

SSEN Transmission (SHE- T) Ofgem Open Meeting 27 October 2020

Questions and Answers Session

The following includes a summarised transcript of the Q&A session at SSEN Transmission's¹ Open Meeting with Ofgem on 27 October 2020, along with answers to the questions which were submitted by stakeholders at the event but due to time constraints, SSEN Transmission was not given the opportunity to answer on the day.

1. Jonathan Brearley (Ofgem CEO):

I want to focus on net zero and the question of making this price control adaptable to make sure that we get the investment needed to get to net zero. Are there particular things you want to highlight here that we should be focusing on so that we deliver what I think is a shared ambition to make sure we get the necessary investment in place, but equally to make sure that investment really is robust on behalf of consumers?

Alistair Phillips-Davies (SSE CEO):

Yes, and I'm sure that the Ofgem team will make sure that our plans are robust for consumers. We have a huge challenge ahead of us with the additional renewable generation which needs to be connected, in a market that is highly competitive for things like cables and materials. One of our other green business areas have already seen huge areas of cost increases as we move forward and there is more competition for getting hold of the supply chain.

Overall, we are pleased with what we have seen from Ofgem's engineering team in terms of improving the Totex position, but we need to be careful as we cannot deliver our outputs at a 10-30% discount to what we have said in our Business Plan, as this isn't credible in today's market.

On Uncertainty Mechanisms – we need to find workable mechanisms, but it is not zero cost to delay making decisions now. If we do not have enough base Totex agreed now, when we have already done a lot of work on it, then we will not be able to go out to teams of people who have got a chance of delivering our plan. There's the team size for one thing. A team delivering £1.6bn worth of Totex is not going to be able to deliver £3- 3.5bn of Totex, unless there is a substantial delay. It is striking that balance.

What we need to do is get through the economic and engineering work, make sure that the Uncertainty Mechanisms are focused on the right areas, but make sure that we also have the right base Totex.

¹ SSEN Transmission is also known as Scottish Hydro-Electric Transmission (SHE-T)

Rob McDonald (Managing Director, SSEN Transmission):

The four specific areas we think Ofgem need to focus on are;

1. The Totex and Totex allowances - a cut of a third challenges the ability for us to deliver those outputs;
2. Pre-construction - we need a better mechanism to balance the protection of consumers from uncertainty but equally funding upfront the necessary investment we need to make in development;
3. Volume Driver - we have put some proposals in front of the Ofgem team to consider; and lastly
4. Uncertainty Mechanisms - we suggested a mechanism 'in and out' with 6 months for a decision. That is not the only possible answer, but we do need something that is genuinely agile and flexible which I am sure we can achieve if we put our collective minds to it. We managed it in T1, and we should not lose sight of that, but the Draft Determination proposals need a major re-think.

2. Jonathan Brearley:

I just wanted to touch on one last thing that the Challenge panel raised. The plans going forward to the run rates in the past, can you explain some of the differences there?

Alistair Phillips-Davies:

There is a huge challenge in front of us as we are facing a substantial amount of investment in the north of Scotland, given the Saudi Arabia of renewable energy which we've heard more than one country leader talk about). The scale of challenge around Net Zero is getting bigger and bigger.

It is unfortunate that the Challenge Group didn't think we had all the plans in place before, but we have been running harder as the world has changed very quickly around us. If you look at the sheer scale of that, there has been an enormous change in the appetite of people to deliver things when you look at what's required both onshore and offshore.

Rob McDonald:

To add some numbers for a bit of colour, we started the T1 period with a regulatory asset value (RAV) of £700m. We currently have a RAV of £3.3bn, so there you can see the growth that Alistair mentioned. Even on the Ofgem numbers, we will finish T2 with a RAV of around £5bn, so you can see the huge growth in the company. And that's why comparisons between spend on operations and maintenance five/six years ago compared to what we're going to spend during the next period is a real apples and pears comparison given the absolutely massive growth.

3. Christine Farnish (Ofgem Non-Executive Director)

We've talked already about the Uncertainty Mechanism and how important that's going to be over the RIIO-2 period. On the Ofgem side, we're absolutely committed to making sure that we work at pace and efficiently to deliver the decisions in a timely way, but I'd like to ask the firm here, the network operator, what you think you could do, to facilitate this process and make sure that we do

get to timely and efficient decisions?**Alistair Phillips-Davies:**

God is in the detail here, and I'll be interested in how far the discussions have got. I'll let Rob talk about delivering something that is truly workable and what everybody wants.

