

RIIO-T2 Draft Determination Consultation response

This response has been prepared by members of the Scottish Hydro Electric Transmission (SHE Transmission) Network for Net Zero Stakeholder Group. Members of this group, although appointed by SHE Transmission, are independent of the company. Four members of the group served on the SHE Transmission RIIO-2 Enhanced Engagement User Group (the User Group) and this consultation response includes consideration of the User Group report submitted to Ofgem in December 2019.

Summary

RIIO2 is described as an opportunity to give consumers a stronger voice and understand what they want and value from networks companies. Companies were encouraged, and in some areas directed, by Ofgem to undertake enhanced engagement with their stakeholders in their Business Plan development and reflect the results of these engagements in their RIIO-2 Business Plans. There is a balance to be struck by companies in responding to a wide array of stakeholder requirements, not least of which is determining the cost of providing services and minimising any additional burden on vulnerable customers. The Draft Determination, in our opinion, has failed to recognise the opportunities for service improvements proposed by companies that have been developed through stakeholder engagement and does not support enabling investments for the UK's energy transition strategy. The Draft Determination fails to recognise the expectation of stakeholders that the industry (companies and regulator) will show leadership in the establishment of infrastructure required to fulfill the ambition of Net Zero carbon emissions. Notwithstanding new mechanisms for Net Zero Re-Openers, Ofgem have removed a substantial volume of asset renewal and asset improvement investments that are enablers to network resilience and good asset management decisions about efficient energy transition solutions and achieving continuous improvement in asset management through technology to improve data acquisition and quality.

Ofgem have not supported modest incentivisation mechanisms that encourage continuation of the breadth and depth of stakeholder engagement which, in a financially constrained environment, risks companies withdrawing from the volume of high-quality engagement activity that has been demonstrated over the past two years of business planning. With the expectation of a large increase in the use of Re-Openers and Uncertainty Mechanisms throughout RIIO2 and the many-fold consultation requirements across the stakeholder community this will provoke, companies must look to new, more bespoke, engagement methods to maintain dialogue with stakeholders and not induce stakeholder fatigue that will lead to sub-optimal decisions.

Resilience is important to stakeholders and was a theme that SHE Transmission explored in some depth in its Business Plan. Post Covid-19, there is greater recognition among stakeholders of the importance of some level of redundancy in systems generally as a part of creating resilience and we look to Ofgem to clearly weigh the need for resilience against short term cost savings.

Regarding to costs to consumers, we note the Ofgem statement: *"We think investment in networks is likely to need to rise, perhaps significantly, through the next decade to meet Net Zero targets."* Given this statement, which we agree with, there is a very significant question to be addressed regarding the desired rate of increase in capital investment and the impact on consumer bills during the RIIO2 period and beyond. There is concern that the consequence of this RIIO2 framework is to move investments, and the impact on consumer bills, into subsequent years. The SHE Transmission Business Plan provided a 'Likely View' which is not fully funded through the baseline allowances but is an important part of providing transparency to stakeholders about the expected trajectory of Net Zero related investment. We would strongly advocate that Ofgem adopt a similar approach in presenting their Final Determinations.

Draft Determination consultation response to Core document questions

Core Q1 What role should Groups play during the price control period and what type of output should Groups be asked to deliver? Who should be the recipients of these outputs (companies, Ofgem and/or stakeholders)?

The SHE Transmission RIIO-T2 Business Plan has determined the priorities that are reflected in the overarching business plan goals and detailed programmes of work through an extensive engagement programme that revealed, and tested, the expectations and needs of their stakeholders. The RIIO-2 User Group served two main functions; to test the extent of engagement to ensure as full a range of stakeholders as possible were able to participate and that their feedback was suitably considered when deciding on priorities and work programmes. And, using the knowledge and expertise within the group, scrutinise, challenge and offer advice to the business to create business plan content that reflected stakeholder priorities supported by engineering evidence.

