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Dear Electricity Transmission Operations team

**National Grid response to Ofgem's assessment of National Grid's proposed Grid Supply Point (GSP) Project at Bengeworth Road.**

This letter is National Grid Electricity Transmission's (NGET) response to your consultation dated 16 April 2021. We recognise that the RIIO-2 re-opener for the Bengeworth Road Grid Supply Point (GSP) has been a special case because it covers a project in-flight, and one where material delays to the programme would have a detrimental impact in terms of overall cost and adverse impacts on stakeholders. We appreciate Ofgem's efforts in turning around a decision quickly, hence allowing us to progress with confidence with not just these works but the whole second phase of the London Power Tunnels project.

With regard to your four questions outlined, our response is below:

***Needs case for the proposed project***

*Question 1: Do you agree with our view of the validity of the needs case for the Bengeworth road GSP Project?*

We agree with Ofgem's view on forecast demand growth in South London. Ofgem's view on the deterioration of UKPN's aging underground cables on the Wimbledon-Bengeworth-Deptford route also aligns with our understanding.

***Options for addressing the needs case and justification for the proposed project***

*Question 2: Do you agree with our technical assessment of the range of solutions to meet the needs case?*

We agree with Ofgem's technical assessment of the range of solutions (noting one comment below), and thank Ofgem for your engagement throughout the reopener process to enable us to reach a position where you are satisfied we have considered an appropriate set of options to meet the needs case.

Note: The consultation states '*NGET are likely to have to replace the New Cross 275kV substation with a 400kV substation before 2050*'. Whilst we agree with Ofgem's assessment of demand forecasts indicating an increased capacity requirement at New Cross by 2050, as noted in our response to supplementary question NGET\_BR\_SQ\_1, there are other intervention options that negate the need to uprate the whole site to 400kV in this scenario. In any case, we agree with Ofgem's conclusion that a GSP at Bengeworth Road would help to reduce the outage impact of any work required at New Cross.

*Question 3: Do you agree with our minded-to view of the solution proposed by NGET?*

We welcome and agree with Ofgem's conclusion that the proposed new GSP at Bengeworth Road represents the most optimal strategic option, it being a whole system solution that addresses both the issues of UKPN's deteriorating cables and the potential future capacity requirements of the South London area.

### **Cost assessment of the proposed project**

*Question 4: Do you agree with our cost assessment of NGET's proposed new GSP at Bengeworth Road?*

While the overall cost assessment approach is pragmatic for this project, we are concerned about the potential for precedent being set for future re-openers for several reasons. Specifically, we do not agree with the treatment of risk and contingency, including:

1. **Complete disallowance of client-side risk and contingency (£7.5m).** This appears to stem from a misunderstanding of NEC contracting structures. As we have explained in our submissions, even though NEC Option A is known as 'fixed price', this does not mean that the final price is fixed. Regardless of which contractual option is selected (Option A or Option C), it is not industry best practice for a client to transfer all risk to a contractor. Instead, responsibility should be allocated to the party best able to manage the risk. An example of client-side risk are the costs necessarily incurred by the contractor(s) due to delays in achieving Local Authority planning approvals. Under both options (A or C), the client will be obliged to pay out against compensation events for risks that are retained. It is therefore standard practice for clients to hold risk and contingency to cover the likely outturn value of compensation events, e.g. the P50 value. This is a legitimate project cost that should be funded and was evidenced in detail as part of our submission in the live risk register.
2. **Capping of average risk allowances at 7.5% of contract value.** Ofgem's approach of implementing an average risk and contingency cap, based on 'historic analysis of projects' which has not been shared, is second best to an actual project risk register which contains the specific and tailored risks. For mature reopener projects such as this; we are able to give a bottom up build of the actual risks, which may mean some projects have lower or higher risks than an average. There are many factors that vary risks over the lifecycle of a project and from project-to-project, e.g. contract structure (see point 1), location of work (urban vs rural), type of work (tunnelling under a capital city being particularly challenging). Given that re-openers are mostly used to assess high-value and bespoke projects, it is more appropriate to consider project-specific risk registers. However, we accept that this is more difficult in this case given the accelerated timescales.

In conclusion, Ofgem's approach to assessing allowances for project risk and contingency is not a sustainable position. This is an important point of principle, and consequently something that we will work with Ofgem to resolve for future projects.

To allow us to progress as planned with this important strategic project, and in the wider interest of consumers, we agree in the round with Ofgem's minded-to total funding consultation position for the Bengeworth Road Grid Supply Point project.

### **Next Steps**

In this section of the consultation response, Ofgem states they are minded-to categorise this project as an evaluative Price Control Deliverable (PCD) and expect to initiate a statutory consultation to make the relevant changes to the licence required to set explicit deliverables, timescale(s) for delivery and the profile of the project allowances for the PCD.

Our understanding of how an evaluative PCD would work is through Ofgem's guidance document *Price Control Deliverable Reporting Requirements and Methodology Document: Version 2* dated 17 March 2021. Under these definitions we agree this is a suitable PCD for Bengeworth Road and will work with Ofgem during the licence consultation to set the specific output deliverables associated with the Bengeworth Road GSP.

If you have any questions on the content of this letter, we would be happy to talk through in a call or separate meeting.

Yours sincerely,

[by email]

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