

# Guidance



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## Re-opener Guidance and Application Requirements Document

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This document is directed at gas transporter (GT), electricity transmission (ET), gas distribution (GD) and electricity distribution (ED) network companies (for the purposes of this document 'licensees'). The purpose of this document is to:

- set out how the licensees must prepare their Re-opener applications in accordance with Special Condition (SpC) 9.4 (Re-opener Guidance and Application Requirements Document) of the GT, GD and ET licences effective from 1st April 2021) and the ED licences (effective from 1st April 2023)
- provide some guidance on the style and structure for Re-opener applications.

## Re-opener Guidance and Application Requirements Document

Version	Changes	Effective from
Version 1 – 26 February 2021	Final published version following consultation on draft document published 17 December 2020.	1 April 2021
Version 2 – 3 February 2022	Addition of specific guidance for the MSIP Re-opener. Clarification on cost information to be included in Re-opener applications. Clarification on the application of this Guidance to the FIOC Re-opener	3 February 2022
Version 3 – 17 February 2023	Incorporation of updates to reflect the start of RIIO-ED2.	1 April 2023
<u>Version-4 – TBC</u>	<u>Revision to the current redaction policy.</u> <u>Introducing new standardised Re-opener Submission Template.</u>	

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## 1. Introduction

- 1.1 Re-openers are a type of RIIO uncertainty mechanism. Depending on their design, they allow Ofgem to adjust a licensee's allowances (in some cases up and in some cases down), outputs and delivery dates in response to changing circumstances during the price control period. Ofgem can do this by direction rather than by a statutory consultation, provided certain requirements are met, in line with the Electricity Act. Where the requirements are not met, modifications must be made under section 11A (modifications of conditions of licences) of the Act. Re-openers may be cross sector, sector specific or bespoke to an individual licensee.
- 1.2 The Re-opener Guidance and Application Requirements Document licence Special Condition<sup>1</sup> requires that licensees prepare their Re-opener applications in accordance with this document. This is in addition to the requirements set out in the individual Re-opener licence conditions.
- 1.3 In accordance with SpC 9.4, this document sets out how the licensee must prepare its applications for Re-openers, including:
- the level of detail required in a Re-opener application
  - requirements to publish the Re-opener application
  - when it is appropriate to make redactions in published Re-opener applications
  - requirements to ensure senior leadership assurance of the application.
- 1.4 This document includes both general requirements that apply to all Re-opener applications to which this document applies (see Appendix 1) and specific requirements for individual Re-opener applications, which are set out in Appendices 2-11. As specifically provided for in SpC 9.4 (ET, GD, GT) and SpC 1.3 (ED), this document may be amended by the Authority.
- 1.5 Failure to prepare an application in accordance with any of the relevant requirements may result in rejection of the application. In this case, Ofgem would consult with the licensee. Licensees must ensure that their application complies with this document and any other licence requirements prior to submission.

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<sup>1</sup> SpC 9.4 in the GD, GT, GD, ET and ED Special Conditions.

- 1.6 Appendix 1 sets out the RIIIO-2 Re-opener mechanisms for which applications must be prepared in accordance with this document.
- 1.7 Appendices 2 – 10 contain guidance and requirements for the preparation of applications for specific Re-opener mechanisms (note that Appendix 4 is redacted from this document).
- 1.8 Appendix 11 contains information on the process we intend to follow when reaching our decisions on Re-opener applications.

## 2. Assurance and publication requirements

### Section summary

This chapter provides details of the assurance, publication, and redaction requirements for licensees' Re-opener applications.

### Assurance requirements

- 2.1 We require high-quality information from licensees in their Re-opener applications in order to carry out robust and timely assessments of those applications. To this end, licensees must make Re-opener applications that are accurate,<sup>2</sup> unambiguous, complete, and concise.<sup>3</sup>
- 2.2 All Re-opener applications must be accompanied by written confirmation from a suitable senior person within the company that the Re-opener application has been prepared and submitted, such that:<sup>4</sup>
- it is accurate and robust, and that the proposed outcomes of the Re-opener are financeable and represent good value for consumers
  - there were quality assurance processes in place to ensure the licensee has provided high-quality information to enable Ofgem to make decisions which are in the interests of consumers
  - the application has been subject to internal governance arrangements and received sign off at an appropriate level within the licensee. For example, this may be sign-off by the company board if appropriate.
- 2.3 A point of contact must be provided for each Re-opener application, including name, position, email, and phone number.

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<sup>2</sup> We recognise that some aspects may need to be forecast or rely on outside parties or factors. Accuracy means accurate insofar as the licensee can reasonably ascertain.

<sup>3</sup> Emphasis on keeping the core narrative brief, while presenting proportionate evidence and justification for the proposed adjustment, but avoiding duplication and superfluous information and narrative.

<sup>4</sup> These requirements are similar to our letter to the CEOs of licensees (excluding ED companies) on 4 June 2019 - <https://www.ofgem.gov.uk/publications-and-updates/companies-provide-assurance-ahead-rrio2-business-plan-submission-deadline>

## Publication and redaction requirements

- 2.4 Subject to paragraphs 2.5 and 2.6, the licensee must, within five working days of submitting a Re-opener application to Ofgem, publish its complete application in a prominent place on its website, in such a manner that relevant stakeholders can easily locate the application.
- 2.5 Subject to paragraph 2.6 a licensee must publish its Re-opener application in its entirety making only necessary redactions. Where redactions are made, we expect licensees to publish an explanation for the redaction. We recognise that redactions may be appropriate for reasons including:
- confidentiality
  - commercial sensitivity
  - security.
- 2.6 Where publishing an application would pose a risk to national security, the application should not be published at all and no explanation of the lack of publication needs to be published. This may be the case with applications relating to cyber resilience and physical security Re-openers.

2.7 Please see Appendix 12 -- Redaction Policy for- further -information on the above and Ofgem's approach to redaction of information.

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### 3. Requirements for the content of Re-opener applications

#### Section summary

This chapter sets out requirements on what information a Re-opener application must contain and the standards it must meet.