During the period of business planning, it was noted by the User Group that delivery and measurement of benefits were equally, if not more, important and that similar independent scrutiny and advice would be beneficial, alongside continuous stakeholder engagement and input throughout the business plan delivery period.

Transparency of the User Group's work was important and the periodic reports to Ofgem were published on the dedicated User Group space on the SHE Transmission website, alongside meeting summaries and future agenda topics. This transparency was crucial to underlining the independent role played by the group. The group also held face to face meetings with stakeholders to understand their priorities and to gain assurance of the stakeholder engagement outputs being used by the business as supporting evidence for their business plan proposals. Going forward, a similar level of transparency should be achieved. It would be reasonable to expect groups to publish summaries of their work at regular periods that are available to the regulator, stakeholders and business board members, in particular the non-executive directors, and the group should be accessible to stakeholders to listen, first hand, to their views on how successfully the company is maintaining engagement, the impact/benefits of delivered outputs and to answer questions from stakeholders and be accountable for the information the group produces.

Ofgem has suggested that there are options in establishing enduring groups; is there a group associated with each company, or should there be one group that looks across each sector?, i.e. one transmission group and one gas T&D group. Given the nature of the ESO business, it is most appropriate for there to be one group specifically aligned to the ESO business. The ability to work to a level of detail with a company was a significant factor in the SHE Transmission User Group's ability to provide scrutiny, challenge and input expertise to SHE Transmission's business plan proposals and test the alignment of these proposals with stakeholder's expectations and needs. This structure should be retained. There are benefits from 'looking across' a sector to support benchmarking, performance comparators, best practise etc., but there would be commercial constraints placed on information sharing that could be a real barrier to one sector group being able to perform the full remit of an enduring role across different companies. The opportunities from 'looking across' could be generated from representatives of groups working together, with Ofgem participation, in a structured way to generate input to best practice, delivery constraint factors, performance information etc. the outputs of which could be usefully progressed through established industry working group channels. It should be noted that maintaining and participating in these groups is a resource and time demand on the companies and for participants, therefore Ofgem must demonstrate the value they place on the role of these groups to maintain the strong commitment from all parties.

In anticipation of the benefits of an enduring group, SHE Transmission have established a Network for Net Zero Stakeholder Group to fulfil this function. The purpose of this group is

- To hold SHE Transmission to account on delivering the commitments made in the RIIO-T2 Business Plan settlement; in particular performance against targets and outputs (this will include reporting how they are delivering consumer value, including CVP outputs)
- To provide independent scrutiny, challenge and advice on key decisions outside the Certain View.
- To discuss any other matters that the Network for Net Zero Stakeholder Group identify, in agreement with the business, including preparation for RIIO-T3.

It is expected that that Network for Net Zero Stakeholder Group will provide input for improved Stakeholder Engagement outcomes, in particular;

- Direct stakeholder input to consideration of project decisions
- Improved stakeholder engagement and awareness of SHE Transmission
- Greater transparency of SHE Transmission decision making
- Improved stakeholder understanding of decisions

Minutes of the Group's meetings will be made available to the business to inform decision making. The Group will prepare a report annually that is shared with the SSEPD Board and the SHE Transmission business leaders. This will summarise the topics discussed, the advice given and how the business is responding to the items raised by the Group. This report will be simultaneously published on the SSE Transmission website and accessible to all stakeholders, including Ofgem

Core Q2 What role should Groups take with respect to scrutinising new investment proposals which are developed through the uncertainty mechanisms?

When developing the Business plan, SHE Transmission took the approach of including those projects and work programmes for which stakeholder and engineering need was fully evidenced and were already within the NOA requirements. This created the 'Certain View'. There were a number of additional projects where needs evidence was not, yet, to the same degree of certainty, for example where projects were based on supporting future anticipated Net Zero enabling investments. It was therefore anticipated that a core role of an enduring group would be to scrutinise these new projects and work programmes that would be subject to future approval through Re-Openers; this scrutiny is aimed at supporting the business in preparing the most robust scope and cost proposition based on need, with the solution having full regard to stakeholder input.