Rob McDonald:

The question is accepted that it's incumbent on the companies to put in good submissions. If Ofgem is to make quick and efficient decisions, then it's essential that the companies put in good and detailed submissions, and that's a fair challenge.

Going beyond that, there's a lot of work we can do together to agree to the conditions, policies and framework for these submissions to reduce recurring discussions - clear the underbrush before we submit these things. For example, we seem to have a discussion, re-invent the wheel almost, every time about how we assess constraints. So, should we have a policy on how we value and assess constraints in all the different options? Another example would be carbon pricing. There are lots of different things where we should have a good discussion, decide the standard, and that's the standard which is used so we are not re-inventing the wheel every time we submit one of these. The underlying premise of the question, I take it, is that it is incumbent on our company to put in good submissions.

The only other point I'd make is that we need earlier engagement with Ofgem, although this can be less formal. Ofgem will then have a good line of sight about what is coming down the pipeline. As ever, good planning can solve a lot of problems in life, it's not something we're good at as an industry and it's something we can get better at.

4. Min Zhu (Deputy Director, System and Networks, Ofgem):

Delivering net zero outcome at efficient cost to consumers obviously will require quite a bit of bridging between your local needs and the wider system requirements. How do SSEN Transmission see yourselves playing an effective role in that space?

Alistair Philips Davies:

On a corporate level, we're fortunate that we've got a wide range of business interests, whether that be customers, distribution, flexible thermal or renewable generation. At the highest levels in the company we have the broadest, widest and most detailed view of the energy systems across the UK and how they can work effectively.

Equally, we have always been committed to listening to stakeholders and we have done more and more work with stakeholders than ever before as part of this overall process. When you put those two things together, we start off from a very good, strong position.

Rob McDonald:

From a transmission perspective, in terms of whole system, we have a very good track record, in fact sector leading we would argue. In Shetland, the UK's biggest demonstration of a whole system solution, working with distribution colleagues and renewable generators on the island to get an integrated solution that has saved customers in excess of £100m by adopting that solution. That's a real tangible example of the whole system philosophy that we adopt.

More generally, we work with organisations like the Energy Networks Association and other partners in terms of developing local energy plans; again, making sure we're thinking about whole system implications.

There needs to be recognition on the scale of the challenge to connect the scale of the renewable generation we're facing in our patch. From National Grid's Future Energy Scenarios - and it doesn't matter which publication you focus on - in any one of those scenarios you're seeing generation in the North of Scotland growing from roughly 8GW's to 20GW's. We need to build a network that is capable of doing that, so we need to think of whole system solutions and other technologies where we can. But faced with that significant growth, we're going to see huge investment.

In short - the track record that we can point to, with specific developments that we've undertaken, speaks for itself.

5. Simon Wilde (Senior Financial Advisor, Ofgem):

On slide 10 and 11 of your presentation, you draw our attention to your concerns on the allowed Cost of Equity. In an international context, do you recognise that rates are coming down in most international markets? And have you had a chance to review Moody's conclusion where they looked at similar AAA rated regulatory regimes? That European's regulatory returns are converging at around 6% nominal (4% CPIH), and in that respect the Draft Determinations are very much centre of the pack. Countries like France, Netherlands, Belgium etc. are below these levels of returns. I'd be interested in your take on that wider context?

Alistair Phillips-Davies:

We accept that returns are coming down and we're expecting to see returns substantially down on T1 levels, going forward into T2. But equally, as we've discussed with the PR19 findings and elsewhere, we believe that where you've pitched it at, at the moment, is just too low. We can all argue individual items and I'll let the team talk about that. Overall, we need to get to a number that is clearly lower and represents reasonable value, but it has to be considerably higher than what was within the Draft Determination.

Rob McDonald:

We can talk about individual points and particular reports, but you've got to look the evidence in the round and the key point for me was the CMA decision.

Maz Alkirwi (Finance Director, SSEN Transmission):

We looked at the market evidence and we acknowledged in our Business Plan that returns should fall from RIIO-T1 to T2. What we've pointed out, and what the CMA have picked on, is that there are a number of factors around the evidence that should be based on market data. We've been too quick to conflate that risk-free rates falling and market returns falling means that we have to half the returns. The evidence doesn't support this level of cut. There are the CMA findings on water.