#### Introduction

- 3.1 Any Re-opener application must clearly provide the Authority with answers to the following questions:
- Why an adjustment is justified
  - What that adjustment should be.
- 3.2 The various Re-opener licence conditions prescribe the minimum information that an application must contain to assist us in answering these two questions. This document, and in particular this chapter, sets out further detail on the required content that must be included in all Re-opener applications.
- 3.3 There may be some Re-opener applications where licensees will not be able to provide the required information listed within this document. In such instances, the licensee must provide a justification for not providing all the required information. We will consider whether there is sufficient information to progress a Re-opener application in the absence of all the required information on a case-by-case basis.
- 3.4 Each application must include a table that maps out which sections of the application relate to individual requirements as set out in the relevant Re-opener licence condition and Chapter 3 of this document.
- 3.5 This chapter should be read in conjunction with the relevant Re-opener appendices to this document and the relevant licence condition(s).

#### Gas and Electricity Distribution sectors

- 3.6 In the Gas and Electricity Distribution sectors, a single owner may operate several separate distribution networks under either a single licence or number of separate licences. In either case a single Re-opener application relating to all the distribution networks for which an adjustment is being sought must be submitted. The application must include sufficient detail to permit adjustment of the relevant

terms for each individual distribution network. Consequently, with respect to activities that may be delivered centrally for several distribution networks, for example HR services, costs should be allocated proportionally to each distribution network in accordance with the same principles applied in complying with other regulatory reporting requirements. In the case of Gas Distribution this includes the obligations set out in SpC 9.9.<sup>5</sup>

- 3.7 Where a materiality threshold exists, it is applied to the individual distribution network.<sup>6</sup> The Materiality Threshold would apply such that we propose to only adjust allowances if the changes to allowances resulting from our assessment, prior to multiplication by the TIM incentive rate applicable to that licensee, exceed the Materiality Threshold specified in SpC 1.2.

### **Needs case and preferred option**

- 3.8 All Re-opener applications must include a needs case whether or not this is a specified requirement of the relevant Re-opener licence condition or specific Re-opener Guidance.
- 3.9 Subject to paragraph 3.3, the needs case must contain the following:

#### Alignment with overall business strategy and commitments

- 3.10 The application must include a clear statement of how the proposed expenditure aligns with the licensee's future business strategy, including consideration of how it relates to the licensee's RIIO-2 licence or other statutory obligations and, if relevant, its business plan for future price control periods.

#### Demonstration of needs case / problem statement

- 3.11 The application must include a clear statement as to the need for the proposed expenditure or the problem the licensee is trying to address in the context of its significance for consumers, network assets, and wider society. The affected consumers or assets must be identified, and the associated risk being addressed quantified, where possible.
- 3.12 As well as demonstrating the needs case, the application must also provide the rationale for the level of expenditure proposed and why this level should be regarded as being efficient.

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<sup>5</sup> SpC 9.9 in the GD Special Conditions.

<sup>6</sup> The value of the materiality threshold for each distribution network is set out in SpC 1.1 of GD Special Conditions and 1.2 of the ED Special Conditions.

Consideration of options and methodology for selection of the preferred option

3.13 The application must include a clear description of the list of options considered and the selection process undertaken to reach the preferred option. This must include the following, subject to paragraph 3.3:

- a clear description of the various options considered, setting out the key features of each option, this should include options considered that were not ultimately adopted
- a 'do minimum' option to act as a counterfactual to demonstrate the financial impact of no additional investment or programme expenditure taking place
- an option to delay proposed capital expenditure recognising the option value of such delay
- a market-based option, where there is a valid market-based option (for example the use of commercial arrangements such as the use of interruptible contracts as an alternative to network reinforcement)
- a clear statement of the criteria used to assess the various options and the assessment of each option against these criteria
- a brief description of the process used to select the options: either the internal process (for which relevant documents should be included) or the existing industry process
- an appropriate sensitivity analysis, using relevant statistical or other techniques
- a clear summary of any Cost Benefit Analysis / Engineering Justification that should be carried out in accordance with paragraphs 3.22 and 3.23 below
- a justification for the proposed timing of additional expenditure.

The preferred option

3.14 The application must include a clear description of the preferred option, sufficient to allow us to make an informed decision on if the preferred option is suitable. This must include all of the following, subject to paragraph 3.3:

- a clear description of the key features of the preferred option including how that option will address the issues set out in the demonstration of needs case / problem statement
- a clear statement of the benefits to customers, both quantitative and qualitative, of the preferred option
- if the preferred option is predicated on a particular scenario, a clear description of the scenario.

- a clear statement of the key benefits of the preferred option along with any drawbacks identified
- a register of the various assets or programmes of work that will be impacted by implementation of the preferred option
- evidence of the technical feasibility of the preferred option, using technical annexes as appropriate.

3.15 The application must include a clear statement as to any project delivery and monitoring plan for the preferred option. This must include:

- a project delivery programme including provisional dates and key milestones
- a consideration of whether the licensee has access to sufficient resources to ensure timely delivery
- a description of mitigation measures that can be taken to address potential deviation from the project delivery plan
- a description of reporting mechanisms to monitor delivery and measure outcomes (this might include the introduction of a new Price Control Deliverable).

### **Stakeholder engagement and whole system opportunities**

3.16 Subject to paragraphs 3.17 and 3.18, the application must include an explanation of how stakeholder engagement contributed to the identification and design of the preferred option. This stakeholder engagement may be limited to those categories of stakeholder who are materially impacted by the choice of preferred option. Where there are opportunities to collaborate with other network companies on whole system issues, this must be reflected in the analysis and evidence provided.

3.17 Stakeholder engagement may not be necessary where there is not a material impact on stakeholders, or where the application is driven by statutory obligations. In these circumstances a brief explanation of why stakeholder engagement was not considered appropriate must be provided.

3.18 Stakeholder engagement will not be necessary where it would pose a risk to national security, specifically for applications related to cyber resilience and physical security Re-openers.

