

Diversions

ED2 Engineering Justification Paper Addendum **ED2-NLR(A)-SPEN-001-CV5-EJP-ADD**

Issue	Date	Comments
Issue 0.1	Aug 2022	Internal Draft for review
Issue 0.2	Aug 2022	Internal Draft with Comments Addressed
Issue 1.0	Aug 2022	First Issue - Draft Determination Response

Scheme Name	RIIO ED2 – Diversions	
PCFM Cost Type	Non-Load Related - Other	
Activity	Diversions	
Primary Investment Driver	Direct customer requirements driven	
Reference	ED2-NLR(A)-SPEN-001-CV5-EJP-ADD	
Output Type	Diversions	
Cost	SPD: £18.664m	SPM: £38.339m
Delivery Year	2023-2028	
Reporting Table	CV5	
Outputs included in EDI	Yes/No	
Business Plan Section	Maintaining a Safe & Resilient Network	
Primary Annex	Annex 4A.28: Connections Strategy	

Spend Apportionment	EDI	ED2	ED3
	£m	£57.003m	£m
Name	Proposed by	Endorsed by	Approved by
Steven Kelly	Sophie Sudworth	Gerry Boyd	
			
Date	23.08.2022	23.08.2022	23.08.2022



I Purpose

This addendum has been prepared to provide additional information and justification to ED2-NLR(A)-SPEN 001-CV5-EJP Diversions EJP following receipt of RIIO-ED2 Draft Determination. The content of addendum is in response to comments and feedback provided by Ofgem as to the “Partial Justification” status of the EJP. The purpose of this document is to support Ofgem’s assessment for Final Determination including supporting any associated impact on engineering adjustments within Ofgem’s financial modelling.

2 Ofgem Comments & Feedback

2.1 RIIO-ED2 Draft Determinations SPEN Annex

The following comments are taken from Table 26 of “RIIO-ED2 Draft Determination SPEN Annex”.

Ofgem Comment - Partially Justified. We agree with the needs case for continued spend in this area and consider SPEN’s proposal to continue at the RIIO-ED1 spend rate appropriate given the unknown volume of works

Ofgem Identified Risks - Due to the reactive nature of these works, there is a risk that the out-turn volumes will differ from the volumes that SPEN have proposed in their submission

3 Additional Justification

3.1 Responding to Ofgem identified risk

SPEN acknowledge Ofgem’s perceived risk and indeed cited the existence of the same risks within Section 6.3 of the EJP, identifying 3 main areas of risk;

- 1) Uncertainty around diversion volume, scope and scale,
- 2) Growth in Injurious Affection and Development Claims
- 3) Changes in Government policy and incentives

These risks are explained in our EJP. SPEN believe the volumes projected in our ED2 submission are well justified and note that Ofgem also agrees with both the Needs Case and with SPENs proposal to continue at ED1 rates.

3.2 Additional Supporting Information

Note: All average volume data used in this section copied directly from *Table 1. Historical costs and volumes RIIO-ED1 actuals* and *Table 2 Summary of projected Cost and Volumes for Option 3* of the EJP

3.2.1 Conversion of wayleaves to easements, easements, injurious affection

As intimated in the EJP Section 5.4, SPEN have experienced an increase in volume and value of claims through the ED1 period and project that we will see continued evolution of this market, particularly in the SPM licence area. This view is founded upon independent market analysis conducted on our behalf by [REDACTED] a leading consultancy firm specialising in the property sector.

Wayleaves to easements, easements, Inj. Aff.	ED1 Ave Volume	ED2 Ave Volume
SPM	[REDACTED]	[REDACTED]
SPD	[REDACTED]	[REDACTED]

Claim volumes are subject to market fluctuations and customer behaviour which are inherently difficult to predict. SPEN has determined the most likely scenario within that uncertainty band at the most reasonable levels. We have visibility of current claim numbers, as claims are generally settled over a period of years rather than months and given available information the projection for SPM licence area is [REDACTED] than that of ED1. In Scotland the claims market is [REDACTED] not [REDACTED] the same [REDACTED] as that in England and Wales therefore the projected volumes for ED2 in SPD licence area are set at a level [REDACTED] ED1.

3.2.2 Diversions due to wayleave terminations

Diversions due to wayleave terminations	ED1 Ave Volume	ED2 Ave Volume
SPM	208	282
SPD	90	166

The levels of termination activity has historically been lower in SPD than SPM licence area, at around half. In a similar vein to the claims market, this activity can be both volatile and unpredictable. Volumes will ultimately be determined by customer behaviour. We anticipate further growth in these volumes during ED2, particularly in the SPD licence where activity level has been historically lower.

3.2.3 Diversions for highways (funded as detailed in NRSWA)

Diversions due to wayleave terminations	ED1 Ave Volume	ED2 Ave Volume
SPM	23	25
SPD	28	55

The ED2 volumes projected in SPM are at the same level as ED1. In the SPD licence the average volumes are increasing and are more reflective of the volume of activity we experienced at the beginning of the ED1 period SPEN believe the publicly available information on the scale of Transport Scotland's ambitions and future projects, suggest this is a more reasonable level of projection