Ofgem have a responsibility to protect consumers and the CMA have done the same in water with what they have said. We are asking for returns which should be attracting investment and get returns which are appropriate to the level of risk. We're not asking for something that is not warranted on evidence.

6. Simon Wilde:

Just on the CMA, I don't know if you've had a chance today to look at the fairly lengthy, even punchy, submission made by Ofwat with respect to the CMA findings? I think they released it at ten o'clock today so you may not have had chance to see it, but if you haven't, it's certainly worth a read and worth a discussion.

(Ofwat submission was published shortly before the Open Meeting call started)

Alistair Phillips Davies:

That is definitely something we will read with interest. We will certainly look at that. It will go right up to the wire in terms of where we are, but overall, the CMA number is out there, and all our investors understand where that number is. The other two Transmission Operators in the sector, their ultimate parent companies have got the ability to invest in very different regulatory regimes where the returns are far higher, particularly in the US for both of them. With us, we also have enormous draws on capital from other places as well. We're looking to find the right answer, we've clearly signaled we are prepared to accept something lower than we put into our original Business Plan, but Ofgem have to move from the Draft Determination. We still hope that we can get an equitable settlement there.

(At this point, Simon Wilde had a follow up question around the cost of debt mechanism which, due to a delay in the comms platform, was inaudible – and in the interest of time, the focus was moved to the next question.)

7. Akshay Kaul (Regulatory Director – Networks, Ofgem):

Returning to the theme of Totex and particularly the critique from the Challenge Group. They pointed out that your non-load expenditure (NLRE) has tripled compared to RIIO-1 and there is large underspend against T1. Give a relatively accessible account to the consumer base for what is the underlying reason for this massive growth in NLRE given that most of your recent growth has happened quite recently. And, what is the risk to consumers of these NLRE being provided and then the money not spent, or the work is deferred into next price control?

Rob McDonald:

Start by picking up the point at the back end of the question, because that is just not true – not for our company. It might be true for some other companies, but it is not true for ours.

We are not massively underspending in T1, our underspend is forecast to be around 3%. I think that is in the ballpark of efficiency savings which you should be looking for when you think about incentive-based regulation. Some of the issues you've had with other companies' underspends, don't apply to our company.

Secondly, to be crystal clear, we have not deferred any projects and have delivered all of the outputs for T1. There may be issues with other companies who have deferred and that is an issue between Ofgem and those companies. For our own account, we have not deferred any projects and we are not facing a massive underspend. That statement is wrong, and the premise of the question needs to be addressed upfront.

On the increase to NLRE during the period, we touched on this in response to Jonathan's question earlier and in relations to the growth in the size of the company. To re-cap, we started T1 with a RAV of £700m, we now have a RAV of £3.3bn (so over 4 times) and this has a corresponding increase in NLRE.

Worth recalling that all of the individual Non-Load projects were robustly tested with our Stakeholder Panel User Group and wider stakeholder community at the 14 events and 2,500 engagements we had. Latterly, with the revised engineering justification packs, all 14 projects have now been approved by your team. Therefore, NLRE project by project is not contentious, and when you put it into context with the growth, it is entirely reasonable and efficient, and we benchmark well against the other companies.

I would push back on is the urban myth that all network companies are massively underspending. It is just not true in the case of our company.

Alistair Phillips-Davies:

We have had some tailing off because of COVID. If you look at that 3%, clearly some of it will be due to COVID and some delays, particularly in Scotland where there was a much harsher lockdown, it took longer for us to re-establish our working groups and re-establish all of our sites.

8. Akshay Kaul:

Can I press on the question of efficiencies? Do you agree that having a strong efficiency challenge is a necessary part of getting to net zero at the lowest cost to consumers? Particularly as you say, given the large increase that you expect will take place to connect a lot more renewable generation - the efficiency challenge is absolutely fundamental to driving investment for consumers. In that light, I think you've both said that, in your own words, you thought the Draft Determination efficiency challenge was unworkable or undeliverable. Can you give a pithy explanation as to why you think the efficiency challenge is undeliverable?

