
SGN Non-Operational IT Capex Re-opener Draft Determination

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We are consulting on SGN’s Non-Operational Information Technology (IT) Capex Re-opener submission, which was submitted in the 23 January 2023 to 30 January 2023 Re-opener window.

We particularly welcome responses from people and companies with an interest in electricity and gas transmission or distribution. We would also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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Introduction

Section summary

This section gives an explanation of SGN's submission, our assessment process, and how we will handle this consultation process.

What are we consulting on?

- 1.1 We¹ are consulting on adjusting SGN's Non-operational Information Technology (IT) Capex² outputs and allowances under the RIIO-2 Non-operational IT Capex Re-opener ("the Re-opener").
- 1.2 In accordance with Special Condition 3.7 (Non-operational IT Capex Re-opener), SGN applied to Ofgem to add additional allowances for Non-operational IT projects into its RIIO-2 price control framework. Specifically, Special Condition 3.7.6 provides a mechanism by which the Licensee may seek additional funding during the RIIO-2 price control period for activities capable of improving the efficiency or performance of its Non-operational IT Capex.
- 1.3 Since its submission in January 2023, SGN has also provided additional information to us through a combination of bilateral meetings and Supplementary Question (SQ) responses.
- 1.4 Throughout this document, all monetary figures are in 2018/19 prices (to align with the original RIIO-2 price base) except where otherwise stated. SGN provided some figures in 2022/23 prices, so we have converted them to 2018/19 prices.

Consultation approach

- 1.5 We are issuing this consultation following our assessment of SGN's re-opener application. This document explains our assessment of that application and the adjustments we are proposing to make to SGN's licence, including adjustments to allowances and the addition of any Price Control Deliverables (PCD).
- 1.6 We will implement our decision from this consultation by way of a formal direction, which we intend to issue alongside our decision. A draft of the direction is provided in Appendix 1, subject to consultation responses.

¹ The terms "we", "us", "our", "Ofgem" and "the Authority" are used interchangeably in this document and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

² Expenditure on new and replacement IT assets, including Hardware & Infrastructure and Application Software Development

1.7 We considered SGN's proposals and its justification for the funding requested in accordance with our principal objective and statutory duties. In line with the Re-opener Guidance and Application Requirement Document³, our assessment covers the following three areas:

- the needs case
- the options assessment and the justification for the proposed project
- the efficient costs for the proposed project

We have combined this information to create our Draft Determination on what additional allowances, if any, should be provided to SGN to undertake the project.

Context and related publications

1.8 The scope of this consultation is limited to SGN's Non-operational IT Capex Re-opener. This document is intended to be read alongside:

- the RIIIO-2 Final Determinations – Core Document (REVISED)⁴
- the RIIIO-2 Draft Determinations – Core Document⁵
- SGN's Licence Special Conditions 3.7
- RIIIO-2 Re-opener Guidance and Application Requirements Document.

Consultation stages

Figure 1: Consultation stages

Stage 1	Stage 2	Stage 3	Stage 4
Consultation open	Consultation closes (awaiting decision). Deadline for responses	Responses reviewed and published	Consultation decision
22/05/2023	23/06/2023	October 2023	October 2023

³ [Re-opener Guidance and Application Requirements Document: Version 3 | Ofgem](#)

⁴ https://www.ofgem.gov.uk/system/files/docs/2020/07/draft_determinations_-_core_document_redacted.pdf

⁵ https://www.ofgem.gov.uk/system/files/docs/2021/02/final_determinations_-_core_document_revised.pdf

How to respond

- 1.9 We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document's front page.
- 1.10 We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.
- 1.11 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data and confidentiality

- 1.12 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
- 1.13 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.
- 1.14 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.
- 1.15 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

1.16. We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

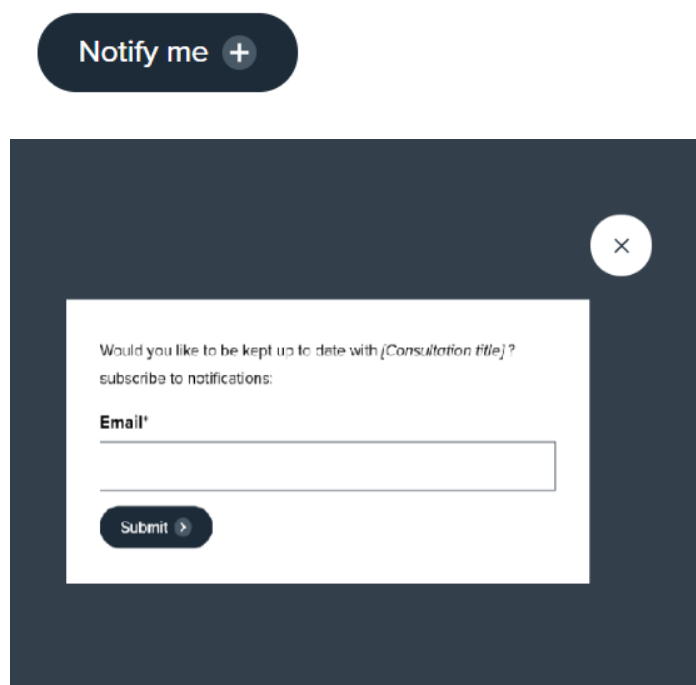
1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website.

[Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations)



The image shows a dark blue button labeled 'Notify me' with a white plus sign. Below it is a dark blue modal box with a white close button (X) in the top right corner. Inside the modal is a white form with the text: 'Would you like to be kept up to date with [Consultation title]?' followed by 'subscribe to notifications:'. There is an 'Email*' label, a text input field, and a 'Submit' button with a right arrow.

Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

2. Needs case

Section summary

This section outlines the needs case that SGN has put forward and our assessment of the needs case.

Questions

Q1. Do you agree with our Draft Determination on SGN's needs case?

Demonstration of the needs case

- 2.1 This re-opener submission identifies the need for additional allowances for SGN to accelerate its compliance against its licence conditions (Special Condition (SpC) 9.5), particularly the Data Best Practice Guidance⁶, as required by Ofgem.
- 2.2 The submission sets out that when SGN submitted its original RIIO-2 business plan the energy sector was still unclear on the requirements and expectations of digitalisation strategies, and that funding proposals supporting digitalisation were rejected whilst the DBP Guidance was developed⁷.
- 2.3 SGN has since developed a digital strategy in response to the recommendations of the Energy Digitalisation Task Force (EDiT), Data Best Practice (DBP) Guidance, and the requirements of SpC 9.5⁸.
- 2.4 Using its baseline RIIO-2 allowances, SGN has explained that it has delivered its "internal core platforms", which includes:
- setting up a data management tool (Talend)
 - creation of a data lake (a centralised repository for storing data)
 - setting up integration tools for API and file transfers (MuleSoft)
 - a multi-year cyber programme to support information security capability improvement.

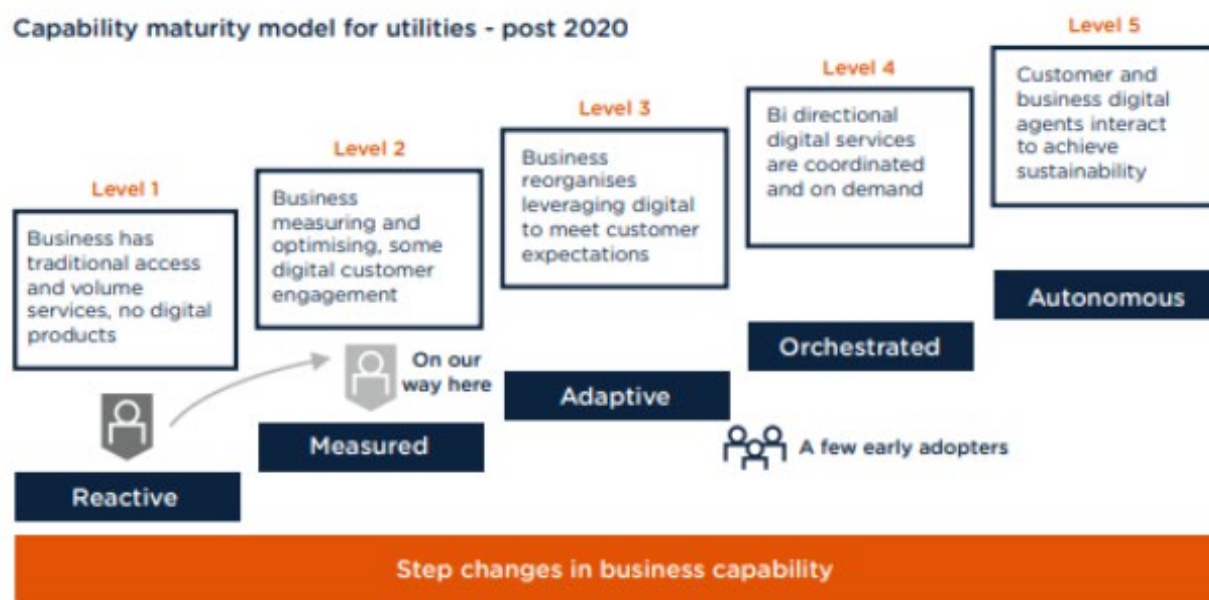
⁶ The Data Best Practice Guidance [Data Best Practice Guidance v1.pdf \(ofgem.gov.uk\)](#) is a principles-based approach that provides guidance on the quality, accuracy and accessibility of data. The Guidance is underpinned by 11 principles, for example Principle 1 is "Identify the roles of stakeholders of Data Assets".