Core Q3 What value would there be in asking Groups to publish a customer-centric annual report, reviewing the performance of the company on their business plan commitments?

As referred to in Q1, the work done by the enduring group should be transparent. Publishing a customer-centric annual report that will include commentary on performance against business plan commitments is a sensible proposal. Such commentary would be additive to the performance monitoring and assessments undertaken by the regulator, allowing the regulator greater insight into the customer impact of delivery performance.

Core Q4 What value would there be in providing for continuity of Groups (albeit with refresh to membership as necessary) in light of Ofgem commencing preparations for RIIO-3 by 2023?

Undoubtedly, continuity provides knowledge and input from the stakeholder network about the business plan, both the final base case business plan elements and those projects and work programmes that were not included in the base case but are highly likely to be the subject of Re-openers/UMs. However, there should also be the opportunity to refresh membership to ensure the right balance of expertise is achieved to fulfil its additional delivery phase purpose.

The SHE Transmission group has already evolved its membership for its new role, including this balance of new and existing members.

Core Q8. Do you agree that the Groups could have an enduring role to work with the companies to monitor progress and ensure they deliver the commitments in their engagement strategies?

The ability to independently monitor and comment on the delivery of commitments is a key part of the enduring stakeholder engagement relationship. Although the company is fully committed to its ongoing stakeholder engagement strategy, it is disappointing that the regulator was not able to assign a measurable output to this topic and thereby increase the incentive aspects of continuous improvement in engagement activity. We are concerned that beyond the current commitments, and in a more financially constrained environment, the continuous improvement opportunities for stakeholder engagement in an increasing diverse media and digital world may not be fully exploited.

Core Q9. Do you agree with our proposal to accept the proposals for an ODI-R for BCF and the other proposals set out above as EAP commitments and to require progress on them to be reported as part of the AER?

Reporting as part of the AER is a reasonable requirement. This topic is a high stakeholder priority. Given the recognition of an agile approach to address Net Zero, it is disappointing that no mechanism is being proposed to enable agility to respond to national and international Environmental policy changes. This output proposal risks the companies being 'left behind' in their ability to prioritise investment in, and achieve, more ambitious environmental benefits through the T2 period.

We also note that financial ODIs are proposed for NGET and NGGT against a scorecard of EAP metrics. Ofgem says '*Subject to resolving the issues discussed in paragraphs 2.15 to 2.18...., we consider that an ODI-F would ensure NGET has a financial interest, proportionate with its involvement and effort, in achieving or exceeding the RIIO-2 targets set out in its EAP*'. In our view this provides the rationale for applying some form of ODI-F approach across all networks.

Combined response to Core Q11/12/16/18/19/20/21/22/23

Subject to the effective use of re-openers, the industry is moving into a very different regime regarding capital investment. The companies will remain fully accountable for the delivery of approved capital investment projects, including the management of all associated physical and commercial risks. In contrast, capital programme build is set to become a joint effort between companies and Ofgem as projects are assessed and fed into the programme on a continuous basis. This "conveyor belt" approach can work effectively provided that all parties behave in a spirit of collaboration and are equipped, in terms of resources and competence, to fulfil their respective roles in the process. There is currently insufficient clarity on Re-opener, Uncertainty Mechanisms and Net Zero related assessment processes to give comfort that the significant change of approach being proposed will support the many-fold increase in reactive project assessment; above anything the Regulator and the companies have managed before.

Capital efficiency is dependent upon programme visibility and continuity of work. If the supply chain are given certainty regarding their forward workload they can invest in the required resources to be deployed, including essential recruitment, training and development of their people. The proposed changes will significantly reduce visibility (and certainty) of forward work programmes. Allied to very challenging efficiency demands, there has to be real concern about the ability of companies and their supply chains to achieve the outputs and Net Zero outcomes associated with work progressed through these reactive mechanisms.

