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## **SHET Non-Operational IT Capex Re-opener Draft Determination**

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We are consulting on Scottish Hydro Electric Transmission’s (SHET) 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 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 provides an explanation of SHET's submission, our assessment process, and how we will handle this consultation process.

### What are we consulting on?

- 1.1 We<sup>1</sup> are consulting on adjusting SHET's Non-operational Information Technology (IT) Capital expenditure (Capex)<sup>2</sup> outputs and allowances under the RIIO-2 Non-operational IT Capex Re-opener ("the Re-opener").
- 1.2 Special Condition (SpC) 3.7 provides a mechanism by which licensees 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. SHET submitted an application for the following five projects:
  - Integrated Project Management
  - System and Network Planning
  - RIIO-T3 IT Strategy and Planning
  - Small IT Changes
  - Project TRenDS
- 1.3 Since its submission in January 2023, SHET 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. Parts of Project 5 in this document have been redacted, as the content relates to Critical National Infrastructure<sup>3</sup>.

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<sup>1</sup> 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.

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

<sup>3</sup> [Critical National Infrastructure | NPSA](#)

## Consultation approach

- 1.5 We are issuing this consultation following our assessment of SHET's re-opener application. This document explains our assessment of that application and the adjustments we are proposing to make to SHET's licence, including adjustments to allowances and the addition of any Price Control Deliverables (PCD). Following a tender process, we appointed a technical consultancy that assisted us with assessing these projects.
- 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.
- 1.7 Our Draft Determination on SHET's re-opener application is split in to five parts, one for each of the five projects that SHET has requested additional allowances for.
- 1.8 We considered SHET'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 Document<sup>4</sup>, our assessment of each project covers the three following 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 SHET to undertake the project.

## Context and related publications

- 1.9 The scope of this consultation is limited to SHET's Non-operational IT Capex Re-opener. This document is intended to be read alongside:
- the RIIO-2 Final Determinations – Core Document (REVISED)<sup>5</sup>
  - the RIIO-2 Draft Determinations – Core Document<sup>6</sup>

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<sup>4</sup> [Re-opener Guidance and Application Requirements Document: Version 3 | Ofgem](#)

<sup>5</sup> [https://www.ofgem.gov.uk/system/files/docs/2020/07/draft\\_determinations\\_-\\_core\\_document\\_redacted.pdf](https://www.ofgem.gov.uk/system/files/docs/2020/07/draft_determinations_-_core_document_redacted.pdf)

<sup>6</sup> [https://www.ofgem.gov.uk/system/files/docs/2021/02/final\\_determinations\\_-\\_core\\_document\\_revised.pdf](https://www.ofgem.gov.uk/system/files/docs/2021/02/final_determinations_-_core_document_revised.pdf)

- SHET’s Licence Special Conditions 3.7
- RIIO-2 Re-opener Guidance and Application Requirements Document.

## Consultation stages

**Figure 1: Consultation stages**

<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Stage 4</b>
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

## How to respond

- 1.10 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.
- 1.11 We’ve asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.
- 1.12 We will publish non-confidential responses on our website at [www.ofgem.gov.uk/consultations](http://www.ofgem.gov.uk/consultations).

## Your response, data and confidentiality

- 1.13 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.
- 1.14 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.

- 1.15 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.
- 1.16 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?

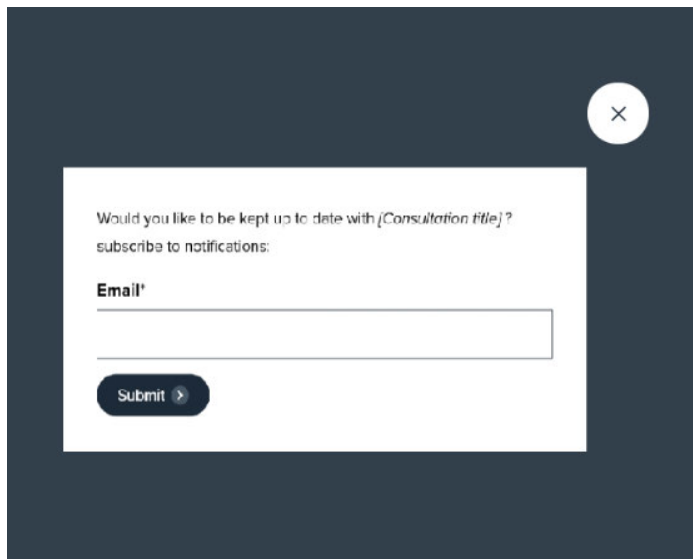
Please send any general feedback comments to [stakeholders@ofgem.gov.uk](mailto:stakeholders@ofgem.gov.uk)

## **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)

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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. Project 1 - Integrated Project Management (IPM)

### Section summary

This section outlines SHET's re-opener application for its Integrated Project Management project and our assessment of the needs case, optioneering and costs. Based on this assessment we have formed our Draft Determination of what allowances, if any, should be added for this project.

