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Dear Cissie,

National Grid response to Ofgem's assessment of National Grid's proposal for reducing visual amenity impacts in the Dorset Area of Outstanding Natural Beauty (AONB)

This letter provides National Grid Electricity Transmission's (NGET's) formal response to Ofgem's consultation letter dated 8th August 2018. This relates to our funding request to replace an overhead line in the Dorset AONB with 8.8km of underground cable. The costs that we have submitted for the project totals £118m (17/18 price base).

With regard to the two questions outlined in the consultation, our response is set out below:

- 1. Do you agree with our assessment of National Grid's approach in undertaking the Dorset AONB mitigation project?*

We thank Ofgem for their time on assessing the Dorset project funding submission. We agree that Ofgem's approach in assessing the Dorset project has been appropriate and has followed the criteria stated in our transmission licence.

- 2. Do you agree with our assessment of proposed efficient costs for the Dorset AONB mitigation project?*

We are pleased that Ofgem agrees that the majority of the project costs are efficient. We agree with most of the outcomes of the assessment. Where the funding request has been reduced, we have responded to each point in turn below:

Needs case for SSEN diversion

In our funding submission, we stated that the eastern diversion of SSEN's circuit was required for safety reasons. This information was provided and subsequently verified by our Front End Engineering Design contractor, following Ofgem's supplementary questions. We have since contacted the preferred bidder to gain an alternative assessment of the site. Their initial view is that arrangements can be made to facilitate the crane operation, without the diversion. However, this

would require a circuit outage on the DNO assets, which will have an associated cost and more importantly, significant risk.

Avoiding the diversion would introduce a new risk of programme uncertainty. The DNO would need to agree to any required outages. If there is a delay on these, then it could lead to an impact on the overall programme, placing this on the critical path.

A further issue would be around risk of unplanned interruption and damage. SSEN would have to agree to our contractor working around their assets. There would be an increased risk of damage to their equipment; a loss of supply could have a material impact.

We also note that Ofgem have proposed to reduce the base cost of the diversions by 56% if we avoid the eastern diversion. However, this is not an accurate calculation as it assumes a linear £ per route metre. There is always a minimum cost of works and design, regardless of the number of circuits being diverted. Our calculations show that this reduction would lead to a shortfall in the base cost of approximately £300,000.

To compare the material effect between the two, if we retain the eastern diversion, it would cost approximately the same as a single diversion. Although the cost between the two options is the same, the single diversion carries more risk and safety concerns.

We ask Ofgem to consider the additional base cost and risk if it is recommended that we avoid the eastern diversion. Our recommendation is to follow our original assessment for two diversions.

Reactive compensation costs

As a result of undergrounding part of the overhead line in Dorset, this will require additional reactive compensation equipment. The estimates submitted to Ofgem were based on our extensive experience in procuring and installing such assets. In the interests of providing a market tested figure, we agree to keep Ofgem appraised of the tendering process and the results.

Risk allowances

Reactive compensation

The risk level that we submitted for the reactive compensation equipment was based on a P80 figure. We accept that Ofgem have aligned this with the rest of the risk levels in the funding submission, which are based on a P50 figure.

Project management

This risk allowance was associated with potential changes to the project team to address, amongst other elements, the lack of progress by the contractor. Whilst this is still a credible risk on all projects, we accept that this could be managed in the overall project management costs.

Landscaping

The landscaping risk allowance was to cover the uncertainty of scope changes as a result of planning permission conditions. As planning permission has now been received, we agree that the level of risk has reduced. There does however,

remain a condition on the planning permission. Until this has been discharged, there remains a risk that the scope may change. We have updated our risk register accordingly to adjust the value from 'very high' to 'medium'.

Scope

The scope risk allowance was to cover potential events which would cause the scope to be revised before contract award. We note that there were two items which covered the risk of a CPO in the event that we could not conclude our negotiations with landowners. The first was captured in our risk register. The second area was stated in the scope contingency. Additional scope contingency items included design risk to the cable sealing end compound and project management risk pre-contract award.

We can confirm that no additional events have taken place that would require an increase in expenditure. However, a small risk still remains that an event could trigger this as we have not yet concluded our negotiations with all landowners. We accept the removal of the scope contingency but we ask Ofgem to consider the retention of the first risk highlighted above.

SSEN diversion

This risk was associated with the estimation uncertainty with the SSE quotation for both the western and eastern circuit diversions. We agree that if the eastern diversion is removed from the project scope, then part of this risk cost will not be required. The remainder of this risk will be associated with the western diversion. However, this does introduce a new risk as explained earlier on in the letter.

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

Yours sincerely

[by email]

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