



St. Lawrence House  
Station Approach  
Horley  
Surrey  
RH6 9HJ

Office of Gas & Electricity Markets  
10 South Colonnade  
Canary Wharf London  
E14 4PU

01/10/2024

Dear Catherine

**Ref: Consultation on RIIO-2 Re-opener Applications 2024 Draft Determinations**

I write on behalf of SGN with reference to the consultation on the RIIO-2 Re-opener Applications Draft Determination published by Ofgem the on 3<sup>rd</sup> September 2024.

SGN have submitted for only one of the re-opener mechanisms: The Diversions and Loss of Development Claims Policy Re-opener.

For that mechanism we have formulated a response to following consultation question proposed by the Authority:

*GD.Q2 - "Do you agree with our assessment of applications under the Diversions and Loss of Development Claims Policy Re-opener and our Draft Determinations? Please include your views on our assessment of the needs case, optioneering and draft allowances."*

Our response to this been laid out for each individual project submitted as part of the re-opener and can be found within Appendix A below.

Yours Sincerely,

A handwritten signature in black ink, appearing to read "David Handley", is written over a light grey rectangular background.

**David Handley**  
Head of Regulation, SGN



## Appendix A

### SGN Summary

As per the RIIO-2 Re-opener Applications 2024 Draft Determination – GD Annex, the following table (Table 1) highlights Ofgem’s draft determinations taken from section 4.18.

*Table 1 - Summary of SGN’s request under the Diversions and Loss of Development Claims Policy Re-opener and Ofgem’s Draft Determinations (£m, 18/19 prices)*

Project	Trigger	SGN submitted costs £m	Ofgem adjustments £m	Ofgem assessed efficient costs £m
Cowdenhill	Diversion	■	■	■
Meadowhill	Environmental	■	■	■
Pitcairngreen	Environmental	■	■	■
Below 7bar washouts	Environmental	■	■	■
Moorfield	Loss of development claims	■	■	■
<b>Total</b>		■	■	■

With the reasons proposed from section 4.19 for the adjustments being the following:

- Activities not within re-opener scope,
- Contingency,
- Volume Adjustment.

In the section below we run through each of these projects in turn. We start off with a reminder of the adjustment applied and the explanation that was applied by the Authority. We then follow up on this with our response and additional evidence.

### Cowdenhill

#### Ofgem Draft Determination

*4.20 - The Cowdenhill project refers to a quarry which has encroached too close to a pipeline which puts the pipeline at risk and requires a diversion. There are ongoing legal proceedings to recover costs from the third party. SGN is waiting on an update around these proceedings so have been unable to confirm if costs are recoverable. SpC 3.20.6(d) states that applications relating to Diversion Costs requires justification that these are “efficient and unavoidable”. Additionally, as per RIIO-GD2 FDs GD annex paragraph 4.286, GDNs will need to demonstrate that diversion costs driven by a third party are efficient and cannot be fully recovered from the requesting third party. For this reason, we are proposing to disallow costs for this project as there has not been robust justification for these costs. We welcome SGN to provide evidence and robust justification as part of their consultation response.*



**SGN Response**

**Adjustments to cost**

This reopener as described in EJP “Appendix A – Cowdenhill Quarry EJP Final v 1.0” has comprised of a submission for the RIIO-GD/2 costs under Special Condition 3.20. This comprises both Capital Expenditure and Legal Expenditure.

At the time of the submission, £ [REDACTED] in 18/19 prices were sought. To date, there has been £ [REDACTED] in 18/19 prices in RIIO-GD/2. This represents full costs to date, with future costs dependent on the results of the forthcoming appeal.

The future additional costs within RIIO-GD/2 and potentially RIIO GD/3 will depend on the outcome of the Appeal and SGN’s decision as the optimal action to take legally.

**Cost incurred in GD1.**

This is in addition to the £ [REDACTED] (in 18/19 prices) incurred in GD1 that we have not been able to recover through the reopener or the price control settlement process.