Rob McDonald:

We totally agree with your statement that the efficiency challenge is absolutely vital to net zero, that's why, when we've pulled together our plan it's one of our five goals. That while consumers and other stakeholders are very supportive of net zero, they want it delivered at a reasonable cost, and that's why we set ourselves a challenge which is baked into our numbers presented to Ofgem - a £100m efficiency challenge. So we took our T1 costs and applied this efficiency. We had those costs verified by a number of consultants and their reports, which we have made public to Ofgem, have backed up the efficient costs, and that's what we submitted in our plan.

Our issue with the Ofgem determination is that you have pushed this even further. We think we are at the efficiency benchmark compared to other companies and Ofgem are pushing us to go further. The numbers Ofgem presented (for the reasons set out in our presentation) are not achievable against this backdrop.

The general point that efficiency is important to consumers - we recognised that this time last year - and that's why it was a centre piece as one of the five core goals in our Business Plan.

9. Akshay Kaul:

Can I press you on that? When you say it's not achievable, can you give us some pithy reasons as to why it is not achievable?

Rob McDonald:

Of the £360m efficiency savings, £250m that Ofgem identified are what we would call basic mathematical and computational errors - they are just wrong. We would be happy for you to get a third-party firm of accountants or national audit office in to verify that - we think that would stand scrutiny.

The difference, the remaining £100m is mainly as a result of the inaccurate way the benchmarking is applied. We are very supportive of benchmarking, but you have benchmarked the three companies and come up with benchmark costs and then applied those unit costs to a backward-looking workload. That is just wrong.

What you should be doing in that exercise, is doing the benchmarking, and then applying it to the mix of workload that I am going to do, not what I have done. And if you make that one change over and above the errors, you unwind all of the £361m efficiency cut.

This is therefore, the £100m and is about the mix and workload. You are applying benchmarking to the wrong mix of workload. You have in front of you the actual mix of work load that I am going to have to do – it's as simple as that Akshay.

10. Martin Young (Investec Utilities Analyst):

What would be the impact on SSEN Transmission Totex if we did go for a co-ordinated expansion of the transmission connections for offshore wind across the North Sea and all along the coast of Scotland?

Rob McDonald:

It's important to bear in mind that when the OFTO (Offshore Transmission Owner) Review was announced, we had already submitted our Business Plan. To be clear, in our 'Certain View' Business Plan there is no request for funding (for this). It might not come out of that (OFTO) Review, but it is important to bear in mind that that Review has barely concluded the consultation phase, let alone come up with any answers.

The way you reconcile the two is not to have a certain view like on the things we talked about today in terms of Totex, but this does underline the point about getting some really good and agile Uncertainty Mechanisms.

So, if as a result of that Review there is any impact on our investment plans, and maybe it is a requirement for us to do more than we are doing in the Certain View Business Plan, I think that is entirely possible. If we have got some good, agile Uncertainty Mechanisms, then we will be able to rise to that challenge. That is the key to reconciling the two given they are on a slightly different timescale than the RIIO process.

Additional Stakeholder Questions

While stakeholders were encouraged to participate in the Open Meeting by submitting questions to be asked during the meeting, disappointingly there was not enough time on the agenda to answer these. As such, SSEN Transmission has, where identifiable, responded to these organisations directly, and answers to the submitted questions are also given below:

11. Citizens Advice

Compared to other network companies' Business Plans, SSEN Transmission's plan is much lighter in detail on how stakeholder and consumer engagement has been used to inform it. In particular, the Business Plan does not detail standard techniques such as 'triangulation' and 'trade-offs' so there is no apparent 'golden thread' between engagement and the final plan proposals. How can SSEN Transmission reassure its customers that their views have been taken on board?

Our Business Plan is based on over two years of extensive and intensive stakeholder engagement, carried out over the length and breadth of our stakeholder base. We used a variety of engagement methods and resources including, but not limited to, primary research, secondary research, multiple consultations, bilateral meetings, workshops and round table events. The findings and feedback from these engagements was used to develop and define the core objectives and targets of our Business Plan and were instrumental in the formation of our strategic objectives and five clear goals.

To ensure that our plan remained accessible to stakeholders, we provided a summary of these engagements within the plan, with the detail provided in a supporting document. We believe our [Stakeholder Engagement Report](#) clearly demonstrates the **golden thread** of how stakeholders have influenced decisions from initial engagements through to the final Business Plan.