⁷ A draft of the DBP Guidance was published in May 2021 for consultation and the final version was published in November 2021.

⁸ Gas transporters, such as SGN, are required to give their best endeavours to follow the DBP Guidance Principles by virtue of Part of Special Condition 9.5 (Digitalisation) of its Gas Transport Licence.

2.5 However, SGN recognises that it needs to move further and faster to meet industry and Ofgem's expectations. SGN uses **Figure 1** to indicate its current level of digitalisation.

Figure 1: "Capability mature model for utilities post 2020"



2.6 SGN explains that it cannot deliver on its data and digitalisation Licence Obligations without additional funding to develop and resource 'DataSecOps'⁹ capabilities. It expects this would cost approximately £9m over the remainder of RIIO-2 and would offer benefits including:

- decreasing the time taken to deploy analytical solutions
- reducing data defects
- reducing the time required to resolve data defects
- minimising data silos

2.7 The submission describes the end goal of establishing and developing these additional capabilities is to "maximise the value of data enabling SGN to increase compliance and improve associated operations, services and stakeholders experience in data delivery".

⁹ SGN define this using an IBM.com definition of "the orchestration of people, processes, and technology to accelerate the quick delivery of high-quality data to data users."

- 2.8 The submission concludes that, as SGN does not currently have the capability to establish these DataSecOps capabilities, without additional funding it would take SGN significantly longer to deliver against the DBP Guidance.

Our Draft Determination on SGN's needs case

- 2.9 SGN needs to improve its policies, processes, and governance against the DBP Guidance, in order to comply with its licence obligations (Special Condition 9.5) and stakeholders' growing expectations.
- 2.10 SGN's proposals will deliver genuine business and consumer benefits beyond what it has been funded to deliver through its existing RIIO-2 allowances.

3. Optioneering

Section summary

This section outlines the options considered to address the needs case that SGN has put forward and our assessment of these options.

Questions

Q2. Do you agree with our Draft Determination on SGN's optioneering?

Options considered and justification for the proposed project

3.1 To address the needs case discussed in the previous chapter, SGN looked at three potential options:

- Option 1: 'do nothing' (Cost £0m, NPV -£229m¹⁰)
- Option 2: 'industry appoints a centralised / partially centralised service' (Cost £9.3m, NPV £9.3m)
- Option 3: 'SGN delivers DBPG and Open Data Services' (Cost £9.15m, NPV £9.15m)

3.2 Option 1, to do nothing, is rejected by SGN on the basis that it will significantly extend the time taken for it to become compliant with its licence obligations. The submission explains that if SGN cannot achieve compliance with associated updates to the regulatory framework in the future this could ultimately "have an impact on SGN's available funding, licence to operate, subsidy schemes and market access". SGN acknowledges that the EDiT recommendations are "critical for modernising the energy system to unlock flexibility, drive clean growth towards net zero emission by 2050" and that the cost of not undertaking such work would be "significantly higher compared to timely investment".

3.3 Option 2 discusses the possibility that industry could provide or appoint a centralised service to provide or facilitate the Open Data triage, curation, staging and sharing services for all network operators. SGN expect that this would still require some level of investment, but that it would not need to develop the same level of capability. SGN do not explore this option further.

¹⁰ In its Cost Benefit Analysis, SGN assumes that taking no additional action would lead it to breach its licence conditions, leading to a loss of £76m per year. This accumulates to a total NPV loss of -£229m across the GD2 period and -£1,776m to 2070.