### Questions

Q1. Do you agree with our Draft Determination for the Integrated Project Management project?

### SHET's demonstration of the needs case

- 2.1 In its submission, SHET explains that its ambition is to become a digital company and that this ambition covers all aspects of the business from project delivery to operational decisions. SHET considers that, based on its current level of digital maturity in capital asset delivery and the growing portfolio of assets requiring connection to the transmission system, that there is a risk of not delivering its programme of capital works.
- 2.2 Given the strategic importance of transmission investment, SHET explains that the knock-on impacts of not delivering its programme could impact the UK's net zero ambition. SHET concludes that there is a need to invest in growing and maturing the digital capabilities of its capital delivery functions.
- 2.3 To address this need, SHET has planned an Integrated Project Management (IPM) project, which would entail the digitalisation of the key management processes underpinning its capital delivery programme, such as schedule, cost, risk, and issue management. SHET plans that this standardisation would help ensure best practices are embedded in complex capital delivery, which it states would lead to three key benefits. First, it would lead to a faster and more optimised way of delivering projects. Second, it would help ensure that the right data is collected at every stage, in a manner that ensures it can be aggregated for provision of insight, providing benefits including:
  - Enabling early actions, ensuring bottlenecks are identified and addressed
  - Providing better reporting leading to enhanced stakeholder engagement, and more informed customers

- Improving the quality of reports, allowing for better lessons learnt and enabling iterative improvements to be made.

2.4 Finally, SHET believes that this investment would reduce the inherent delivery risk in the capital programme, which would bring greater confidence in delivery against its business plan commitments and the capital projects that have been funded both in the current RIIO-T2 period and in the next price control period.

### **Our Draft Determination on the needs case**

2.5 SHET's application clearly articulates the need for this investment, outlining the background to the requirement both from the business and technology perspectives. We expect that there will be significant growth in the volume of new connections and that the supply and demand profiles on the Transmission Network will change in line with this. We agree with SHET that this clearly indicates the need for a transformation in SHET's approach to the management of its Capital Delivery Programmes.

2.6 We consider that the application is aligned with SHET's Digital and Data Vision strategy and that the further digitalisation of its capital delivery should deliver cost efficiencies and drive process improvements over time.

### **SHET's options considered and justification for the proposed project**

2.7 In the submission, SHET outlined that a range of potential options to address the needs case were presented and debated within its internal teams (SHET IT, SHET Capital Delivery, and the wider business), as well as with its digital partners who had assisted it in creating the Digital Vision strategy. Each option was evaluated against five set criteria:

- Impact on meeting strategic objectives
- Impact on meeting 2030 Strategy
- Impacts on RIIO-T3 Foundation
- Unmissable Quick Wins
- Alignment with stakeholder expectations

2.8 This evaluation led to SHET narrowing down its options to a top three:

- Option 1: do nothing (£0m). SHET notes that this would have no investment costs, however it considers that this would have implications for the delivery of its capital programme as discussed in the needs case.

- Option 2: delivering the IPM project now (£11.05m). SHET has already started some of the work on this project and under this option it would continue at pace, with SHET aiming to complete the main tender process in May 2023. This option maximises the benefits by completing the project quickly. However, SHET notes that there are currently a limited number of vendors, which could limit certain capabilities (for example the chosen product may provide good capability in most areas but poor Change Management capability).
- Option 3: defer delivery of the IPM project until the end of RIIO-T2 (not costed). SHET notes that the main benefit of this option would be that other, better technical solutions may be available as technology improves over time and more vendors potentially enter the market. However, SHET states that this option would mean that existing issues such as higher costs in maintaining multiple systems, and risks to data quality from holding the same data in multiple places, would continue.