Ofgem have made the statement: *“We think investment in networks is likely to need to rise, perhaps significantly, through the next decade to meet Net Zero targets.”* Given this statement, which we agree with, there is a very significant question to be addressed regarding the desired rate of increase in capital investment. The SHE Transmission Business Plan provided a ‘Likely View’ which was not fully funded through the baseline allowances but was an important part of providing transparency to stakeholders about the expected trajectory and how that aligned with FES and other scenarios. We would strongly advocate that Ofgem adopt a similar approach in presenting their Final Determinations.

If the investment programme is back-end loaded there may be an insurmountable peak of activity, resulting in a failure to achieve Net Zero by the deadlines set by the UK and Scottish Governments. Achieving the ramp up and sustaining a high level of capital investment will demand continuous engagement with a wider number of stakeholders to support preparation of project scope and optioneering alongside early commitments to the supply chain. Market capacity cannot be “switched on”, it must be built.

A very high standard of proactive programme management will be required to enable efficient delivery of the programme. Given the scale of the enterprise, any delays to the programme will be costly. All parties (companies and Ofgem) must be held to account when progressing projects through stage gateways. Getting through the early stage gates relating to approval of the need for a project and agreement of the preferred solution will be dependent upon pre-construction budgets being in place for investigation and optioneering activities. The project lifecycle of large-scale investments is long and a way must be found to fund pre-construction work during the RIIO-T2 period. Given the financial framework being proposed, there is high likelihood that companies will adopt a risk-averse approach and thus dampen opportunities for adopting innovative delivery mechanisms and solutions.

There are four key areas arising that are not, currently, sufficiently well addressed in the Draft Determination;

- Clarity of the processes, roles and responsibilities to introduce and manage a step change in the approach to delivering projects. Differing processes need to be established to manage the number and variety of project proposals that will be brought forward. For example, processes could distinguish
 - ‘Fast track’ opportunities where funding ‘in principle’ decisions are made with funds released based on a % of total cost to enable stakeholder, customer, engineering and supply chain commitments to be made
 - Extending use of volume drivers to enable well established engineering solutions to be used where appropriate.
 - funding released for ‘early stage gate-ways’ phases of projects where evidence supports the project moving forward beyond pre-construction, but the fully assured solution is not fully established.
- Evidence required on the feasibility of achieving the targeted company and supply chain efficiencies in a very different programme delivery scenario than that used in the current benchmarking and cost modelling
- Changes to the decision to remove pre-construction funding from baseline allowance. Ofgem need to allocate pre-construction funding in a way that supports efficient and transparent use of monies but does not impede companies from timely project scoping and optioneering activity
- Ofgem should recognise the beneficial impact that ongoing, high quality engagement with stakeholders will have on this proposed programme delivery concept and reconsider the case for driving this through modest incentivisation of the companies to reach ever higher standards of engagement.

Core Q24. Do you agree with our proposals for the RIIO-2 Strategic Innovation Fund?

Proposal to introduce a third-party SIF administration body; what value is this body being targeted to achieve to maximise the benefits of the SIF. With cost minimisation being the Ofgem driver, any additional administration service needs to deliver quantified and measurable value.

The proposed shift to case-by-case percentage funding appears to be adding barriers to the process and may reduce the appetite for companies to engage with the SIF when it is unclear at the outset what contribution they will be required to make.

Core Q26. Do you agree with our approach to benchmarking RIIO-2 NIA requests against RIIO-1 NIA funding?

This appears to be a sensible approach as it enables a reflection of the level of innovation engagement and delivery performance that companies have demonstrated to date.

Core Q27. Do you agree with our proposal that all companies' NIA funding should be conditional on the introduction of an improved reporting framework?

Yes. The ability to track progress and record outcomes of innovation projects is good practise. This record will also enable cross referencing of areas of innovation being explored and support sharing opportunities arising from innovation across the industry.

Core Q30. Do you agree with our proposals to allow network companies and the ESO to carry over any unspent NIA funds from the final year of RIIO-1 into the first year of RIIO-2?

Yes. Considering the response focus required to manage COVID related impacts, this is a sensible approach.