## Cost information

- 3.19 When the adjustment sought relates to the level of allowances, a Re-opener application must include sufficient cost information to provide:
- evidence to justify why the expenditure is additional to that already provided for by relevant ex ante allowances, or that will be provided through other uncertainty mechanisms
  - why the level of costs is efficient. Please note, the efficient level of costs will be determined at the time of any determination of a Re-opener application.
- 3.20 The cost evidence included in the Re-opener application must be provided in accordance with the following requirements, subject to paragraph 3.3:
- using where relevant any the Re-opener ~~specific~~ templates at Appendix 13 and in accordance with the Instructions in Appendix 14, and/or any other relevant templates that may have been developed and issued for capturing cost information
  - on the same cost basis as allowances in the licence (2018-19 prices for GD, GT and ET and 2020-21 prices for ED).
  - on a gross basis including both direct and indirect costs except where the Re-opener mechanism is listed under the opex escalator (for GT and ET) or indirects scaler (for ED) term, where only direct costs should be included. For the Load Related Expenditure Re-opener, Wayleaves and Diversions Re-opener and Specified Street Works Costs Re-opener (all ED) the cost evidence must also include costs on a net before and after Non-Price Control Allocation basis, with a sufficient level of detail to clearly demonstrate how the gross to net before Non Price Control Allocation and net after Non-Price Control Allocation values were derived
  - in excel format with all data tables etc clearly labelled and set out in a logical manner, including, where appropriate, instructions on the operation of workbook functionality
  - in a sufficient level of detail to clearly demonstrate how overall values were derived and in a way that can be easily replicated, including the use of transparent formulae
  - in a way that is easily comparable with other benchmarks, where applicable, or other data provided by the licensee to Ofgem
  - with all relevant assumptions and sources of data used provided and clearly justified
  - with key cost drivers explicitly identified and justified
  - with uncertainties in forecast cost levels and any potential mitigations clearly

identified. These uncertainties should form the basis of any sensitivity analysis using appropriate techniques and, where appropriate, a register of these uncertainties must be included

- outturn data for similar projects
- a risk register for the specific project, for any allowances requested for project risk
- to demonstrate that cost efficiency measures have been identified and their impact fully accounted for
- to demonstrate additionality (ie demonstrating the additional expenditure required in addition to that already provided through ex ante allowances, or that will be provided through other mechanisms)
- actual costs and forecast costs including Real Price Effects are also to be provided, with a sufficient level of detail to clearly demonstrate how the actual costs and forecast costs reconcile to the cost evidence submitted in the relevant price base.

3.21 Further guidance on how to meet these requirements can be found in the Infrastructure and Projects Authority Cost Estimating Guidance, which is a best practice approach to producing project cost estimates.<sup>7</sup> The Authority expects companies to follow the principles of this guidance when generating cost estimates for RIIO-2 projects and programmes. Where companies do not consider this to be practical or cost effective, they should provide a justification of why the alternative approach they have adopted is more appropriate.

### **Cost benefit analysis and engineering justifications**

3.22 Cost Benefit Analysis (CBA) and Engineering Justifications Papers (EJP) are important sources of evidence that can be included in an application. Where they are provided, they must:

- be consistent with published guidance and recognised best practice, for example the Green Book<sup>8</sup> and the Spackman discounting approach
- demonstrate evidence of structured options development, including consideration of whole system options and non-network options, where applicable, against a baseline scenario which involves the minimum level of

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<sup>7</sup> [Infrastructure and Projects Authority Cost Estimating Guidance: a best practice approach for infrastructure projects and programmes](#)

<sup>8</sup> [HM Treasury Central Government Guidance on Appraisal and Evaluation](#)

intervention that would be required to remain compliant with all applicable regulation

- demonstrate the value of projects across different scenarios, where relevant, and include an explicit consideration of (quasi) option values<sup>9</sup> of deferring the investment
- be clearly linked to the Re-opener application, where applicable, with sensitivity to changes in input parameters assessed, for example future energy scenarios
- act as a robust decision support tool, and be open to scrutiny and challenge in conjunction with other appropriate means of justification for investment decisions
- be transparent about which risks, costs and benefits have neither been considered nor monetised as part of the analysis
- be transparent about the assumptions, inputs and rationale for the decisions, calculations and results arrived at.

3.23 The Authority has published sector specific guidance on CBAs and EJPs which must be adhered to when submitting Re-opener applications in during RIIO-2:

- EJP Guidance for ET, GD and GT in September 2019<sup>10</sup>
- CBA Guidance for ET, GD and GT in September 2019<sup>11</sup>
- EJP Guidance for ED in February 2021<sup>12</sup>
- CBA Guidance for ED in October 2021.<sup>13</sup>

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<sup>9</sup> Guidance on this option value from Ofgem can be found in our [Strengthening strategic and sustainability considerations in Ofgem decision making](#), and [Real Options and Investment Decision Making papers](#) and annexes.

<sup>10</sup> <https://www.ofgem.gov.uk/publications/riio-ed2-engineering-justification-paper-guidance>

<sup>11</sup> [RIIO-2 Final data templates and associated instructions and guidance](#)

<sup>12</sup> <https://www.ofgem.gov.uk/publications/riio-ed2-engineering-justification-paper-guidance>

<sup>13</sup> <https://www.ofgem.gov.uk/publications/riio-ed2-data-templates-and-associated-instructions-and-guidance>

## 4. Guidance on the style and structure of Re-opener applications

### Section summary

This chapter provides guidance on how to structure and present the key components of a Re-opener application.

### Style & structure of applications

- 4.1 Re-opener applications should follow a style and structure that clearly and concisely sets out the evidence that licensees wish to present in support of their request to have allowances or other price control parameters adjusted.
- 4.2 Re-opener applications should follow a logical structure that aligns with the various requirements set out in the relevant Re-opener licence condition and in this document. The application should consist of a core narrative that concisely sets out all the relevant evidence that we require to make an informed decision. Further detailed analysis and technical information including CBAs and EJPs should be set out in clearly identified annexes. Where evidence derived in the annexes is relied upon in the core narrative this should be clearly identified and the core narrative should include a specific reference to where the derivation is presented.
- 4.3 In addition to the requirement to include a table that maps which sections of the application relate to individual requirements set out in the relevant Re-opener licence condition and paragraph 3.4 of this document, a table of contents and glossary of terms should be included as part of the application.
- 4.4 The core narrative should be clear and concise in the presentation of all the relevant evidence required to make an informed decision. The emphasis should be on the proportionate presentation of evidence avoiding duplication and superfluous information or narrative. The narrative should focus on quantifiable and objective evidence rather than subjective or qualitative assertions.
- 4.5 When determining the proportionate amount of evidence presented with respect to any particular issue, relevant factors should include:
  - materiality of the issue with respect to the overall decision
  - the complexity of the issues being considered
  - the quality of evidence being considered
  - the level of certainty about the future



- interaction with other relevant considerations.