2.9 SHET's preferred option is Option 2, to deliver the IPM solution in RIIO-2. This would result in the majority of IPM capability being centred in an integrated platform within the current price control period.

2.10 This investment in IPM would deliver the required platform and capabilities through a series of coordinated steps by splitting the investment into several items, while prioritising the delivery order by focusing on the highest value add first. SHET plan for the following items to fall within scope of the IPM project:

- Change & Project Management (processes and tool to manage change)
- Data and Integration Design (mapping out data systems)
- Product Selection (selecting, evaluating, and choosing the product)
- Project Cost Management (planning and controlling project costs)
- Schedule Management (timetabling project tasks, deliverable and milestones)
- IPM Cost Management (planning and controlling IPM project costs)
- Data Cleansing (removing or fixing incorrect or incomplete data)

2.11 SHET states that the key benefits of this option are that it requires only one procurement process and that the selected platform is designed for Integrated Project Management for Capital Delivery. This approach can be described as a hub that delivers the required capabilities. It leverages some of the existing

systems through integration, where they either provide strong capability or are part of a SHET wide service such as its finance team.

### **Our Draft Determination on SHET's optioneering**

- 2.12 SHET shortlisted three options and concluded that the best option was to deliver the IPM solution in the current RIIO-T2 price control period.
- 2.13 We agree that SHET was right to reject the 'do nothing' option. As discussed in paragraphs 2.1 to 2.4 above, there is a need for SHET to address this gap in its project management capability. The project identified will support the implementation of the critical Building Information Management project and enable delivery of the company's digitalisation strategy and associated benefits.
- 2.14 We also agree that SHET were right to reject the 'delay IPM until the end of RIIO-T2 option', as it will impact its ability to efficiently deliver multi-million-pound capital projects. Delivering this platform now will provide SHET with the foundations it can use to deliver its capital projects in the next price control period.
- 2.15 Our consultants assessed the optioneering and proposed solution. They concluded that the capabilities that SHET is planning to build into the platform are correct, and we are satisfied with their conclusion. It is therefore our view that, given the short- and medium-term benefits of this project and alignment with SHET's wider strategy to deliver capital works efficiently, that the correct option is to undertake the IPM project during the RIIO-2 period.

### **Our Draft Determination on efficient costs**

- 2.16 SHET has requested £11.05m for the IPM programme. Approximately half of the request is for internal resourcing, with the remainder allocated to consultancy, software procurement and software maintenance. The allowance requested includes £0.97m that has already been committed to the software procurement process.
- 2.17 The allowance requested covers delivery of 100% of each capability identified in paragraph 2.10 as part of the development of the minimum viable product, with an expectation that this delivers all the business outcomes. There is however a suggestion in the response to Supplementary Question 3 that the proposed agile development methodology allows for the flexibility to deliver utilising different approaches or delivering to different levels of maturity, sophistication, or completeness. Whilst this demonstrates a clear view of the options, it does suggest a continuing level of uncertainty. Additionally, although there has been a

significant amount of due diligence undertaken, the cost of the selected software product is yet to be determined, impacting cost certainty.

- 2.18 To mitigate risks and uncertainties and ensure that the project delivers good value for money, we consider that a project of this scale and complexity requires the use of Price Control Deliverables. We consider that if we used the initial PCDs suggested by SHET in response to Supplementary Question 9 (shown below in **Table 1**) it could be difficult for us to determine when the platform is fully embedded as the business-as-usual solution.

**Table 1:** SHET's suggested PCDs for IPM

<b>What is being delivered?</b> (e.g. a deliverable, an implemented solution or services, a resource, a certain action. This information remains consistent for all reports.)	<b>Outcome and benefits</b> (e.g. the positive effects of a new solution or service, a maturity state change, a risk reduction. This information remains consistent for all reports)
<ul style="list-style-type: none"> <li>• Integrated project management platform implemented.</li> <li>• IPM system embedded as the BAU solution for large capital project management &amp; delivery</li> </ul>	<ul style="list-style-type: none"> <li>• Single platform showing one centralised view of our large capital projects.</li> <li>• Single platform facilitating centralised management of our project delivery processes.</li> <li>• Reduction in handover time from Delivery to Operations by having one single system of record.</li> <li>• Improved risk and dependency management as a result of a single platform</li> </ul>

- 2.19 SHET has demonstrated the need and has selected an appropriate option. However, given the uncertainty over costs and the level of benefits delivered, we request that SHET resubmit the re-opener in the August window for a final decision. This will provide SHET with the time necessary to:

- Finalise the product selection activity and, having selected the product, undertake an analysis of the solution to determine the scope to be delivered in the remainder of the T2 period.
- Once the scope is determined, work with us to develop proposals for PCDs that are measurable, achievable and that help to mitigate remaining risks and uncertainties.