Core Q31. Do you agree with our proposal that all work relating to data as part of innovation projects funded via the NIA and SIF will be expected to follow Data Best Practise?

Yes.

Core Q32. Do you agree with our proposed position on late competition?

The process to assess competition suitability is immature at this point. The detail on exactly how sufficiently developed any proposed project needs to be to enable a thorough assessment of the competition opportunity is not yet fully defined. In the absence of a suitable assessment model, it is likely that the regulated companies and potential delivery entities will either incur stranded development costs, which will reduce future appetite for engaging in a competitive process, and/or enter into delivery contracts with insufficient detail to provide assured cost, quality and time information. Either of these outcomes will result in sub-optimal outcomes for customers and consumers. This price control period should be used by Ofgem to develop a robust late competition model in consultation with best practise bodies.

Notwithstanding the proposal to assess appropriateness for late competition in parallel to the re-opener/UM process, the previous concerns expressed about the efficient management of the volume of work being proposed to go through these assessment processes adds further concern to the viability of Ofgem operating an efficient and effective late competition process at the beginning of the T2 period. The potential for 'back end loaded' applications and the difficulties this brings will be an additional burden on delivery parties and Ofgem resources.

Core Q34. Do you agree with our view that SHE Transmission, SPT, SGN and WWU passed all of the Minimum Requirements, and as such are considered to have passed Stage 1 of the BPI?

Yes.

Core Q37. Do you agree with our overall approach regarding treatment of CVP proposals?

It has been acknowledged that the CVP concept for TOs is novel and the topic was not well defined in the SSM, or subsequently, within a sufficient time period to allow companies to develop proposals to the same robust standard as other Business Plan topics.

We urge Ofgem to continue working with the companies in consideration of responses to company specific CVPs from this consultation and to agree CVPs that stakeholders have supported to improve levels of service and/or minimise impact beyond levels funded in the base allowances. Not only do CVPs offer an opportunity for companies to respond to local stakeholder needs, they may be forerunners for future BAU levels of service performance.

Consultation Response - Scottish Hydro Electric Transmission questions

SHET Q1 Do you agree with our proposals on the bespoke ODIs If not, please outline why

The recognition by Ofgem that continuous improvement in asset management should be encouraged and recognised is welcomed.

SHET Q2 Do you agree with our consultation position to reject the 'RIIO-T2 system outage management proposal to reduce constraint costs'?

The rationale provided by Ofgem for rejecting this ODI is clearly set out. However, by encouraging the TOs and ESO to resolve issues within the current STCP 11.4 process, Ofgem should be prepared to consider modifications to this process where actual barriers are proven to exist and be prepared to re-think the outage management arrangements where this process, and modifications, do not support a reduction in constraint costs.

SHET Q3 Do you agree with our proposals on bespoke PCDs? If not, please outline why

The accepted bespoke PCDs were informed by and supported by stakeholders, including the User Group. There is therefore agreement with the proposed accepted PCDs.

Where Ofgem are proposing to reject the bespoke PCDs proposals, we would ask for further dialogue between the business and Ofgem to explore mechanisms to achieve recognition of bespoke PCD output in these particular areas

- Diversity and Inclusion; the proposal goes beyond that of traditional BAU training and is aimed at continuing to build both awareness by employees of their customer and stakeholder diversity, but equally importantly, demonstrating diversity and inclusion as a core element of business culture to encourage more diversity of applicants to reflect the communities they serve.
- Stakeholder Engagement Commitment; it is disappointing that Ofgem do not consider any need for this bespoke PCD. It is agreed that stakeholder engagement is a core business function. However, given the proposals in the DD to significantly increase the number of

projects to be managed through a re-opener/UM mechanism, and recognition that Net Zero transition will generate as yet unknown requirements, the many-fold consultation requirements across the stakeholder community this will provoke means that companies must look to new, potentially bespoke, engagement methods to maintain communication with stakeholders and not induce stakeholder fatigue that will lead to sub-optimal decisions. We would like Ofgem to reconsider the value arising from supporting companies through modest incentivisation to reach ever high standards of engagement through this period to maximise the future value of investment decisions.

