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Dear Peter,

## **Project assessment of the proposed Beaully Mossford reinforcement under the strategic wider works arrangements**

SHE Transmission welcomes Ofgem's consultation on its project assessment, under the RIIO-T1 Strategic Wider Works (SWW) arrangements, of the proposed Beaully Mossford Stage 2 reinforcement. This project is the second that has reached the project assessment stage under the new SWW process. We have worked closely with Ofgem and its consultants to ensure that all necessary information has been provided to allow a comprehensive project assessment to be undertaken.

We note TNEI's independent assessment of the project and Ofgem's initial views on the proposed SWW output and allowed expenditure. We welcome the TNEI recommendation that they see no need for adjustments to the allowance requested. However, whilst we are generally comfortable with Ofgem's initial view there are three areas that we wish to provide a specific response on and these are discussed below.

### **Risk**

We note Ofgem's initial proposal that the risk allowance for the project should be based on P50. We have discussed this issue with Ofgem and accept that the risk allowance will be calculated using P50. However, we do not agree with Ofgem's initial assessment that moving from a P70 risk allowance to a P50 risk allowance results in a circa £1.3m reduction to the project risk allowance. We have provided further information on this point and continue to work with Ofgem to agree the P50 risk allowance for the project.

### **Provisional Sums / Additional Scope Items (ASI) – Uncertain extent of ASI**

Ofgem's initial assessment states that "SHE Transmission's approach implicitly assumes that the uncertain costs will arise and does not take account of the possibility that these might be lower than anticipated". We do not agree with this statement and believe there may be a misunderstanding in relation to how we estimate provisional sums / ASI. Our approach is as detailed in the costs and outputs submission, which states:

“...for each provisional sum a separate entry has been made on the Risk Register that makes a provision for a potential reduction (-) or increase (+) in value of the provisional sum estimate”.

This is recognised in Ofgem’s initial assessment document, in contrast to comments elsewhere in the same document.

**Provisional Sums / ASI – Transfer to risk allowance and associated probability**

We note Ofgem’s initial view that provisional sums / ASI should be placed on the risk register. In principle we are comfortable with this proposal. However, we believe that a number of the ASI should be added with 100% probabilities. Furthermore, we do not agree with Ofgem’s initial assessment that placing the provisional sums / ASI on the risk register at P50 distribution results in a circa £2.9m reduction in the project costs. We have provided further information to on these points and are working with Ofgem to agree the impact of placing provisional sums / ASI at varying probabilities on to the risk register at P50 distribution.

If you have any questions on the above points please do not hesitate to contact me.

Yours sincerely,

Malcolm J. Burns

**Senior Regulation Manager**