- 3.4 Option 3, for SGN to 'deliver DBP Guidance and Open Data Services' is SGN's preferred option. SGN explains that investing in modern DataSecOps capabilities will allow it to benefit directly from the improvements as well as meeting the needs and wants of the energy system, industry, and stakeholders.
- 3.5 Option 3 is divided in to the three sub-projects:
- Project 1: Delivering on open data commitments. SGN explains that it needs to adopt new data standards and a digital culture to align to the DPB Guidance. Although it already has basic data capabilities, it plans to collect more data and improve its sharing, processing, and governance. This includes establishing an enterprise architecture, maturing its data governance and management, and populating its data management tool (Talend) with metadata from key systems. Additionally, SGN is aiming to automate its Open Data Triage process and create up to 12 APIs so that stakeholders can access the data it holds.
 - Project 2: Prepare for emerging requirements resulting from the EDiT recommendations. Specifically, this would entail resourcing and actively participating in business analysis for, and actively contributing towards, the design of the Customer Registration Portal, Common Asset Register and Digital Spine.
 - Project 3: To prepare for the "upcoming automation of Regulatory Reporting Processes (RRP) anticipated to be automated at the start of GD3" by participating in and contributing to industry discussions led by Ofgem. This includes supporting and facilitating the design of the changes and then identifying and fixing any gaps or issues in the automation of data flows or the data itself.
- 3.6 Overall, SGN puts forward a case that to meet stakeholder demands it needs to develop a better data triage process, develop consumer facing APIs, and better support future integration and data architectures.

Our Draft Determination on SGN's optioneering

- 3.7 SGN has provided optioneering that considered a limited range of options. The first option, to do nothing, has been correctly rejected. This would lead to SGN being unable to meet the requirements of its licence conditions, which is unacceptable to us.
- 3.8 The second option, waiting for industry to arrange a centralised or partially centralised service, has also been rejected by SGN. Whilst SGN considers this as

an option, there is minimal explanation of how this could work or what SGN have done to explore this option. However, we are not aware of any existing industry move towards creating a centralised service, so we do not see this as a viable option at this time.

- 3.9 SGN's optioneering therefore concludes that the only option (Option 3) is to undertake all the work identified, at a cost of £9.15m. We agree with SGN that there is a clear needs case that should be addressed during the current RIIIO-2 price control period. However, as part of our assessment our data experts have explored whether some elements of Option 3 could be excluded, reducing the cost to consumers, whilst still allowing SGN to meet its licence obligations and stakeholder expectations. We break down this analysis of Option 3, among other potential cost savings, in **Paragraph 4.4** in the Cost section below.

4. Costs

Section summary

This section outlines the costs that SGN has put forward and our assessment of whether they are efficient.

Questions

Q3. Do you agree with our Draft Determination on SGN's costs?

Our Draft Determination on efficient costs

- 4.1 The submission breaks the proposed costs down by year and by type of spending (eg. staff, contractors, software, environment project costs etc). However, it only has one paragraph dedicated to justifying the efficiency of these costs. SGN explains that these projects are based on costs from framework partners and previous project experience, but that its current plans are high level and subject to change in both scale and complexity. In response to Supplementary Question 3¹¹, SGN provided some additional information, breaking down the external roles it would be aiming to fill and what each role would be focused on.
- 4.2 We note that SGN have highlighted that these costs are operational costs (opex), which will be used to support its capital baseline allowances (capex). We appreciate that modern digital programmes are delivered using a blend of capex and opex and do not have any specific concerns with licensees requesting opex providing it is in support of larger capital programmes and is not for business-as-usual activities, or for activities already funded via existing RIIO-2 allowances.
- 4.3 As discussed in the needs case and optioneering above, we are minded-to fund efficient activities related to DBP Guidance, to help ensure that SGN meets its licence obligations and provides good value to consumers and other stakeholders.
- 4.4 However, there are elements of work that either our data experts do not consider contribute towards meeting the DBP Guidance, are not necessary at this time, or that need further evidence to demonstrate a user need. These areas could be reviewed for the next price control period. Additionally, many of the costs

¹¹ SGN_NOITRE2023_SQ3: "Please provide a detailed breakdown of which staff, identified in your financial submission, will be working on which projects/deliverables set out in your written submission. For example, which of the proposed contracting staff will be working on the delivery of an open data platform?"

proposed are relatively high. We therefore propose to disallow some of the allowances requested for the following elements:

- (1) The Enterprise Architecture work and third-party API costs are poorly justified from a user-needs perspective, and it is not clear why these projects need to be completed during the RIIO-2 price control. SGN should look to build an evidence base that demonstrates a user need for these components and then explore whether they would be suitable for its business plan for the next price control period. In line with this we propose to remove the total third-party cost allowance requested. Proposed adjustment -£1.481m.
- (2) The submission does not include any internal staff and instead relies solely on the use of external contractors for the remainder of GD2. In response to Supplementary Question 2¹², SGN outlined that it needed to recruit skilled contract staff to initially establish its DataOps capability and to make rapid progress. We appreciate there is an immediate needs case and that it may take time to hire roles internally and to build up expertise. However, we have seen comparative projects delivered by other companies at a lower cost. On this basis we are proposing to award the full funding requested for contractors for the first year (2023-24) but with a blanket reduction of two-thirds on all contractor allowances in years 2 and 3 of the project, to account for a more efficient resource spend once the project is up and running. Proposed adjustment -£3.139m.
- (3) Project 2, preparing for the EDiT recommendations, is still at the early planning stage and is not sufficiently mature. We suggest that SGN reviews this request once it has a clear plan for responding to any future EDiT recommendations. Proposed adjustment -£0.341m.
- (4) Project 3, preparing for RRP changes, like Project 2 is not of sufficient maturity to allocate consumer funding as there are currently no major changes to the RRP process, and we would expect changes to be handled as a business-as-usual expenditure. Proposed adjustment -£0.341m.
- (5) The submission requests a risk pot of 15.5%. Our initial view is that this is too high and does not align with similar projects. Across RIIO-ET2 determinations we used a capped average risk across projects at 7.5% of