- CBA Framework; the rationale given in the DD is reasonable. However, we encourage Ofgem to take up the proposal to review the CBA framework, particularly regarding it being fit for purpose within re-opener/UM/Net Zero mechanisms. In addition, the energy transition strategy is likely to require cost benefit assessments to be undertaken using new/additional definitions of 'benefits'.
- Faults; feedback from a wide community of business and consumer stakeholders overwhelmingly identifies 'instantaneous' loss/restoration of supply events to be unacceptable. Increasingly business activity and consumer lifestyles suffer significant disruption from these instantaneous outages as well as more prolonged outages. Encouraging SHE Transmission to reduce outages of any duration was welcomed by stakeholders as a progressive step to improving service. The existing funding mechanisms do not adequately fund or incentivise this progression towards reducing unplanned interruptions of any duration.

SHET Q4 Do you agree with our proposals on CVPs? If not please outline why

- The acceptance of the Biodiversity No Net Loss/Net Gain CVP is welcomed.
- We assume inclusion of the bespoke element of ENS as noted in the DD as a bespoke ODI is in error. This is a CVP proposal in the Business Plan. Notwithstanding, it is pleasing that Ofgem have accepted the bespoke Energy Not Supplied Compensation Scheme. This recognises the somewhat unique network arrangements in areas of the North of Scotland and stakeholders were very supportive of the impact of ENS events being compensated beyond BAU service levels.
- Connecting for society – local and community energy policy; we don't believe Ofgem have recognised the opportunity for SHE Transmission to offer expertise to North of Scotland local authorities through the energy transition. In the main, this area is underserved by expertise in this field in local authorities and communities; this is recognised by these stakeholders. For LAEPS and LHEES to deliver real benefits to consumers, the expertise such as that available within SHE Transmission is crucial. North of Scotland is recognised as having the highest proportion of consumers classed as 'fuel poor' as well as a significant number of communities who have complete reliance on electricity for heating. As more localised energy systems opportunities arise, this planning and development task becomes far more complex – but could bring significant benefits including options that are alternatives to grid infrastructure investment, if done well. The opportunity to support these communities and deliver viable options to reduce the impact of electricity costs on households should be recognised and incentivised. Ofgem have suggested that this was BAU in RIIO-T1 which ignores the step change that is required (and indeed was advocated in Business Plan Guidance). We do not agree this CVP should be rejected.
- Connecting for society – commercial and connections service; this proposal has been developed in liaison with, as well as in response to, stakeholder feedback. It presents an opportunity to significantly enhance the service offering to new and existing customers.

North of Scotland generation customers will continue to play a major role in the energy transition strategy and this proposal describes an opportunity to radically reform the service offering to these customers. We do not agree this CVP should be rejected.

- Early and regional specific engagement; although the rationale for rejection is understood, in combination with rejecting the Enhanced Stakeholder Engagement bespoke PCD, we are very concerned that Ofgem's principle of RIIO-T2 being stakeholder led, especially through this next period of unprecedented change in the energy industry is not credible.

SHET Q5 Do you agree with our proposal to approve the Biodiversity No Net Loss/Net Gain CVP and do you agree with our proposal to re-quantify the value of it?

The acceptance of the Biodiversity No Net Loss/Net Gain CVP is welcomed. We expect any re-valuation of the CVP to be clearly documented to enable performance to be measured accurately.

Combined response to SHE Transmission Q6/Q7/Q8/Q9/Q10/Q11

The justifications for these work programmes being within in the Business Plan 'Certain View' was, in our opinion, well evidenced. We did not undertake a detailed level of scrutiny of full engineering detail or cost build up factors within each CBA for every project as the group were not in a position to do this within the time available. Rather, we were satisfied that the needs cases were evidenced, stakeholders were engaged in the early and late stages of decision making, the processes used by the company were robust and independent third-party analysis of cost and efficiency factors supported the principles used by SHE Transmission to develop the business plan proposals. We understand that further work is ongoing between Ofgem and SHE Transmission to continue this scrutiny of needs and associated costs and we welcome this.