We used **triangulation** techniques in the development of both our Business Plan and supporting strategies and policies. An example of this would be the Bio-Diversity Net Gain (BNG) Targets. Here, we used several data sources and stakeholder approaches including:

- the results of the Willingness to Pay Study
- dedicated workshops and roundtables
- formal consultation
- best practice research; and
- collaboration with environmental agencies and partners.

This allowed us to co-create a sector leading BNG Optioneering tool and a commitment to achieve a BNG Target on all transmission projects by March 2025. Stakeholders have told us bio-diversity is a priority for them and this target means we will avoid or minimise and restore nature and ensure that negative impacts from development are compensated by either equivalent, or preferably additional, gains for bio-diversity.

Specific to consumer engagement, the results of the Willingness to Pay study were compared with data from consumer research studies including research undertaken by the Department for Business, Energy and Industrial Strategy, YouGov and the Energy and Climate Change Intelligence Unit, as well as recommendations made by Consumer Representative Groups including Citizens Advice and findings from our stakeholder events. Reference to the application of these research sources is included in our [Engaging on our Strategic Objective Report](#) as well as the [Stakeholder Engagement Report](#).

Trade off's between stakeholder groups and priorities were also managed throughout the Business Planning process, with the five clear goals being revisited and adapted following stakeholder feedback. While we heard that security of supply was a top-level priority for stakeholders, they encouraged us to change our goal from “100% supply reliability at all times” in the June 2019 draft Business Plan to “Aim for 100% reliability” in the final plan. This was based on stakeholders concerns around the additional spend required to increase our network reliability from 99.99996% to 100%. On balance, the stakeholder trade- off between investment (impact on bills) and reliability was reconsidered, and the goal was revised to ensure that we invest enough to maintain the quality of the network while remaining efficient in delivering value for money to the GB consumer.

We recognise that we can always go further with stakeholder and consumer engagement and appreciate the largely constructive and positive feedback we received from both Citizens Advice and Citizens Advice Scotland during the Business Plan consultation process. As such, we look forward to continuing to work with both organisations to help refine our approach.

12. BayWa (Renewable Generator)

We are concerned at the potential adverse impact of reduced pre-construction allowances on the delivery dates for Large Onshore Transmission Investments (LOTI) and the associated impact on connection dates for new renewable projects which are not yet in the connection application process. We are of the view that pre-construction funding should be reinstated, and that approval be given an in-period reopener for projects that come forward during the price control period.

SSEN Transmission share your concerns on the potential adverse impact that the reduced pre-construction allowances will have on the connection of new renewable projects.

As set out within our Open Meeting presentation, we believe that our goals and values regarding a resilient low carbon energy supply are shared between ourselves and Ofgem, and in terms of public opinion, our extensive stakeholder engagement has also provided us with assurances that this is something which is also strongly valued by the public.

We remain committed in developing our infrastructure and being able to connect the demand for renewables on time to deliver a network for net zero but for us to do this we absolutely need the certainty of our baseline plan, including pre-construction funding. We also need agile Uncertainty Mechanisms so we can adapt our plans and invest in the network to meet customer requirements during the price control.

We have had extensive engagement with Ofgem since the Draft Determinations were published in July 2020, and we will continue this engagement to try and reach an agreement that will allow us to achieve our goal of 100% connections delivered on time and within budget.

13. Bell Ingram (Land Management)

As an observer, from the perspective of a consumer and global citizen, attending today on behalf of the rural landowning community, I expect there to be a conflict between industries tendency to state a need to spend a lot more and governments tendency to want to constrain cost and demand greater efficiency. But I sense an elephant in the room, that this gap represents a gulf currently unbridgeable without a change in the tide of political thinking, so there is a need for a massive push to sway public opinion and consequently the political establishments opinion to value a resilient low carbon energy supply a lot more highly than at present. Would success in this direction ease the current process considerably and is it fanciful to consider such a lobbying and publicity campaign doable?

The extensive work already undertaken to progress decarbonisation demonstrates the importance placed on a resilient, low carbon energy supply and the significant investment required to achieve this; this is a priority recognised across the board.

As part of this, **Government have legislated for net zero**, with the UK becoming the first major economy in the world to pass laws to end its contribution to global warming by 2050, and this ambitious target is endorsed across all political parties.

