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James Norman,  
Head of New Transmission Investment  
Ofgem  
10 South Colonnade  
Canary Wharf  
London E14 4PU

Our ref

Your ref

Date

26 November 2019

Dear James

**Re: Consultation on our assessment of capital costs for the Hinkley-Seabank electricity transmission project**

I am writing on behalf of Western Power Distribution (South Wales) plc, Western Power Distribution (South West) plc, Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc in relation to the above consultation.

The Ofgem consultation dated 15 October 2019 outlines the Regulator's "minded to" approach to the efficient capital costs of funding the Hinkley-Seabank transmission project<sup>1</sup>.

We wish to make representations on Ofgem's proposal to disallow £3.2m of costs associated with works that will be undertaken by WPD and Ofgem's proposal to disallow c.£12m of risk costs, with c.£5m of that apportioned to WPD works.

£3.2m – WPD managed works

We do not agree with the following statement:

*"2.39. We are minded to disallow c.£3.2m of the £68m of costs submitted by NGET in its Project Assessment submission for costs associated with the WPD works. This disallowance is as a result of our benchmarking exercise."*

WPD approach this work on a cost neutral basis and have always sought to provide efficient solutions to enable the NGET connection work to proceed.

Works within the Development Consent Order (DCO) come with additional requirements outside of our business as usual delivery and as such do incur higher costs than WPD would, or are expecting to incur, in undertaking more routine RIIO-ED1 activities. However, WPD treats this work similarly to other activities we undertake on the

<sup>1</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/10/hsb\\_cost\\_consultation.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/10/hsb_cost_consultation.pdf)

network, looking to deliver the required solution most efficiently. We will continue to work with NGET to deliver the optimal solution in the most efficient way possible.

Additional costs attributed to WPD are specified by NGET as they provide enabling works for continued NGET tasks on the project.

£5m – Contingency/risk costs

We do not agree with the following statement:

*"2.35.2. Because WPD is completing the works, and has agreed with NGET that it will be fully funded for all its associated costs, NGET may have a limited ability to influence WPD's behaviour (i.e. keep costs down)."*

We are working with NGET to ensure costs are efficient, and provide justification to NGET for all works and costs. NGET has the opportunity to challenge our costs, however as per WPD's normal business process we always look to deliver the requested work in the most efficient way possible, and we only deliver the work requested by NGET on this project.

Costs for untendered elements of work remain estimated at this stage and it is WPD's understanding that contingencies have been allowed for by NGET in their submission. We believe this is justified based on recent tenders but WPD would always seek solutions that demonstrate best value for money.

WPD continues to work with NGET to provide optimal solutions at the most efficient cost for all diversionary works as requirements are finalised. Existing estimates were based on best view needs prior to DCO approval and are being refreshed to align with detailed solutions coming from NGET awarded contracts.

In our view WPD can demonstrate that these costs are justified and efficient.

Yours sincerely



PAUL BRANSTON  
Regulatory & Government Affairs Manager