

By E-mail

Louise Deighan
Senior Analyst Electricity Distribution Networks
Ofgem
Commonwealth House
3rd Floor
32 Albion Street
Glasgow
G1 1LH

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Contact / Extension
Malcolm Bebbington
0141 614 5838

Dear Louise,

Consultation on our minded-to position to revise allowed expenditure for Link Box Costs under special licence condition CRC 3F

We welcome the opportunity to respond to Ofgem's Link Box reopener consultation on revised allowed expenditure under special licence condition CRC 3F published on the 24th October 2017. We have set out our responses to the questions in Annex A.

The process followed by the Ofgem team has been both comprehensive and robust including the deployment of supporting technical expertise and engagement with the Health and Safety Executive (HSE). This should give stakeholders significant confidence in Ofgem's proposed decision. SP Energy Networks also presented to the HSE our approach to manage this emerging public risk and the detail of our reopener and received no negative feedback on either aspect.

SP Manweb (SPMW) has demonstrated the requirement for a relevant adjustment of £28.2m (in 12/13 prices) to replace 4,137 additional Link Boxes in RIIO-ED1. Based on Ofgem's analysis the proposal is to adjust SPMW's allowances by £23.4m, 17% lower than the submitted costs. £3.9m of the proposed reduction corresponds to indirect costs being disallowed. The scale of the reduction will cause major challenges. The magnitude of the programme and the significant operational, design and delivery challenges will inevitably require recruitment of dedicated resources that were not covered by the RIIO-ED1 price control allowances. Reducing these supporting activities will also make the allowed unit costs more challenging to meet.

Overall it is in customers' interests that SPMW effectively mitigate the risks associated with disruptive Link Box failures. Hence we are supportive of Ofgem's proposal to make an adjustment to SPMW's opening level of allowed expenditure for Link Box Costs.

If you have any queries on this response or any further questions, please do not hesitate to contact me.

Yours sincerely,



Malcolm Bebbington
Distribution Network Manager
SP Energy Networks

SP House, 320 St Vincent Street, Glasgow, G2 5AD

Telephone: 0141 614 0008

www.spenergynetworks.co.uk

SP Transmission plc, Registered Office: Ochil House, Technology Avenue, Blantyre, G72 0HT Registered in Scotland No. 189126 Vat No. GB 659 3720 08
SP Manweb plc, Registered Office: 3 Prenton Way, Prenton, CH43 3ET Registered in England and Wales No. 2366937 Vat No. GB659 3720 08
SP Distribution plc, Registered Office: Ochil House, Technology Avenue, Blantyre, G72 0HT Registered in Scotland No. 189126 Vat No. GB 659 3720 08

ANNEX A

1. Do you agree with Ofgem's assessment and the proposed adjustment to SPMW's opening level of allowed expenditure for Link Box Costs?

We support Ofgem's assessment of the volumes that SPMW has submitted. The implementation of an enhanced accelerated Link Box inspection and maintenance regime has enabled the gathering of detailed asset condition information. Following analysis of the data a number of assets were identified to be at the end of their operational life and requiring replacement. All of the assets proposed under the special licence condition CRC 3F correspond to end-of life assets.

With regards to the unit cost assessment we agree with Ofgem's view of including provision for higher costs due to the introduction of an enhanced industry specification. It must be noted that the majority of the units are also located at highly challenging locations in very urban areas with limited accessibility and subsequent impact on costs. We are not convinced that the use of the upper quartile unit cost is sufficient to balance the increase in costs.

However our main concern relates to the exclusion of indirect costs from the scope of the Link Box reopener. Based on our previous experience in the delivery of similar work programmes we designed a project team comprising 14.5 FTEs to deliver 4,137 link box replacements in the RIIO-ED1 period. Given the very challenging RIIO-ED1 targets and the scale of the project it is not possible to accommodate the additional workload among current staff hence external recruitment of dedicated resources will be required. These were not covered by the RIIO-ED1 allowances.

Nevertheless it is in customers' interests that SPMW puts all measures in place to effectively mitigate the risks associated with disruptive Link Box failures. Therefore we support Ofgem's proposed adjustment to SPMW's opening level of allowed expenditure for Link Box Costs.

2. Do you agree with Ofgem's assessment and the proposal not to make an adjustment to SPN's opening level of allowed expenditure for Link Box Costs?

Based on Ofgem's assessment there appears to be valid reasons to justify the delay in the delivery of the programme.

Assuming the allowed volumes will be delivered at the earliest opportunity we would support that Ofgem's proposal not to make an adjustment to SPN's opening level of allowed expenditure for Link Box Costs is in customers' best interests.