- 4.6 The core narrative should be drafted according to the principles of Plain English.<sup>14</sup> As far as possible defined terms should have the same meaning as they have in the relevant licence and or Final Determinations. Data tables should be clearly and precisely labelled.
- 4.7 While the purpose of the annexes is to present detailed analysis and technical information, the same principles with respect to the clear and concise presentation of evidence should apply.
- 4.8 Specific requirements with regards to the structure of specific Re-opener applications may be provided in individual appendices for specific Re-openers.

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<sup>14</sup> Plain English Campaign [www.plainenglish.co.uk](http://www.plainenglish.co.uk)

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## Appendix 1 Complete list of RIIO-2 ET, GT, GD & ED Re-openers to which this document applies

A1.1 Below is a full list of RIIO-2 ET, GT, GD and ED Re-openers, as defined in the licence.<sup>15</sup> This document applies in all cases unless otherwise stated in this table. Where an appendix is mentioned, this should be read in conjunction with the main document.

### List of Cross Sector Re-openers (all network and distribution companies - ET, GT, GD and ED)

Cyber Resilience	Operational Technology - Special Condition 3.2 (ET, GT and GD and ED) Information Technology -SpC 3.3 (ET, GT, GD); SpC 3.2 (ED)	Appendix 4
Physical Security (PSUP)	SpC 3.4 (ET, GT, GD) SpC 3.2 (ED)	
Net Zero	SpC 3.6 (ET, GT, GD and ED)	This document does not apply - Authority instigated only
Non-operational IT Capex	SpC 3.7 (ET, GT and GD)	Appendix 2
Coordinated Adjustment Mechanism	SpC 3.8 (ET, GT, GD) SpC 3.7 (ED)	Appendix 3

### List of Gas Transmission Sector Re-openers (NGGT)

Net zero pre-construction work and small net zero projects	GT SpC 3.9	Please also refer to separate Net Zero Pre-construction and Small Net Zero Projects Re-opener document
Bacton terminal site redevelopment	GT SpC 3.10	
Compressors emissions	GT SpC 3.11	
King's Lynn subsidence	GT SpC 3.12	
Funded incremental obligated capacity	GT SpC 3.13	Chapter 2 of this document applies – further guidance on application preparation is in separate Funded Incremental Obligated Capacity Re-opener Guidance document
Asset health	GT SpC 3.14	

<sup>15</sup> SpC 1.1 in the GD, GT, ET Special Conditions and SpC1.2 in the ED Special Conditions.

Quarry and Loss development claim costs	GT SpC 3.17	
Pipeline diversions costs	GT SpC 3.17	

#### List of Electricity Transmission Sector Re-openers (NGET SHET SPT)

Visual impact mitigation	ET SpC 3.10	
Large Onshore Transmission Investments (LOTI)	ET SpC 3.13	This document does not apply, please see Large Onshore Transmission Investments Re-opener Guidance document
Medium Sized Investment Projects (MSIP)	ET SpC 3.14	Appendix 5
Pre-Construction Funding (PCF)	ET SpC 3.15	
Access Reform Change	ET SpC 3.16	This document does not apply - Authority instigated only
SF6 Asset Intervention (NGET)	ET SpC 3.27	
Subsea cable repairs (SHET)	ET SpC 3.28	
Uncertain non-load projects (SPT)	ET SpC 3.29	
Fibre Wrap replacement (NGET)	ET SpC 3.31	
Civil Related Works (NGET)	ET SpC 3.32	
Tower Steelworks and Foundations (NGET)	ET SpC 3.33	
Tyne Crossing project (NGET)	ET SpC 3.34	
Bengeworth Road GSP project (NGET)	ET SpC 3.35	

#### List of Gas Distribution Re-openers (Cadent SGN NGN WWU)

Net zero pre-construction work and small net zero projects	GD SpC 3.9	Please also refer to separate Net Zero Pre-construction and Small Net Zero Projects Re-opener document
Fuel Poor Network Extension Scheme (FPNES)	GD SpC 3.14	This document does not apply - Authority instigated only
HSE policy	GD SpC 3.17	
Tier 1 Stubs Repex policy	GD SpC 3.18	
Heat policy and energy efficiency	GD SpC 3.19	
Diversions and Loss of development claims policy	GD SpC 3.20	
Multi occupancy buildings (MOBs) safety	GD SpC 3.21	
New large load connection(s)	GD SpC 3.22	
Smart meter rollout costs	GD SpC 3.23	

Specified streetworks costs	GD SpC 3.24	
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**List of Electricity Distribution Re-openers (ENWL NGED NPg SPEN SSEN UKPN)**

Electricity System Restoration Re-opener	ED SpC 3.2	
Environmental Re-opener	ED SpC 3.2	Appendix 6
Cyber Resilience Re-opener	ED SpC 3.2	Appendix 4
Digitalisation Re-opener	ED SpC 3.2	Appendix 7
Load Related Expenditure Re-opener	ED SpC 3.2	Appendix 8
High Value Projects Re-opener	ED SpC 3.2	Appendix 9
Physical Security Re-opener	ED SpC 3.2	
Rail Electrification Costs Re-opener	ED SpC 3.2	
Specified Street Works Costs Re-opener	ED SpC 3.2	
Storm Arwen Re-opener	ED SpC 3.2	
Wayleaves and Diversions Re-opener	ED SpC 3.2	
West Coast of Cumbria Re-opener – (ENWL only)	ED SpC 3.2	Appendix 10
Hebrides and Orkney – (SSEN only)	ED SpC 3.2	
Shetland – (SSEN only)	ED SpC 3.2	

## **Appendix 2 Non-operational IT (IT) Capex Re-opener Application Guidance**

A2.1 This appendix should be used as guidance to assist licensees in preparing their RIIIO-2 non-operational IT capex Re-opener applications. This appendix provides guidance as to the types of evidence and level of detail that licensees must include when submitting non-operational IT capex Re-opener applications of a value greater than £0.5m, relating to the needs case and cost information. There may be some projects/solutions where licensees will not be able to provide the necessary level of details listed within this appendix. In such instances, licensees must provide a justification for not providing all of the necessary information. We will consider if such explanations/submissions are sufficient for the Re-opener application on a case-by-case basis.