We have worked closely with our stakeholders throughout the development of our Business Plan to co-create a plan which meets stakeholder needs. Our stakeholders identified Net Zero as a top priority. For example, our Regional Roadshow feedback indicated that 91% of our stakeholders ranked achieving net zero emissions as 8/10 or above, on a scale from one to ten. It was also noted, that our stakeholders and consumers want to see this delivered at a reasonable cost. The importance of this is reflected in the title of the plan: 'A Network for Net Zero'. We further outline how our stakeholders fed in to our plans to build a network for net zero within our [Stakeholder Engagement Report](#), which outlines our engagement on the North of Scotland Future Energy Scenarios, our Planning for Net Zero Paper, Whole System Planning and Cost Benefit Analysis.

In terms of **public opinion**, our extensive stakeholder engagement, alongside consumer research undertaken by government, indicates that decarbonisation is something which consumers strongly value. The 2018 Department for Business Energy and Industrial Strategy Public Attitudes Survey found that 81% of the public expressed support for the use of renewable energy. This was further evidenced in the Willingness to Pay Research that we undertook to inform our business plan. When asked to rank and prioritise which services domestic customers would be willing to pay more for improvements, fighting climate change was the clear priority, followed by minimising disruption to electricity supplies. Consumers prioritised these services over minimising electricity bills.

Efficient, cost effective delivery of low carbon solutions is vital to the successful delivery of net zero. That is why we have outlined £100 million of efficiency savings during RIIO-T2 as one of our five key goals. We believe we can move towards net zero ambitions while keeping bills affordable, and have a track record for efficiency, demonstrated during RIIO-T1. The investments in our Business Plan will cost the average GB household around £7 per annum to deliver (including inflation), an increase of around £2 from the current average bill. When asked, 80% of our stakeholders surveyed believed this was fair and affordable.

Although not formally part of its statutory duties, Ofgem has also recognised the importance of decarbonising the economy, evidenced within their [Decarbonisation Action Plan](#), which sets out the actions they will take in the journey towards net zero. For greater alignment of regulatory and government targets, we also hope that Government will take steps to further empower Ofgem in its remit to support the delivery of net zero.

Ofgem are currently proposing to disallow around one third of Totex from our Business Plan (£800m). This investment will ensure that our transmission grid in the North of Scotland can support the connection of vast amounts of renewable generation and improve the resilience of a growing electricity grid. We continue to urge the regulator to reconsider their proposals and hope that they will reach a final determination which will deliver a pathway to net zero. We will continue to promote net zero ambition and the required investment with our stakeholders.

14. Sustainability First (Environmental Think Tank)

Is there any thinking for how the Uncertainty Mechanisms and reopeners can combine pace and low bureaucracy with appropriate stakeholder engagement?

We agree that projects identified and progressed under the Uncertainty Mechanisms should combine pace and minimal bureaucracy whilst fully reflecting stakeholder views. As such, our preparation strategy means that we carry out the bulk of this stakeholder engagement ahead of the project being submitted to the Uncertainty Mechanism process, meaning stakeholder views are already reflected in and are fundamental to the projects we select to progress.

For example, as part of the Skye project, which is expected to be submitted as a re-opener under the Uncertainty Mechanism process; early engagement is already well underway. This includes co-ordination of options, review with environmental stakeholders and statutory consultees and review of options with local communities. Formal planning consultation is also undertaken as part of all infrastructure projects.

To support and further demonstrate this, our [Stakeholder Engagement Strategy](#) sets out our commitment to early and collaborative engagement on all of our investments.

Timescales set out in the Draft Determinations are too late, too slow and risk not meeting stakeholder needs. To help reduce unnecessary bureaucracy, we strongly believe that the rules for submission of projects to the Medium Sized Investment Projects (MSIP) and Large Onshore Transmission Investments (LOTI) Uncertainty Mechanisms should be updated in order for submissions to be made at any time during RIIO-T2. Ofgem should also reduce their lengthy response time from 30 months to commit to reach a decision within 6 months of receipt of a full, evidence-based submission.

15. Investec (Utility Analyst - Investment Bank)

The outperformance wedge is on your waterfall chart, yet you didn't comment on it. This proposed outperformance wedge is designed to address asymmetry of information and has been applied in DD for GT, ET & GD. Yet in GD, Ofgem's TIM factors point to nearly all costs being considered high confidence costs which can be set independently of the company. If Ofgem can set costs independently of the company, the asymmetry falls away, and by extension the outperformance wedge is flawed. Does SSEN Transmission agree with this viewpoint?