Cost is important to customers. However, we were surprised by the level of cuts proposed by Ofgem given the assurance that the plan had been through and that SHE Transmission is acknowledged as being the most efficient of the transmission companies. We understand from SHE Transmission there are some material errors in the Ofgem figures which obviously need to be corrected. We are also concerned about the introduction and application of the 'low confidence' factor. Notwithstanding the regulator has a wealth of benchmarking evidence and cost modelling to refer to when scrutinising the business plans, the rationale for applying a 'low confidence' assessment does not appear to be methodical. There are references to projects being categorised as low confidence for a variety of quantitative and qualitative reasons. The industry does not appear to have had any prior knowledge of these criteria and was not able to respond to these requirements when compiling the business plan detail. It is noted that where work has been assessed as low confidence and subsequently rejected, the value of the reject work has been included in the TIM and BPI stage 3 calculations with resulting short term financial penalty and long term TIM sharing factor adjustment i.e. the company has a financial penalty for work it is now not being given any allowance to do.

Pre-construction works are important in enabling timely delivery of projects once they secure the go-ahead and to respond to stakeholders' concerns about the risk of delays. The user group recognised the need to get the balance of risk right between customer and company. Making the company wait until the end of RIIO2 to claim pre-construction costs seems to put undue risk on the company (and to shift costs from current to future consumers with no obvious rationale). The mechanism proposed by SHE Transmission and supported by the user group was based on the RIIO1 arrangement and did recognise this balance of risk– it's not clear why Ofgem are proposing to change it. We would urge

Ofgem to reconsider the decision in the Draft Determination. We acknowledge Ofgem’s concern about tracking the effective and efficient use of pre-construction allowances but there are options that support pre-construction funding in a more rigorous and transparent arrangement that should be explored further.

The impact of the removal of projects and work programmes has a direct impact on the associated business overheads; specifically, staff numbers and costs. The impact of the changes Ofgem is proposing to the base allowance in effect funds the business for a workforce number below that going into RIIO-T1.

The scale of SHE Transmission’s business has changed radically over RIIO-T1 and will continue to do so. We want assurance from Ofgem that this has been considered in the way that it has benchmarked costs.

Similarly, we want assurance that the efficiency targets being proposed recognise the proportion of RIIO-T1/RIIO-T2 cross over work where delivery is well underway with priced materials, engineering and construction contracts already in place.

Resilience is important to stakeholders and was a theme that SHE Transmission explored in some depth in its plan. Post Covid-19, there is greater recognition among stakeholders of the importance of some level of redundancy in systems generally as a part of creating resilience and we look to Ofgem to clearly weigh the need for resilience against short term efficiency gains. While “safe and resilient network” is a theme for RIIO-T2 the draft determinations do not really consider resilience at all – of 50 references to “resilience” in the core document 48 are about cyber, which is important but only one angle. Given the recent NIC report on Resilience we would expect this to feature more strongly in Ofgem’s thinking at final determinations.

We would point out that the proposal to replace the existing Control Centre facility was scrutinised at length by the User Group. Notwithstanding any background as to why the control centre and back up facility are in their current condition; the User Group agreed that the facilities were not fit for purpose. This situation is likely to be further exacerbated when more clarity on Cyber Security requirements are known.

SHET Q12 Do you agree with our proposal to accept SHE Transmission’s subsea cable repair re-opener?

Given the unique nature of these assets and the difficulty of assessing actual condition, the proposal is sensible and reflects the historic regulatory arrangements for provision of repair costs

SHET Q13 Do you agree with the level of proposed NIA funding for SHET? If not, please outline why

In RIIO-T1 SHE Transmission have been a very active in scoping and pursuing opportunities for Innovation. The proposed NIA funding reflects recognition of the importance the business places on building innovation opportunities into its strategy and is welcomed.

End of consultation response