### **Needs Case**

#### **Alignment with overall business strategy and commitments**

A2.2 Non-operational IT Capex Re-opener applications must include details on organisational context, strategy, and business alignment.

A2.3 The licensee must provide a description of its overall strategy and current operations covering non-operational IT capex investments. The licensee must provide a description of:

- IT strategy
- Evidence within the IT strategy of the role it plays in facilitating the business to achieve its business objectives
- Overall IT plan dependencies.

#### **Demonstration of needs case**

A2.4 For Non-operational IT capex Re-opener applications, licensees must provide a problem statement which sets out:

- A description of the need, requirements and capabilities that will be maintained and/or enhanced through the investment
- A description of relevant risks and an explanation of why the current controls that licensees have in place to mitigate risk are insufficient, may become insufficient or consumer benefits can be realised through improvements.
- The opportunities that it proposes to address.

A2.5 For Non-operational Capex IT projects that were included in a licensee's Business Plan and for which a needs case and justification were assessed as being appropriate, but for which no allowance has been provided to date, there is no requirement to provide an updated needs case and licensees should reference the materials previously submitted.

## Options Selection

Consideration of project options and methodology of how preferred project option was selected

A2.6 For Non-operational IT Capex Re-opener applications, licensees must set out:

- The methodology and/or standard(s) used to select preferred option
- What other projects/controls were or will be considered during project selection
- Why the preferred project/option has been or will be selected.

Preferred project option details

A2.7 For non-operational IT capex Re-opener applications, licensees must include the information set out in paragraphs A2.8 to A2.12 below in relation to, (i) the description of the project, (ii) technical feasibility and consumer benefits, and (iii) project delivery and monitoring.

Description

A2.8 The licensee must demonstrate:

- The project scope, including which assets are in scope
- The proposed project/option, including general objectives of the project, applicability, and prioritisation
- Project / work stream targeted for intervention within this Re-opener application
- How the preferred project will improve the operational capability of the network
- How addressing the problem statement described above will assist the licensee in meeting its business objectives
- How the preferred project reduces risk or creates opportunity for cost efficiency or operational improvements on the network.

Technical feasibility and consumer benefit

A2.9 The licensee must demonstrate that it has carried out an appropriate risk mitigation exercise and that the proposed investments submitted to Ofgem as part of the Re-opener application are commensurate to the level of risk.

A2.10 The licensee must provide sufficient justification as detailed in this appendix of the need to invest its requested amount in non-operational IT capex for the projects highlighted in the previous section.

Project delivery and monitoring

A2.11 The licensee must provide a detailed description of project delivery plans including, but not be limited to:

- Detailed project schedule, (e.g., activity milestones for project delivery, personnel on-boarding, training,)
- Governance structure of each project, (e.g., project roles, responsibilities and the resources required)
- Key performance indicators to be used to monitor the progress of the project.

A2.12 Where an agile delivery methodology is being used, licensees must also provide the following details:

- A description and use of a mature agile methodology/process that allows all stakeholders to understand how they will contribute to the successful delivery of a product, service, project, or software with clear milestones. An example of this would be the Governments Digital Service (GDS) Standard <https://www.gov.uk/service-manual/service-standard>
- A description of the governance structure of the teams (e.g., SCRUM team), and how these teams interface with other stakeholders or teams such as legal, governance etc.
- A description of how monitoring, lessons learned, and improvements will be tracked e.g., retrospectives, show and tell, sprint planning, etc
- A description of how performance will be monitored, including real users of the service whether external or internal
- A description of how project constraints, dependencies, priorities, and risks will be tracked/managed including for example, information reflected in a prioritised backlog
- Key performance indicators to be used to monitor the progress of the project.



## Cost information

### Breakdown and justification of costs

#### Consideration of options

A2.13 For non-operational IT capex Re-opener applications, the licensee must:

- Provide justification for the need and amount of allowance required per project, demonstrating consideration against the requirements and capabilities that will be maintained and/or enhanced through the investment
- Provide a description of the various options that were considered (e.g., by performing cost benchmarking, previous tenders or contract information, etc), and rationale for the preferred option to be presented.

#### Breakdown of costs of preferred option

A2.14 For non-operational IT capex Re-opener applications, the licensee should include the following cost information in its Re-opener application:

- The overall costs of the licensee's IT non-operational capex project portfolio proposed for a re-opener
- Delineation of the costs per project.

A2.15 For non-operational IT capex Re-opener applications, licensees must provide the following information:

#### *Justification and efficiency of costs*

- Demonstrable evidence that the costs presented within the Re-opener application are justified and efficient, similar to that provided under the original business plan and supporting IT annexes
- Commitment to the use of good practice corporate governance ie a management structure that monitors and approves Programme and Project investments throughout project lifecycles. This is recognisable as a sequence of gate approvals as the project matures, its definition becomes more certain and potential risk events are understood and, where reasonable, mitigated. The maintenance and use of an accredited (e.g., ISO9001:2015) 'Business Management System' may provide the foundation for such a framework.

#### *Requirement*

- An explanation of the purpose, scope and dependencies of the project. This includes overall Project to Programme relationship, project

interdependencies and timeline. Business Analysis may be appropriate to identify the business need delivered by the proposed project and formally capture the project requirements in a solution agnostic manner.

#### *Solution*

- A description of the proposed solution at an appropriate level of detail commensurate with maturity and stage of project approval.
- The framework, through comparison with the requirements, within which testing and acceptance will be conducted (Integrated Test Evaluation and Acceptance Plan (ITEAP)) and, post-delivery, how the delivery of the project benefits will be measured and verified (Benefits Realisation Management Plan (BRMP)).