- 2.20 This approach will remove a significant element of the current level of uncertainty and associated implications on cost and benefits, whilst helping to provide SHET with the confidence to continue delivery of the project whilst awaiting final confirmation from Ofgem in early 2024.

2.21 Alternatively, if SHET can provide suitable evidence, as outlined in paragraph 2.19, in its response to this Draft Determination then we are open to including a decision in our Final Determination.

## 3. Project 2 - System and Network Planning

### Section summary

This section outlines SHET's re-opener application for its System and Network Planning project and our assessment of the needs case, optioneering and costs. Based on this assessment we have formed our Draft Determination of what allowances, if any, should be added for this project.

### Questions

Q2. Do you agree with our Draft Determination for the System and Network Planning project?

### SHET's demonstration of the needs case

3.1 SHET explains in its submission that, given the context of a large increase in demand for transmission network connections, it needs to be able to meet the following objectives:

- Develop enhanced network models to represent the complex behaviour of the renewable generation, storage, and demand on its network, and the network upgrades that are required to accommodate them.
- Use these enhanced models to investigate more scenarios and sensitivities in optioneering, so it can identify the best investment strategies and opportunities to improve the efficiency of project delivery and system reliability for the benefit of its customers.
- Respond to an increased volume of requests (eg connections), both more efficiently and with a reduced response time.
- Provide more network data points to external stakeholders.
- Enhance its processes and technology to manage the increased work load it anticipates.

3.2 SHET states that to meet these objectives it needs to be able to use external data in more variety and volume and to ingest it into its modelling systems. It expects that this will lead to increased modelling complexity but also enhance the results. To do this, SHET state it also needs to upgrade its systems and tools and increase its computational power, so it can model more scenarios and sensitivities. Finally, SHET aims to build the foundation to share appropriate model and network data with external stakeholders, in line with its open data platform obligations and

ambitions. This will include using its internal data more efficiently and in an automated manner, improving its data quality.

3.3 SHET explains that the proposals are driven by the changing consumer needs that are a result of changes in the supply and demand profiles on its network. Shifting demand such as electric vehicle charging and heat pumps alongside local energy generation such as solar are changing power flows. SHET need to be able to better model this change to minimise expensive network reinforcement activity.

3.4 Finally, as part of this project SHET explains that it wants to prepare for potential changes in Regulatory Reporting, driven by Ofgem. To do this, SHET states that its objective is to “achieve a leaner internal process for report creation and simpler verification and validation of data. This means full end-to-end traceability of data, the ability to analyse cause and effect, and automation of the steps that create the reports. Given the volume of the data inputs involved in RRP and the complexity inherent within it, we [SHET] are intending to start with developing a strategy.” In SHET’s view, compared to delayed investment, doing this work within the current price control period will:

- give it time to align with other industry parties, including Ofgem to understand future requirements better.
- provide an opportunity for it to learn from others (eg Electricity and Gas Distribution) who have similar objectives.
- ensure that some of the data investments in RIIO-T2 have been realised to inform its future activities more appropriately.

### **Our Draft Determination on SHET’s needs case**

3.5 The significant growth in generator and demand connections with resultant increase in the volume of complex interrelated projects requires a significant amount of modern network modelling and system planning capability. Changing consumer demands in terms of how and when they interact with the electricity grid mean that SHET needs to deliver a big change in how it manages connections.

3.6 The implementation of these capabilities enables SHET to better understand the available capacity in the network, potentially enabling increased utilisation before its required to reinforce the network. More accurate and timely system planning and modelling capabilities enables SHET to better meet these consumer needs and enable SHET’s key stakeholder priorities, including its net zero aspirations.