In our response to the Draft Determinations we have summarised why we disagree with the principle of an outperformance wedge. Ofgem's proposal to make an adjustment to the cost of equity which is subjective and inconsistent with both economic principles and regulatory precedent is not sound regulatory practice.

On the principle of the outperformance wedge, this has significant negative incentive properties and when considering more than one price control this mechanism is more likely to cause harm to consumers. Further explanation is provided on Page 69 within [Our response to RIIO T2 Draft Determinations](#).

16. Anonymous

I would be interested to know what the implications are for SSEN Transmission with Ofgem reducing the Capex allowance to the resilience of the network for future development and renewables connections, in particular the likes of hydrogen production but also onshore wind and solar and battery schemes?

We are concerned that Ofgem's approach will impact several of our customer connection projects with the risk of delaying completion dates for the delivery of the infrastructure required to connect increased renewable generation.

This risk remains regardless of the type of low carbon generation being developed, be that hydrogen production, solar and battery schemes or onshore and offshore wind.

Any network reinforcements that are not included in our base case 'Certain View' Business Plan will be subject to the application of Uncertainty Mechanisms for funding approval. While we agree with the principals of these mechanisms, we are concerned that the current design will result in significant delays

in investment. This includes any customer connection contracts that are currently dependent on the completion of 'less certain' reinforcements which may have access to the transmission network delayed until 2030 and beyond.

To reduce this risk and improve project deliverability, we are asking Ofgem to demonstrate that the regulatory framework is aligned with achieving a net zero pathway. Final Determinations must model how net zero pathways will be delivered, including Uncertainty Mechanisms that will work in practice. Further information regarding how this risk can be mitigated is explained within [Our Summary Response to the Draft Determinations](#).

We have outlined these concerns with Ofgem in our extensive engagement since the Draft Determinations were published in July and hope to reach an agreement that will reduce the delivery delay risks to new renewable connections and to the resilience of future network development.

17. Arcadis (Consultancy) - Question directed at Ofgem

With the removal of pre-construction allowances, this means that SSEN Transmission would not have early approval of spend for major investment projects, such as the Skye Reinforcement Project. The need for this project is certain, significantly, this work is required not only for renewable energy connections but also to secure demand requirements and security of supply to Skye and the Western Isles. Therefore, how do Ofgem justify cutting pre-construction allowance which this project relies on? The LOTI replacement timeline, in its current form, is up to 30 months and Ofgem will only accept the Final Needs Case once all material planning consents have been granted. This will significantly delay the Skye reinforcement and therefore delay and jeopardise renewable energy projects in the region. Not only is this a project risk, this goes against the UK and Scottish Government Net Zero targets and threatens substantial community benefits which offers a lifeline to remote regions of Skye.

We remain committed to reinforcing the infrastructure to Skye and being able to connect the renewable energy generation requiring connection in the region which will contribute to delivering a network for net zero and ensure security of supply for Skye and the Western Isles customers.

To achieve this, we need the certainty of our baseline plan, including pre-construction. We also need agile Uncertainty Mechanisms so we can adapt our plans and invest in the network to meet customer requirements as the need becomes certain.

As you have highlighted, the removal of pre-construction allowances means that we would not have approval of spend for the investment in the time scales needed. In our response to the Draft Determinations consultation we called for Ofgem to reconsider this position and include the required pre-construction allowances included in our Business Plan to allow timely investments.

The current 30-month approval timeline proposed under the Large Onshore Transmission Investments (LOTI) uncertainty mechanism process is lengthy and will have a direct impact on the Skye Reinforcement with a likely program delay of around 18 months. To address this, we have asked Ofgem for a streamlined, faster process where the need and the allowances are assessed within 6 months and that the final needs case can be submitted prior to planning consent award. This will allow us to deliver within the timescales currently contracted with new generation connections customers.

Both the UK and Scottish Government have committed to net zero emissions by 2050 and 2045 respectively and our plan supports these targets. We believe the regulatory framework must also align with, and support the delivery of, these policy objectives.

We will continue to work closely with Ofgem and are optimistic that an agreement can be reached to allow a network for net zero to be achieved.