#### *Manage delivery*

- A costed plan for project delivery, principally a Project Management Plan in line with recognised (e.g. APM) good practice.
- Key management components in the plan include:
  - Reference to the programme and project purpose, project approval status and the licensee's internal IT project delivery governance framework.
  - A schedule (Gantt chart) that enables progress and spend to be monitored. The use of processes such as Earned Value Management, schedule risk management and milestones linked to a Programme schedule and dependent projects may be appropriate.
  - Project delivery organisation.
  - A Risk (and Opportunity) Management Plan detailing the identification, capture, analysis and regular monitoring and review of the Risk (and Opportunity) Register.

#### *Monitor delivery*

- A description of the implementation of the Benefits Realisation Management Plan to record and report the delivery of the project benefits.

#### **Level of detail of cost information**

A2.16 A licensee must provide an evidence trail flowing from a robust Project Definition to a Work Breakdown Structure (WBS) that can be costed against stated estimating

sources and assumptions. There is an expectation that, as a project matures, the detail available to support each attribute will increase.

### **Assessment Process**

A2.17 The requirements of this Guidance shall supersede any guidance document previously issued in relation to IT capex projects. The materials submitted must focus on the four assessment areas set out below: Project Justification; Project Definition; Project Resources and Cost Assurance.

#### **A2.18 Project Justification**

- The licensee must explain why it considers there to be a compelling case for investment in the project based on delivered benefits. This could be the adoption of new technology; the provision of new customer focussed services; the replacement of obsolete existing in-service capabilities delivering increased efficiencies or customer-experience or reduced costs or risks.

#### **A2.19 Project Definition**

- The Re-opener application must address, commensurate with the maturity of the project, a schedule of the activities, and their interdependencies necessary to complete the project and a work breakdown structure that reflects the plan which can be resourced and then costed. The plan should also address the facilities and management structure to monitor, manage and authorise the venture including the means by which risks (and opportunities) will be captured, reviewed and managed.

#### **A2.20 Project Resources**

- A detailed project plan to enable the definition of the resources necessary to achieve the plan. Resources in this context encompasses any costs that falls to the project e.g., manpower, software and hardware procurement, third party services, facilities and system design, development, testing, integration, documentation and training.

#### **A2.21 Cost Assurance**

- A forecast of the project delivery costs derived by associating a 'cost per' estimate for each entry in the resource plan. Licensees must provide uncertainty and risk costs in the calculation of project delivery costs.

## **Appendix 3 Coordinated Adjustment Mechanism (CAM)**

### **Re-opener Application Guidance**

#### **Content of Re-opener applications**

A3.1 The Re-opener application should follow the guidance in the main document unless indicated otherwise below. Additional points in this appendix are to be taken as additional requirements to those in the main document.

A3.2 Applications for this re-opener must come from a single licensee, which may be either the licensee who was originally assigned the responsibility and associated revenues for the output or project deliverable and is proposing to reallocate the CAM activity ('Network A') or the licensee proposing to carry out a new activity in order to solve the original issue with greater overall value to consumers ('Network B').

Applications must contain a statement of agreement on the content of the Re-opener application between Network A and Network B which proposes to transfer responsibility for and associated revenue with the CAM activity.

#### **Needs case and preferred option**

A3.3 The requirements of paragraph 3.8 – 3.15, in the main document do **not** apply to this re-opener.

#### **Demonstration of needs case / problem statement**

A3.4 An application must provide a copy of the original justification, including the original needs case, for the existing planned activity that was submitted to the Authority, or through a recognised industry process.

A3.5 An application must also provide the justification for the proposed alternative activity. This must include a CBA comparing the two activities, expected outputs and/or project deliverables related to the two activities, and year of delivery of the two activities.

A3.6 The licensee must set out the overall value of the reallocation to the consumers of both Network A and Network B. The value comprises not only the quantifiable benefits (as set out below) but any additional value to consumers that is not necessarily quantifiable in financial terms such as benefits to the wider energy system and evidence of consumer support through stakeholder engagement.

A3.7 The licensee must also demonstrate a net benefit to the relevant group(s) of consumers (further information on net benefits provided in paragraphs A3.15 – A3.24).

A3.8 The application must set out the problem that the alternative activity is designed to solve, including context, sites, risks, and how the proposed reallocation of RIIO-2 or RIIO-3 price control funds is in the best interests of future and existing consumers.

## **Cost information**

A3.9 Costs must be provided for both the existing planned activity and the proposed new activity.

A3.10 We recognise that an agreement between two licensees to submit an application under this re-opener may incur costs related to the change of activity, such as foregoing potential gains under the Totex Incentive Mechanism, or adjustments to related outputs and/or project deliverables.

A3.11 Where this is the case, we acknowledge that licensees may negotiate compensation between themselves to recover these costs. An application must also contain the amount and the rationale of any such arrangement made between the applying licensee and the partner licensee, or state that none such has or will be made. Any such amount need not be included in the CBA assessment.

A3.12 The application must also set out which output conditions and/or performance-related payments will be affected by the change, for both the applying licensee and the Partner Licensee(s).

## **Cost benefit analysis (CBA) and engineering justifications**

A3.13 The requirements of paragraphs 3.22 – 3.23 in the main document do **not** apply to this re-opener.

A3.14 We expect licensees to use the 'Whole System Cost-Benefit Analysis' framework as developed by the ENA in order to show that the reallocation of the output for consumers is in the best interests of future and existing consumers, referring to the User Guide and Methodology documents also developed by the ENA to support the CBA framework.<sup>16</sup> Licensees may make any relevant amendments or additions to this model as are indicated by the nature of the application, but must be clear where, and why, they have done so in their application.

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<sup>16</sup> These will be published on the Energy Networks Association website:  
<https://www.energynetworks.org/>

### Demonstrating net benefits to consumers

A3.15 An application must demonstrate that there is an expected net benefit to consumers as a result of the proposed change. Depending on the type of licensees making the Re-opener application, licensees must identify relevant consumer groups affected, and the net benefit each is expected to gain.

A3.16 For the CAM re-opener, 'electricity' is a sector, so that electricity transmission and electricity distribution consumers are considered to be a single sector consumer group.

