

Decision

National Grid Electricity Transmission (NGET) Non-operational IT Capex Re-opener Decision

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The RIIO-2 Non-operational IT Capex Re-opener allows for adjustments to NGET Non-operational Information Technology (IT) Capex. On April 2021, we received an application from NGET for £2.37m additional allowances regarding the Integrated Energy Management System (IEMS), Transmission National Control Centre (TNCC) and Supervisory Control and Data Acquisition (SCADA) outputs and allowances. On September 1st 2021, we published our initial views for consultations with stakeholders. This document sets out our decision on NGET's Non-operational IT Capex Re-opener application.

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1. Introduction

Background

1.1. On April 2021 NGET submitted a Re-opener application in accordance with Special Condition 3.7 (“Non-operational IT Capex Re-opener”)¹ of its licence. The Re-opener application requested that the Authority approves its IEMS, TNCC and SCADA projects and associated allowances.

1.2. On September 1st 2021 we published our consultation on NGET’s Non-operational IT Capex Re-opener application² (‘the Consultation’). As part of the Consultation, we explained that the current version of NGET’s Special Licence Condition 3.7 does not provide for a Price Control Deliverables (PCD) component and consequently does not allow Ofgem to add PCDs by way of direction. For that reason, as we mentioned in our Consultation, we have published a statutory licence modification³ to give effect to our policy decision so that we can amend allowances and add PCD outputs for Re-opener applications where appropriate. Noting that PCDs are not required for this Decision.

1.3. Only one party – NGET – responded to the Consultation.

Purpose of this document

1.4. This document sets out our Decision on NGET’s Non-operational IT Capex Re-opener application.

1.5. A summary of NGET’S consultation response, together with our response to the issues raised in it, is in Chapter 2. Our Decision is in Chapter 3.

1.6. All figures are in 2018/19 prices except where otherwise stated.

¹ <https://www.ofgem.gov.uk/publications/decision-proposed-modifications-riio-2-transmission-gas-distribution-and-electricity-system-operator-licence-conditions>

² <https://www.ofgem.gov.uk/publications/riio-2-non-operational-it-capex-re-opener-consultation>

³ <https://www.ofgem.gov.uk/publications/statutory-consultation-modifications-riio-2-transmission-gas-distribution-and-electricity-system-operator-licence-conditions-0>

2. Consultation position and summary of NGET's response

Consultation position

2.1. In the Consultation, we proposed reducing NGET's Non-operational IT Capex Re-opener funding request of £2.37m by £0.06m to reflect our view of the economic and efficient costs. This would result in a Re-opener allowance of £2.31m for NGET to deliver its project.

2.2. We proposed to provide to NGET an allowance of £2.31m (IEM - £1.06m; TNCC - £1.25m) as its Re-opener application presented NGET's approach on additional Non-operational IT Capex for different areas; regarding IEMS project, NGET has sought to maintain operational capability of a business-critical function; in relation to TNCC, NGET provided its plan on addressing legal separation from ESO through considered and staged approaches; regarding SCADA project, NGET provided an updated plan of the procurement process for the subsequent phases (Delivery and Entry into Service). Ofgem had assessed the proposed projects on these three areas and believed that they will deliver consumer benefit.

NGET response

2.3. NGET accepted the consultation proposal as it was outlined in section 6 of the Consultation.

2.4. NGET has also agreed with our assessment on the validity of the needs case on IEMS, TNCC and SCADA projects as presented in the Consultation.

2.5. On our technical assessment of the range of options regarding the location of TNCC, NGET supported Ofgem's determination on their proposed plan of work to progress to the next stage. In line with our consultation position, NGET also stated that their choice of using existing NGET's operational land over potential use of 3rd party sites will provide efficiencies from secure connectivity and infrastructure perspective. Moreover, NGET agreed with Ofgem's assessment that further exploration of 3rd party sites can be considered as a nugatory activity without visible value. NGET also supported Ofgem's technical assessment of the range of options for IEMS, while on SCADA there were no additional options to be assessed at this stage.

2.6. NGET agreed with our minded-to position at consultation regarding TNCC, IEMS and SCADA.

2.7. NGET also accepted Ofgem's cost assessment on TNCC and IEMS. NGET also stated its support on Ofgem's assessment for the revised risk/contingency budget reduction down to 7.5% at this stage of the project but highlighted that as this project is not a standard operational build project, contingency margins will be quantified -if needed- as part of the next NGET's non-operational IT capex Re-opener submission. On SCADA, cost assessment element was not applicable.

2.8. NGET noted that it would welcome a wider discussion on the principles around Ofgem's direction on excluding corporate overhead resource that have not been backfilled in substantive roles from the cost allowance calculation. NGET stated that even though this reduction is not significant for TNCC, it might be significant across all IT projects and for that reason a wider discussion will be valuable ahead of future NGET's Re-opener applications. Ofgem agrees to further engage on this subject and provide clarity on the principles underpinning our position.

2.9. Subsequent to NGET's formal response we received a request to delay any funding decision on their TNCC proposal until such times as National Grid's final decision regarding the NGET back-up control room has been concluded. This decision has been delayed in light of the ongoing review of their control room strategy and future resilience requirements in light of the National Grid Gas Transmission (NGGT) sale, Western Power Distribution (WPD) acquisition and the impact of COVID-19.

3. Decision

3.1. Having considered the information provided by NGET in its Consultation response and its subsequent request to defer the investment decision in its Control room (TNCC), we have decided to amend our consultation position on TNCC funding and withdraw the proposed TNCC allowance of £1.25m.

3.2. We have decided to maintain our consultation position with regards to IEMS and SCADA and provide NGET a Non-operational IT Capex Re-opener allowance of £1.06m.

3.3. Upon completion of the Control room strategy conducted by NGET, the company might wish to submit a TNCC funding request to be submitted in a future Non-operational IT Capex Re-opener period (currently scheduled for January 2023 under Special Licence Condition 3.7.7).

3.4. Table 1 below details NGET’S requested Re-opener adjustments, our consultation position, and our Decision. Table 2 details NGET’s Non-operational IT Capex Re-opener allowance profile across RIIO-2.

Table 1: Decision on NGET’s Re-opener application:

Project Components	NGET Request (£m)	Ofgem Proposed Adjustments at Consultation (£m)	Ofgem Proposed Allowances at Consultation (£m)	Ofgem Decision (£m)
IEMS Total	1.08	0.02	1.06	1.06
TNCC Total	1.29	0.04	1.25	0.0
SCADA Total	0.0	0.0	0.0	0.0
Total	2.37	0.06	2.31	1.06
<i><u>Proposed adjustment Breakdown</u></i>				
<i>IEMS - Risk/Contingency</i>	<i>0.1</i>	<i>0.02</i>	<i>0.08</i>	
<i>TNCC - Wider Scheme Team Costs</i>	<i>0.19</i>	<i>0.01</i>	<i>0.18</i>	
<i>TNCC Risk/Contingency</i>	<i>0.12</i>	<i>0.03</i>	<i>0.09</i>	

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Table 2: NGET's Non-operational IT Capex Re-opener allowance:

	2022	2023	2024	2025	2026	Total
Re-opener Allowance (£m)	1.06	0	0	0	0	1.06