-T notes that not all innovation can be planned or foreseen and therefore it may not be identifiable through specific innovation funding streams. Innovation can sometimes occur ‘on the job’, and not necessarily through innovation allowances. As a result, there could be future benefits derived from innovation through project-specific spend. If these are identifiable and measurable then funding should be allowed.

The RIIO-T1 price control framework is specifically aimed at incentivising Transmission Owners (TOs) to operate this way and considering new and innovative approaches is standard practice for the TOs. Ofgem should also clarify how it distinguishes between TOs keeping up to date with new industry standards vs. what it classes as innovation.

c) Allowing £12.3m of additional costs for T-Pylons along the route?

SHE-T does not agree with allowing only £12.3m of additional costs for T-Pylons along the route. We feel that Ofgem has not demonstrated strong and robust justification in its consultation for the reduction in NGET's additional costs estimates.

SHE-T assumes the £24.6m of costs presented by NGET are derived from tendered costs with relevant supporting evidence as part of its submission. Ofgem's proposal only represents half of the requested total on the grounds of NGET not demonstrating value for consumers. As we have not seen the willingness to pay evidence submitted by NGET we cannot comment this reduction. Also, having not seen the Project Assessment (PA) and supporting documentation, we cannot comment on Ofgem's views as to whether NGET offered sufficient justification of the costs and benefits that T-Pylons may have provided relative to lattice towers and other subsequent points raised relating NGET's cost efficiencies.

Question 2: Do you agree with our proposals on how to treat high impact, low probability (HILP) and difficult to quantify risks?

SHE-T does not agree with Ofgem's proposals on the treatment of HILP risks and difficult to quantify risks. Specifically, Ofgem's threshold for HILP risks, as it would require a significant overspend to qualify for consideration.

We do agree that HILP risks should not be funded upfront, i.e. *"if these risks occur, they should be considered for funding through a specific and targeted cost reopener mechanism"*. SHE-T supports a cost reopener mechanism to compensate for HILP events that are out with a TO's control where it can make claims for incurred additional costs where a qualifying event occurs.

We are concerned, however, with Ofgem's proposal that these costs would only be recoverable through the reopener if, individually or collectively, the HILP events reach 10% of the total project capex. The nature of HILPs are project specific and therefore can vary based on the unique characteristics of the project. As such, Ofgem should consider these on a project specific basis, with strong justifications for any removals, which were not evident in its consultation. Furthermore, uncertainty can be created over the quantification and impact of the risk rather than the likelihood of occurrence, as such Ofgem should consider these on a case by case basis.

Question 3: Do you have any views on our proposed treatment of other costs not covered in questions 1 and 2?

In terms of other costs, SHE-T disagrees with the Ofgem's reductions in the Project Management related costs. TOs are experienced in delivering complex major projects. As such, it is not for Ofgem to suggest a reduction in staff and resource levels. This could make the project less safe, with increased risk of inefficient delivery in terms of time and budget and potentially add even greater costs over the long term.

It is also unclear as to the reasoning behind Ofgem's reduction in the tendered costs (including undergrounding, overhead lines and the Sandford substation). If this is linked to Ofgem's own benchmarking analysis, then SHE-T would like to re-iterate that we believed this analysis to be flawed previously when applied to our own SWW project submissions.