

Jourdan Edwards
Ofgem
10 South Colonnade
London
E14 4PU

17 May 2023

Dear Jourdan,

Statutory Consultation on a proposal to modify the Special Conditions of the Electricity Transmission Licence held by National Grid Electricity Transmission Plc

I am pleased to enclose a response from SSEN Transmission to the above statutory consultation. It provides our view on the proposed outputs and project allowances to be added to SpC 3.14 of National Grid Electricity Transmission (NGET)'s Electricity Transmission licence special conditions to reflect Ofgem's decision on NGET's 2022 Medium Sized Investment Project (MSIP) re-opener submission.

Implementation of MSIP Price Control Deliverable outputs (PCDs)

Our view is that Ofgem's approach to implementing PCDs for NGET's 2022 MSIP projects sets outputs at an appropriate level of detail for the scale of the projects, and the outputs established in this licence condition are in line with those set for similar projects as part of the baseline RIIO-T2 settlement.

However, we question whether it is appropriate for Ofgem to set retrospective delivery dates (31 March 2023) for these projects that fall before the date that these PCDs were added to NGET's licence. The Price Control Deliverable Reporting Requirements and Methodology Document sets out that licensees are required to submit a Basic PCD Report along with the RRP for the reporting year in which the PCD completion date is set. Given this consultation closes on 17 May 2023 and the proposed modifications can only take place 56 days after Ofgem implements its decision, a licence obligation for NGET to submit Basic PCD Reports will likely take effect very close to the submission deadline for the 2022/2023 RRP. In our view a more pragmatic approach would be for Ofgem to ensure that any delivery dates it sets for PCDs allow the licensee sufficient time to submit a Basic PCD Report on time – in this instance delivery dates of 01 August 2023 would allow for submission of Basic PCD Reports alongside the 2024 RRP.

Reduction in allowances due to categorisation of indirect costs

In relation to the decision by Ofgem to maintain its reduction of project allowances due to re-categorisation of contractor indirect costs, we fundamentally disagree with Ofgem's approach.

In its decision, Ofgem has reduced funding requested for contractor preliminary activities that comprise site set up, site civils along with site management and supervision. Such activities form a crucial part of any major electricity transmission construction project, and for all TOs these would have been included as capex at the RIIO-2 Business Plan submission stage (consistent with Ofgem's guidance), as prior to this the requirement had not been in place to capture these costs separately. These costs would therefore not be recovered via the Opex Escalator (OE) mechanism, and Ofgem's removal of these from NGET's project funding means TOs are essentially unable to fund such activities.

We also dispute Ofgem's assertion that TOs have failed to quantify the impact of this re-categorisation of costs – as highlighted in the joint-TO letter issued 17 May 2023, the impact of Ofgem's re-categorisation of contractor indirect costs across our £260m MSIP portfolio would be an underfunding of £50m.

The decision also notes that baseline allowances for RIIO-ET2 were not disputed at the time they were set. This is correct however all data was produced and provided in accordance with Ofgem's guidance¹ and so there was no reason to dispute the allowances set as a result of this. Had Ofgem applied its current proposed approach from the outset of RIIO-ET2 we would have disputed Ofgem's categorisation of costs as we would not have had the required data to report contractor indirect cost separately from broader contractor costs, and as such the OE would have been set at an insufficient rate.

It is evident that attempting to calculate the OE rate using one set of data and then applying inconsistently to future cost data is an error. We therefore encourage Ofgem to reconsider its approach ahead of any formal decision that will be based, wholly or partly, on an error of fact.

Yours sincerely,

Craig Molyneux
Senior Regulation Analyst
SSEN Transmission

¹ RIIO-T2 Electricity Transmission Price Control – Guidance on Business Plan Data Templates: Version 1.4 published 20 September 2019