¹² SGN_NOITRE2023_SQ2: "Why are there no internal staff costs for this submission? How do you intend to take over these workstreams at the end of the RIIO-GD2 period?"

our assessed efficient costs, following a review of outturn risk on a number of RIIO-1 projects. We do not believe we have seen sufficient reason to apply a different approach in this case and propose using the same 7.5% here. This 7.5% will be applied to the new total following the adjustments proposed in (1)-(4). Proposed adjustment -£1.274m.

- 4.5 Overall, we have assessed that the full allowances requested are not efficient and would not represent good value for money for consumers. **Table 1** sets out SGNs proposed costs, our proposed adjustments as set out in **Paragraph 4.4**, and our Draft Determination.

Table 1: Draft Determination

	SGN's proposal	Proposed adjustments	Draft Determination
Allowances	£9.155m	-£6.576m	£2.579m

- 4.6 Splitting the total reduction proportionally across each of the three years remaining in the GD2 price control period provides our final Draft Determination position show in **Table 2**.

Table 2: Draft Determination, split by financial year (rounded)

Summary	2023/24	2024/25	2025/26	Total
Total (£m)	0.417	1.042	1.120	2.579

- 4.7 Given the licencing requirements for SGN to meet the DBP Guidance, alongside a relatively limited amount of funding, we do not consider it necessary to impose specific Price Control Deliverables for these allowances.
- 4.8 **Appendix 1** sets out a draft of the direction that we will use to implement these additional allowances once we have accounted for any representations.

Appendices

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Appendix 1 – Draft Direction

Introductory note

Following our assessment of SGN's submission, we have set out our Draft Determination. Any decision, for example to add additional allowances for a project, will be implemented into the Licensees licence via a direction. This Appendix provides a draft of the direction that will implement our Final Determination, as required by Special Condition 3.7.12. We intend to confirm the direction at the same time as setting out our Final Determination.

This direction is subject to responses to our Draft Determination. Any representations with respect to the Draft Determination or associated draft direction below must be made on or before 23 June 2023. These should be sent to Joe Draisey, Office of Gas and Electricity Markets, 10 South Colonnade, Canary Wharf, London, E14 4PU or by email to Joe.Draisey@ofgem.gov.uk.

Please see paragraphs 1.9 to 1.15 above for more information on responding, including on marking parts of responses that you consider confidential.

Draft Direction

Direction under Special Condition 3.7.6 of the gas transporter licence held by SGN (the Licensee) to add allowances for Non-Operational IT Capex

A1.1 The Gas and Electricity Markets Authority ('the Authority') is issuing a direction under Special Condition 3.7.6 to amend Special Condition 3.7 Appendix 1 (Total Non-operational IT Capex Re-opener allowance).

A1.2 Special Condition 3.7 provides a re-opener mechanism by which the Licensee may seek additional funding during the RIIO-2 price control period for activities capable of improving the efficiency or performance of its Non-operational IT Capex.

A1.3 The Licensee applied under Special Condition 3.7.6 in January 2023, and the Authority publicly consulted on its Draft Determination between 23 May 2023 and 23 June 2023. This document included a draft of the text in this direction, as required by Special Condition 3.7.12.

A1.4 The Authority received [x] non-confidential representation(s) and have placed these on ofgem.gov.uk. Having considered these representations, the Authority has decided to proceed with making this direction.

A1.5 This direction will implement the Authority's decision on the Licensee's application to the Authority to add additional Non-Operational IT Capex allowances into its RIIO-2

Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an eSGNial part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e., a consultation.

4. With whom we will be sharing your personal data

We will not be sharing your personal data with other organisations.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for up to twelve months after the consultation process closes.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services

- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties.
- tell us your preferred frequency, content and format of our communications with you.
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

10. More information For more information on how Ofgem processes your data, click on the link to our "[ofgem privacy promise](#)".