A3.17 Similarly, 'gas' is a sector, so that gas transmission and gas distribution consumers are considered to be a single sector consumer group.

A3.18 An application submitted by any combination of only electricity licensees must demonstrate a net benefit for all its consumers considered as one group, and not as two distinct set of benefits allocated to each licensees' specific network consumers.

A3.19 Similarly, an application submitted by any combination of only gas licensees must demonstrate a net benefit for all their consumers considered as one group, and not as two distinct sets of benefits allocated to each licensees' specific network consumers.

A3.20 An application made by any combination of electricity and gas licensees (a cross sector application) must demonstrate a net benefit to both electricity and gas consumers.

### Net benefits

A3.21 For there to be a "net benefit", the relevant energy sector's consumers (ie gas consumers, or electricity consumers) must receive a net gain (that is quantifiable in financial terms). This must be as compared to the position immediately before the reallocation of price control revenues, even if that net benefit takes time to materialise.

A3.22 An application must only demonstrate that there is a net benefit to the relevant energy sector's consumers. The benefit to the relevant energy sector's consumers need not be the primary benefit as consumers of other energy sectors, or sectors outside of energy, may receive greater benefits from the reallocation of the output.

A3.23 Benefits are not restricted to actual project costs or savings between the original activity and the proposed new activity. Benefits may also include non-financial benefits (such as environmental benefits, or the carbon cost) that can be quantified in financial terms calculated under approved methodologies, such as any relevant RIIO-2 or RIIO-3 Ofgem CBA model, or the Green Book.

A3.24 These, and other, methodologies have been incorporated into the 'Whole System Cost-Benefit Analysis' framework developed by the ENA, which we expect applications to

use. This covers the main societal, environmental, emissions reductions and financial benefit types, but where additional benefit categories are relevant to the specific application being made, we expect the application to include these in the rationale and CBA, and explain why they are relevant.

## **Appendix 4 Cyber Resilience Re-opener Application Methodology and Requirements**

A4.1 This appendix is confidential and has been issued directly to the licensees covering all sectors for IT and OT outlining:

- The methodology applied at assessment
- Re-opener requirements to be incorporated into the application.



## **Appendix 5 Medium Sized Investment Projects (SF<sub>6</sub> Asset Intervention) Re-Opener Guidance**

### **Introduction**

A5.1 This appendix sets out additional information that a licensee must provide when submitting an application under SpC 3.14 of the electricity transmission licence: Medium Sized Investment Projects Re-opener and Price Control Deliverable (MSIPRE<sub>t</sub>) in relation to an SF<sub>6</sub> Asset Intervention. The licensee must also comply with the requirements of SpC 3.14 and with the Guidance in the main document.

A5.2 If a licensee considers it is not able to provide a piece of information set out in this appendix, it must explain why. We will consider if such explanations/submissions are sufficient for the Re-opener application on a case-by-case basis.

A5.3 We expect the licensee to engage with Ofgem during the development of its application.

A5.4 In our RIIO-ET2 Final Determinations, we set out our expectation that a licensee could only make one submission within RIIO-ET2 under the SF<sub>6</sub> Asset Intervention MSIP Re-opener<sup>17</sup>. However, we may consider more than one submission during RIIO-2 where a compelling need is established, such as the delivery of a TO's Environmental Action Plan Commitments or net-zero strategy.

A5.5 The rest of this appendix is structured as follows: the SF<sub>6</sub> Intervention Plan; modelling SF<sub>6</sub> leakage; modelling asset interventions; and SF<sub>6</sub> leakage model governance.

### **Needs Case and Option Selection**

A5.6 This section sets out the information that must be provided on the needs case for the proposed funding request.

#### **SF<sub>6</sub> Intervention Plan**

A5.7 An SF<sub>6</sub> Asset Intervention MSIP application should be underpinned by a well-justified SF<sub>6</sub> Intervention Plan to reduce SF<sub>6</sub> emissions and remove SF<sub>6</sub> equipment from the transmission system.

A5.8 A well-justified SF<sub>6</sub> Intervention Plan will:

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<sup>17</sup> [final\\_determination\\_nget\\_annex\\_revised.pdf](#), Table 12: Areas covered by the MSIP Re-opener

- explain the expected contribution to the licensee's strategy for achieving their Net Zero targets: NGET (2050), SHET (2045) and SPT (2045)
- explain the decision-making methodology used to select SF<sub>6</sub> assets for intervention and optimise the timing of those interventions
- identify the asset interventions required for reducing SF<sub>6</sub> emissions and removing SF<sub>6</sub> equipment (and the options considered)
- set out the key milestones and timing for implementing the plan, which is likely to cover multiple price control periods
- demonstrate a balance between the expected current and future costs of emission abatement and asset removal
- highlight any interactions between the Plan and other mechanisms in the current price control
- highlight internal and external factors that could affect the plan.

## Modelling SF<sub>6</sub> leakage

A5.9 We expect the licensee will model/forecast SF<sub>6</sub> leakage from its transmission system to inform and justify its SF<sub>6</sub> Intervention Plan. We set out below our general expectations on the modelling/forecasting approach.

A5.10 The modelling/forecasting of SF<sub>6</sub> leakage should be developed for the asset (functional) level and at points of an asset's life cycle. Ideally, there will be alignment with asset categories used in the Regulatory Reporting Pack (RRP) or in other RIIO-ET2 mechanisms such as the Network Asset Risk Metric (NARM). Where asset categories are unable to be made consistent, with RRP or NARM asset categories, a clearly defined relationship should be made to the RRP asset categories.

A5.11 Forecast leakage should be based on defined asset characteristics, such as (but not restricted to); asset type, age, condition, leakage history, location, gas holding and any other explanatory variables that are appropriate. We welcome further discussions with the licensee on the definition and appropriateness of asset characteristics to be used when developing modelling forecast leakage.

A5.12 The modelling approach should be designed to allow aggregation of leakage to the network level. It should also include functionality to forecast leakage in the short

term and longer term that aligns, for example, with the licensee's Environmental Action Plan Commitments.