## **SHET's options considered and justification for the proposed project**

3.7 SHET considered three options:

1. 'Do Nothing': SHET discounted this option as it considered it was only valid for projects where the risks and costs of undertaking it significantly outweigh the benefits, and where there is no sense of urgency for the project's outcomes.
2. 'Defer to RIIO-T3': SHET discounted this option, as it considered it was only valid for projects where the benefits and rewards from the outcomes of the projects are justified but where there is no urgency to achieving the project outcomes now, and therefore where the overall impact will be greater if these projects are delayed and started in the next price control period.
3. 'Complete in the remaining time for RIIO-T2': This is SHET's preferred option. SHET considered that this project benefits and rewards from the outcomes justify the costs and risks associated with doing the projects and that there is a sense of urgency associated with them.

3.8 SHET is seeking £4.47 million to deliver the System and Network Planning scope, which it thinks will enable:

- a whole system view in the planning and investments of the network,
- better use of data in network planning,
- increases in the speed of delivery, leading to a faster expanding network with better cost effectiveness
- the ability to create improved network models that cover a wider range of scenarios
- the ability to execute power system analysis faster and more often
- better sharing of analytical results (internally and externally)
- the introduction of better reporting mechanisms
- the implementation of more automation for standard reporting, including regulatory reporting

## **Our Draft Determination on SHET's optioneering**

3.9 We agree with SHET that the 'do nothing' option should be discounted, because without the proposed capabilities there could be a delay in meeting customers'

requirements for changing uses of the network, for example growth in the electric vehicle market.

- 3.10 For similar reasons, we agree that deferring this investment to the next price control period is not the correct option because the consumer requirement for SHET to better manage changes in demand and supply of electricity exists now. Any deferral of this would increase the burden on manual processes with the associated costs and increased inaccuracies.
- 3.11 The necessary changes to the supply and demand requirements on the energy distribution network will require a transformation in the approach to network planning and modelling. Without these capabilities the network will not be able to support these changes and therefore prevent SHET from achieving its ultimate objective of supporting the community need to deliver net zero.
- 3.12 We agree with SHET’s preferred option of delivering this enhanced capability during the RIIO-2 period. This multi-part investment addresses key shortcomings in the SHET landscape. It is therefore clear that five of these projects are critical if SHET are to achieve its wider strategic investment drivers, including its net zero objectives.
- 3.13 This project should further SHET’s digital agenda and deliver significant value to consumers. During a time of large growth in the number of new connections, the sub-projects offer a solid foundation for the transformation of how capital works are planned in the next price control period and there are good synergies between this project and the IPM project (Project 1).

**Our Draft Determination on efficient costs**

- 3.14 SHET has requested £4.47m for this project. Approximately half of this request is for internal resource and approximately half is for third party consultancy services.
- 3.15 In response to Supplementary Question 9, SHET suggested the PCDs in **Table 2** for this project.

**Table 2:** SHET's suggested PCDs for System Network and Planning

<p><b>What is being delivered?</b> (e.g. a deliverable, an implemented solution or services, a resource, a certain action. This information remains consistent for all reports.)</p>	<p><b>Outcome and benefits</b> (e.g. the positive effects of a new solution or service, a maturity state change, a risk reduction. This information remains consistent for all reports)</p>
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<ul style="list-style-type: none"> <li>• Decommission of Power System Simulator for Engineering (PSSE)</li> <li>• Additional capability modelled within Power Factory</li> <li>• Centralised data store to populate Power Factory</li> <li>• Introduction of new Power Quality Monitoring tool</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction in costs as a result of decommissioning PSSE</li> <li>• Single source of capacity modelling</li> <li>• Reduced manual effort to consolidate data.</li> <li>• New Power Quality monitoring tool will provide new capability</li> </ul>
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- 3.16 The costs requested includes an unspecified amount that has already been committed to the software procurement process. Our technical consultancy advised us that the proposed costs and timelines for this work fall within an appropriate range and are representative of the implementation of this portfolio of solutions.
- 3.17 The cost profile appears reasonable and doesn't suggest any deliverability issues over the period. Using a blend of internal and external resources to deliver the solutions will help enable SHET to run parallel projects delivering the benefits at the earliest opportunity. We agree with the rationale for undertaking five of the sub-projects:
- Data Architecture.
  - Building of Modelling Data Based in Integrated Data Platform.
  - Building High Performance Compute.
  - Network Modelling Systems and Tools.
  - System Power Quality Monitoring.
- 3.18 We consider that the sixth sub-project, on changes to regulatory reporting, is unnecessary 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. To adjust for this, we are proposing to reduce the requested allowances by 1/6 of the requested amount (to account for a reduction of 1 out of the 6 projects) by £0.75m.
- 3.19 **Table 3** below details SHET's requested funding, our proposed reductions for workstream 3, and our proposed allowances against each workstream.