**Appropriate recovery of GD2 Costs**

It is important that we can recover expenditure incurred in GD2 through this reopener as there is no other regulatory process to recover legitimately incurred costs. Being unable to recover legitimate costs will introduces a significant disincentive to challenge such decisions in the future and this could lead to a worse consumer outcome

SGN therefore requests that Ofgem allow the £ [REDACTED] (18/19 values) incurred to date and a future opportunity to recover further expenditure should the legal efforts not be successful in the GD3 period.

**Legal assessment.**

Following the October 2023 debate, Lord Richardson sided with SGN on all the key points argued. However, QBE have appealed and this took place on the 26th of September [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

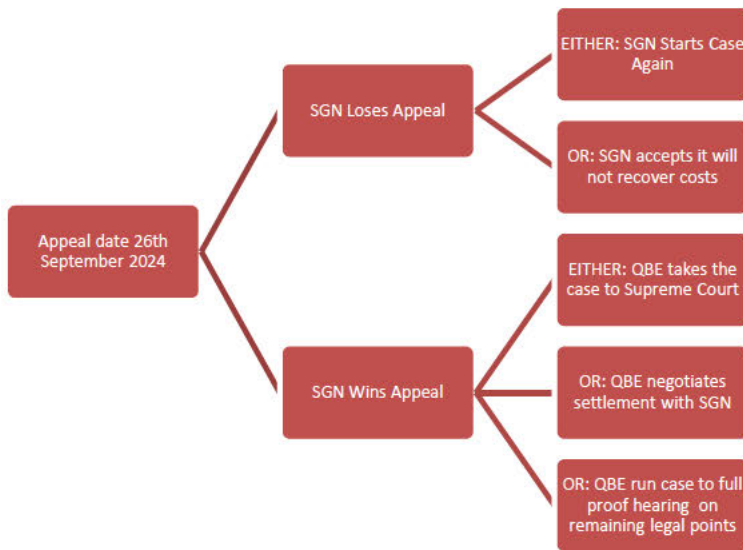


Figure 1: Potential Legal Scenarios: Scotland Gas Networks Plc v QBE UK Ltd

## Meadowhill

### Ofgem Draft Determination

4.21 - The Meadowhill project has been triggered by a washout which has led to complete loss of lateral and bedding support causing the pipeline to become exposed. SGN has included a cost uplift of 20% (£██████ in 18/19 prices) to account for risk on remaining work to be carried out. We propose to reduce this to 10% (£██████ in 18/19 prices) in order to bring this in line with other re-opener applications. During the SQ process, WWU confirmed their standard risk rate for diversions is 10%. We do not consider that SGN has robustly justified a 20% rate. We welcome SGN to provide evidence and robust justification for this rate as part of their consultation response.

### SGN Response

#### Adjustments to cost

This reopener as described in EJP “Appendix B – Meadowhill Quarry EJP Final v 1.0” has comprised of a submission for the RIIO-GD/2 costs under Special Condition 3.20. This comprises both Capital Expenditure and Legal Expenditure.

At the time of the submission, £██████m in 18/19 prices were sought which included a 20% risk uplift. To date, there has been expenditure of £██████ in 18/19 prices in RIIO-GD/2. At the time of submission, project uncertainty justified a 20% risk uplift. However, these uncertainties have been reduced as the project has progressed and a 10% risk inclusion is considered reasonable.

#### Push back setting risk standard

The application of a 20% risk uplift was to account for risk on the remaining work to be carried out. There was significant uncertainty on the remainder of the projects with the requirement to implement two directional drills. uncertainty around weather and the potential for flooding with



challenging ground conditions remain.

However, Ground Investigation has been carried out to mitigate these risks as much as possible. In addition, the full costs for material procurement are now understood and there is a higher level of confidence in the Main Works Contractor Costs. A 10% Risk Inclusion is therefore now considered appropriate.

Therefore, SGN accepts the proposal of £ [REDACTED] (18/19 values) which includes the embedded 10% risk.

## Pitcairngreen

### Ofgem Draft Determination

*You did not provide a detailed response to the SGN submission for Pitcairngreen under the Draft Determinations and have proposed to allow the costs of £ [REDACTED] (18/19 value) in full.*

*This reopener as described in EJP "Pitcairngreen to Huntingtower Washout EJP v 1.0" has comprised of a submission for the RIIO-GD/2 costs under Special Condition 3.20. This comprises Capital Expenditure only.*

### SGN Response

SGN agrees with and supports the position set out in the draft determination.

