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Dear Maxine

ED1 Link box strategy

Following the trilateral meeting between your team, the HSE and UKPN on 6 October we would like to summarise UKPN's position with regards to the revision to our ED1 link box strategy. We believe this was a very helpful meeting that clarified the current situation and Ofgem's expectations.

Since the development of the asset replacement strategy (condition based) for link boxes contained within the March 2014 business plan resubmission we have seen a continued increase in the number of link box failures. This has included a number of high profile incidents that have been widely reported in the national media. In our ongoing discussions with the HSE on this issue we have been advised that they expect to see a reduction in the number of incidents on our network. Unfortunately the root cause of these incidents indicates that there is no correlation between condition and failure of the asset. We have therefore had to revise our asset replacement strategy to one based on age and location risk. We believe that is the consistent message given by both the HSE and ourselves. We also understand that the HSE current national approach is to develop a link box replacement strategy for the greater London area and then to roll out as appropriate across the GB network.

We have developed a number of scenarios of replacement strategies based upon the latest data. In summary we have proposed to you that we need to move to aged based replacement strategy of all medium and low location risk link boxes older than 70 years in ED1. We are also proposing to replace all very high and high location risk link boxes older than 50 years in ED1. This amounts to the replacement of an additional 15,800 link boxes compared to our ED1 business plan, an increase in the level of inspections and installation of protective fire blankets. In combination this amounts to a further expenditure in ED1 of £95 million and is represented by "Scenario 5".

Our analysis, supported by the HSE, shows that this scenario is the minimum investment required, and presents the scenario with the greatest residual risk. Scenario 5 does not include any allowance for condition driven replacements or replacements required due to a fault. The volumes being requested are purely derived from a risk based age replacement study. If we were to include an assessment for condition driven and faulted link boxes, the numbers would increase significantly. This scenario contains a significantly lower level of work than the HSE first advised they would expect to see in ED1. Their initial preference was for the replacement of an additional 36,000 link boxes compared to our ED1 revised business plan. The HSE stated in the meeting

that there is sufficient evidence from the data to indicate scenario 5 is required, that the current number of disruptive events is unacceptable and that it will require UKPN to undertake scenario 5, if necessary via an improvement notice.

We welcome the flexibility and support of Ofgem in reviewing the revised scenarios, supporting information and cost benefit analysis in a very timely manner. We are now working to address the shortfalls in this analysis identified by Ofgem and your consultants. We will send this to your team by the end of 10 October.

UKPN recognises that this is a late change to our business plan. However, it is clear that our proposed ED1 strategy will not reduce the number of incidents and we are now required by the HSE to change our approach. In our response to the ED1 draft determination consultation we proposed that Ofgem includes scenario 5 in the ED1 Final Determination. This approach provides the best certainty to customers and to companies given the current information available. Your team raised the prospect of including only two years' worth of expenditure from scenario 5 with a re-opener mechanism after two years. We do not believe that this is in the interests of customers or UKPN as it provides no stability to either party, does not set a sustainable cost and revenue profile in the Final Determination and leaves the full risk of a continued higher level of asset replacement with UKPN. Scenario 5 is a multi-year programme that in all likelihood will need to be seen through.

However, it is clear that there remains a symmetrical level of uncertainty in the effectiveness of our revised strategy so we have also proposed a symmetrical re-opener mechanism that could be triggered by either Ofgem or DNOs given a change in external requirements or a change to available asset condition data. Given that the driver of the revised link box replacement strategy is public safety we also do not believe that it is appropriate for companies to be exposed to any "out performance" incentive. We are therefore also proposing that the additional link box expenditure to our ED1 business plan is outside of the IQI mechanism and is adjusted through a "use it or lose" adjustment mechanism (as per worst served customers) with a two year revenue lag. Overall this package provides the best protection to customers and to DNOs given the information that is available today and the scale of public safety threat in UKPN's network.

I hope this summary of our approach is helpful and we look forward to further meeting with your team early next week to review our proposal further. If you have any further immediate questions please do not hesitate to contact me on my mobile: 07709 399 372.

Yours sincerely



Ben Wilson
Director of Strategy & Regulation and Chief Financial Officer

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