**Table 3:** SHET's requested funding and our Draft Determination

<b>SHET proposal</b>	<b>Ofgem adjustments</b>	<b>Draft allowances</b>
£4.47m	-£0.75m	£3.73m

3.20 To ensure good value for money is achieved, we are proposing to allocate a PCD to this project. This will be evidencing successful delivery of the System and Network Planning project, and to achieve this we would expect to see evidence of delivery of the five sub-projects.

3.21 The project will need to be completed on or before 31 March 2026 (the end of the RIIO-T2 price control period). We have set this PCD out in the formal PCD format as part of the draft direction in Appendix 1.

## 4. Project 3 - RIIO-T3 IT Strategy and Planning

### Section summary

This section outlines SHET's re-opener application for its RIIO-T3 IT Strategy and Planning project and our assessment of the needs case. Based on this assessment we have formed our Draft Determination of what allowances, if any, should be added for this project.

### Questions

Q3. Do you agree with our Draft Determination for the RIIO-T3 IT Strategy and Planning project?

### SHET's demonstration of needs case and justification for the proposed project

4.1 In the submission, SHET has requested £1.25m to run a RIIO-T3 IT Strategy and Planning project. SHET outlined the request was based upon the following six key reasons:

1. To deliver a high-quality Information Technology & Operational Technology business plan for RIIO-T3, which will be aligned to the business strategy and RIIO-T3 plan.
2. To ensure that the SHET IT function is setup to be successful in RIIO-T3.
3. To enhance capability within the IT function, specifically in the development and management of strategy, to better serve internal and external customers and stakeholders.
4. To develop programmes of work that create or enhance business value, but also mitigate risk in the technology estate and on behalf of the rest of SHET as it goes about its functions.
5. To deliver an IT Strategy and Operating Model design for IT & OT for the RIIO-T3 period, that builds on the great work in the current period but aligns with the longer-term business strategies.
6. To address issues in the RIIO-T2 IT related allowances, "where we were under-funded in key areas e.g., Operational IT Capex and Business Support Costs (IT)."

4.2 To meet this needs case, SHET explained that this project would include the following elements:

- Development of a new strategy framework for IT
- Development and approval of an evergreen IS strategy, and corresponding sub-strategies – digital, data, technology, Operational Technology, obsolescence that are linked to the business strategy and the business strategic goals for the next price control period
- Delivery of an IT operating model design, including changes in the sourcing model and organisational structure as needed for the next price control period
- Establishment of a roadmap of change needed to achieve the desired future state
- Development, assurance, and submission of a business plan appendix for the next price control period covering Non-operational IT & Telecoms and Operational IT
- Development, benchmarking, assurance, and submission of project definition and justifications, in line with the yet to be released sector specific methodology and guidance for the next price control period
- Ongoing support to Ofgem in the evaluation of its submission through the Supplementary Question process

### **Our Draft Determination**

- 4.3 SHET has requested £1.25m of investment to fund the development of the RIIO-T3 IT and OT portfolio and associated Strategy documents.
- 4.4 We consider planning for future price control periods is a business-as-usual activity and is funded through baseline Total Expenditure (totex) allowances. Our Draft Determination is therefore to reject the full amount requested (£1.25m).

## 5. Project 4 - Small IT Changes

### Section summary

This section outlines SHET's re-opener application for its Small IT Changes project and our assessment of the needs case. Based on this assessment we have formed our minded-to position on whether to add additional allowances for the project.

### Questions

Q4. Do you agree with our Draft Determination for the Small IT Changes project?