## Below 7bar Washouts

### Ofgem Draft Determination

*4.22 - The below 7bar washouts are river crossings in Scotland which have or may have suffered washouts due to soil erosion. It is predicted that up to 150 river crossings in the region will require remediation, but full inspection of these sites has not been possible due to high water levels. 29 crossings have been identified with remediation costs of £ [REDACTED] which we propose to fund. SGN has requested £ [REDACTED] for the remaining 121 crossings still to be identified; we propose to partially disallow £ [REDACTED]. SGN has confirmed one contracting team has completed eleven washout jobs in RIIO-GD2 to date. Although this is expected to rise to three teams by July 2024, we have concerns on how all 150 crossings will be resourced. We welcome SGN to provide evidence as part of their consultation response demonstrating how these will all be resourced in RIIO-GD2.*

### SGN Response

#### Adjustments to cost

At an early stage SGN saw a spike in river washouts and estimated that around 150 remediations would be



required. This was an early estimation when our understanding of this new problem was at an infancy, and we were forecasting against a small sample size. Since carrying out work on washouts, we now have a greater sample size to extract data from. Therefore, an estimation of 70 remediations is a more accurate representation of volume.

Much like our estimations on volumes our costs have now developed into more refined estimations through real work completed over the past 2 years.

After Storm Babet we surveyed all our crossings in the red and amber storm areas this is a total of 1808 metres of river crossing. In addition, we extend our survey program to cover crossings in the yellow area affected by storm Babet. During Storm Babet rivers in the affected area saw rises in their level of up to 14 meters above their normal level. This increase in river flow and associated energy will have reduced the cover on many crossings without yet exposing the pipe. As a result, we are likely to see an increase over the coming months/years of washouts that were affected by the extreme weather of storm season 23/24.

Our forecasted workload is based on the surveys we have carried out on or river crossings over the summer of 2024. These surveys have reported evidence of bank erosion on many of our crossings. Bank erosion is an early sign of a full exposure as once water gets into the pipe track it becomes more vulnerable to erosion and a full washout. From these surveys we have evidence of bank erosion on 43 sites in the Red, Amber and Yellow areas. Total 3 Red, 20 Amber and 20 in the Yellow. On this basis, remediation work will need to be undertaken on at least 43 sites that have had bank erosion identified before the end of GD2. This will take the form of bank restoration/protection works and full washout protection works utilising green engineering solutions.

#### Detailed schedule of deliverability

SGN now has 3 contracting companies that can carry out this work and we are refining our repair methods and washouts management through the work that has already been completed. Each of the contractors can expand the number of teams they have to match the demand of washout work available. We are also currently working on some innovative repair methods with SEPA utilising green engineering systems.

**SGN requests an updated value of £ [REDACTED] (18/19 prices), to enable safe supply to our network by enabling washout remediations to be carried out.**

	Time of Original Submission		Updated Submission	
	Number	Cost £m (18/19 Prices)	Number	Cost £m (18/19 Prices)
Completed/In Progress	10	£ [REDACTED]	27	£ [REDACTED]
Forecast	150	£ [REDACTED]	43	£ [REDACTED]
<b>Total</b>	<b>70</b>	<b>£ [REDACTED]</b>	<b>70</b>	<b>£ [REDACTED]</b>





- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

In the context with the negotiation with, [REDACTED]. The following options were considered:

- [REDACTED]
- [REDACTED]
- [REDACTED]

The preferred option was [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

Since the dispute only affected the Piggling Facility, relocating the facility was one option to avoid payment for Loss of Development. However, the 'Major Projects' department have estimated the costs for relocation to be £ [REDACTED] in 18/19 prices. This was not considered a cost-effective solution.

[REDACTED]  
[REDACTED]  
[REDACTED]

SGN therefore requests £ [REDACTED] (18/19 value) as incurred in association with the preferred option as described above.