### SHET's demonstration of the needs case

- 5.1 In its submission, SHET explained that there is an increasing expectation from its customers and stakeholders that it will be able to adapt and provide digital solutions as part of its day-to-day activities. SHET continued that it does not think these solutions will always require a large-scale IT delivery, but instead will often require small IT changes.
- 5.2 In line with this, SHET predict that the number of requests, both internally and externally, for small IT changes will increase over the coming years. Example requests include:
- Small hardware purchases
  - Software upgrades
  - Small software purchases
  - Small platform changes
  - Small workflow or user interface changes
- 5.3 To handle the increase in requests for small IT changes, SHET proposes an ex-ante 'use it or lose it' (UIOLI) funding pot, with an allowance of £1,072,482 to support this investment. SHET explains that the objective of this investment is to create the capability for the IT team to react efficiently and effectively to small demands that arise through any particular year, that do not warrant the overheads of a full project lifecycle being applied. SHET states that this supports its Digital Vision, "where all its customers, stakeholders and staff are able to access the data they need, when they need it".
- 5.4 SHET proposes to assess any small new IT demands under this project using the following criteria:

- No more than 20 days' worth of effort
- Cost will not exceed £50,000
- Will not be connected to or have reliance on an inflight project
- Have no architectural impact
- Have no regulatory impact
- Does not handle personnel information

5.5 SHET explains in the submission that this will help deliver operational efficiency, network resilience and data-driven investment decisions, supporting the development of its network in line with its Digital Vision and strategy.

### **Our Draft Determination**

5.6 The request for £1.07m investment is estimated to cover the costs of an unknown portfolio of small IT changes.

5.7 We consider that the examples given by SHET (eg. small hardware purchases or software upgrades) represent business-as-usual activity, which is funded through baseline totex allowances. Our Draft Determination is therefore to reject the full amount requested (£1.07m).



## 6. Project 5 – Project TReNDS

### Section summary

This section outlines SHET’s re-opener application for its Project [REDACTED] (TReNDS) and our assessment of the needs case, optioneering and costs. Based on this assessment we have formed our Draft Determination on whether to add additional allowances for the project.

This project relates to Critical National Infrastructure, so some parts of this section have been redacted in the published version.

### Questions

Q5. Do you agree with our Draft Determination for Project TReNDS?

### SHET’s demonstration of the needs case

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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

**Our Draft Determination on SHET’s needs case**

- [REDACTED]
- [REDACTED]

**SHET’s options considered and justification for the proposed project**

6.9 No other options were presented, SHET considered this as a standalone project.

**Our Draft Determination**

6.10 SHET has requested £2.18m for this project. Approximately half of this request is for internal resource and approximately half is for hardware procurement.

- [REDACTED]
- [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] Our Draft Determination is to reject the full allowance requested (£2.18m).

## Appendices

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## **Appendix 1 – Draft Direction**

### **Introductory note**

Following our assessment of SHET’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](mailto:Joe.Draisey@ofgem.gov.uk).

Please see paragraphs 1.10 to 1.16 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 electricity transmission licence held by Scottish Hydro Electric Transmission (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 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 price control framework. Further details on the reasons for and effect of this direction can be found in the Final Determination document published on [xx/xx/2023].

A1.6 This direction will replace Table 1 (the existing table within Special Condition 3.7 Appendix 1) with Table 2 to improve clarity.

**Table 1**  
**Total Non-operational IT Capex Re-opener allowance (£m)**

	2022	2023	2024	2025	2026	Total
<del>Re-opener Allowance</del>	0	0	0	0	0	0

**Table 2**  
**Total Non-operational IT Capex Re-opener allowance (£m)**

	<u>Regulatory Year</u>						
	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>	<u>All years</u>
<u>Re-opener Allowance</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

A1.7 It will also replace Table 3 (the existing table within Special Condition 3.7 Appendix 2) with Table 4.

**Table 3**  
**Non-Operational IT Capex Price Control Deliverable (£m)**

	<u>Regulatory Year</u>							
<u>NOITRE Output project</u>	<u>Delivery date</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>Total</u>	
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	
<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	

**Table 4**

**Non Operational IT Capex Price Control Deliverable (£m)**

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		<b><u>Regulatory Year</u></b>						
<u>NOITRE project</u>	<u>Output</u>	<u>Delivery date</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>Total</u>
<u>System and Network Planning</u>	<u>Completion of System and Network Planning project</u>	<u>before 31-March-26</u>	<u>0</u>	<u>0</u>	<u>1.243</u>	<u>1.243</u>	<u>1.243</u>	<u>3.729</u>

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A1.8 This direction will take effect immediately.

Yours sincerely,

**[Name]**

**[Title]**

**For and on behalf of the Authority**

## 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](mailto:dpo@ofgem.gov.uk)

#### **2. Why we are collecting your personal data**

Your personal data is being collected as an essential 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 3<sup>rd</sup> 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](#)".