A5.13 Forecast models should be based on historic leakage rate data for the relevant asset type. Where data does not exist, is limited in the number of years for which it is available, or is not robust, a clearly defined methodology to assume asset leakage should be agreed with Ofgem, during the development of the forecast models and prior to the submission of an MSIP application.

A5.14 The model of SF<sub>6</sub> leakage should be suitably validated. The validation should aim to robustly test the modelling assumptions, input data and any other element of the model that may impact the final outputs. While undertaking this process, we suggest that the licensee calibrates their modelling output accuracy based on their validation results. The licensee should include a section within the model documentation of their application on their validation approach and testing results.

A5.15 The sensitivity of the model to assumptions or aspects of their SF<sub>6</sub> forecast leakage methodology should be explored and, if possible, quantified. This is important for understanding the accuracy of the forecasting and any potential decision-making risks.

A5.16 Whilst we are expecting SF<sub>6</sub> to be the primary focus of this type of modelling, we would advise licensees to consider how the model could be extended to include other Insulation and Interruption Gases (IIGs).

A5.17 Documentation of the SF<sub>6</sub> leakage methodology, including assumptions and validation results, should be submitted to Ofgem alongside the MSIP submission. This will form part of our ongoing governance of the SF<sub>6</sub> abatement workstreams.

### Analysis of SF<sub>6</sub> asset interventions

A5.18 We expect licensees to develop scenario analysis of intervention works, demonstrating impact at both the asset category level and the network level.

A5.19 For this scenario analysis, we expect credible SF<sub>6</sub> abatement benefits associated with each intervention category to be set out. The current intervention categories we envisage are:

- **Asset Replacement** – this is an activity undertaken by a network company to remove an existing asset(s) and install a new asset. The asset replacement activity includes:
  - the installation of replacement assets

- the dismantling of existing assets where activity this is undertaken as part of the asset replacement works.
- **Asset Refurbishment** – this is a one-off activity undertaken on an asset that is deemed to be close to end-of-life or is otherwise requiring intervention that extends the life of that asset or restores its functionality. This activity does not result in the recording of a new or disposed asset in the licensee's Asset Register. Refurbishment can include the replacement or reconditioning of components of an asset.
- **Retro-Fill** – this is a one-off activity to modify an asset to work to original or similar specification using an alternative IIG to SF<sub>6</sub>. This activity does not result in the recording of a new or disposed asset in the Asset Register.
- **Maintenance & Repair** – this is any activity required or assumed to be necessary to achieve the expected life of an asset.
- **Removal** – this is the permanent removal of an asset from the network, not including removals carried out as part of a replacement or refurbishment activity.
- **Addition** – this is the addition of a new asset to the network, not including additions carried out as part of a replacement or refurbishment activity.

A5.20 We have aligned the definitions of the intervention categories above to the NARM intervention categories; however, we welcome further discussions to define these more closely to SF<sub>6</sub> asset interventions.

A5.21 We expect licensees to present a clear view of how intervention scenario analysis can be used to identify asset candidates that would benefit from each of the intervention categories listed above.

### SF<sub>6</sub> Leakage Model Governance

A5.22 Licensees are expected to maintain a reasonable level of ongoing governance of their SF<sub>6</sub> leakage model and the subsequent interactions to the SF<sub>6</sub> Intervention Plan. We suggest that a review is completed annually to ensure that the base data, assumptions, and modelling are kept up to date.

A5.23 As part of our assessment of MSIP submission, we will consider ongoing arrangements a licensee has undertaken to govern their SF<sub>6</sub> Leakage models.

A5.24 In this review, we suggest that the licensee considers the following elements:

- **SF<sub>6</sub> leakage rates data:** the data that underpins the leakage modelling is continually updated from the networks data capturing processes over that year. This should also be used to validate any assumptions with the model, specifically on assumed benefits related to the determination of intervention benefits.
- **Global data:** the data which is determined external to the licensee's control (i.e. the Global Warming Potential of SF<sub>6</sub>).
- **Assumptions within the modelling:** any assumptions that have been used in the modelling to improve the accuracy or operation of the model.
- **Validation results:** any validation results that may require further calibration of model methodologies or assumptions.

A5.25 Within a licensee's associated documents on the modelling of SF<sub>6</sub> leakage, the licensee must indicate the regularity of its review and the intended governance of the model.

A5.26 Ofgem recommends that the licensee submits SF<sub>6</sub> leakage modelled outputs alongside its SF<sub>6</sub> Asset Intervention MSIP Re-opener application. Ofgem will also be requesting detail on the SF<sub>6</sub> leakage modelled outputs for developing RIIO-ET3 policies. Therefore, we suggest licensees maintain an up-to-date SF<sub>6</sub> leakage model and associated documentation.

A5.27 Whilst Ofgem will not require an annual update on changes to any modelling, we would expect licensees to conduct ongoing review and updates. For any additional SF<sub>6</sub> Asset Intervention MSIP submissions, made in RIIO-2 after January 2022, Ofgem will require licensees to provide a complete view of any changes made to their SF<sub>6</sub> leakage models. This will also include an updated validation exercise and a narrative on how accuracy has been improved since the previous modelling version.

## Cost information

A5.28 This section sets out the information that must be provided on costs.

## **Breakdown and justification of costs**

### Consideration of options

A5.29 The licensee must provide information to justify the need and amount of allowance required.

A5.30 The licensee must also provide a description of the various options that were considered and the rationale for the selection preferred option.

### Breakdown of costs of preferred option

A5.31 Applications must set out, but need not be limited to, the following:

- the overall costs of implementing the proposals contained in the applications
- source information used to build up the costs for each application
- a breakdown of the overall baseline costs for the applications per year
- for each project, a breakdown of the costs for each site in terms of costs and volume and unit costs.

A5.32 Ofgem will supply a CBA template for cost and options to be submitted.

## Appendix 6 Environmental Re-opener Guidance

### Introduction

A6.1 The Environmental Re-opener (EVR) Guidance is issued by the Authority under SpC 3.2 of the Electricity Distribution licence and sets out the process of this re-opener.

### Scope

A6.2 The EVR may be triggered by the licensee during the re-opener windows set out in SpC 3.2, where the licensee has incurred or expects to incur costs caused by new or amended legislative requirements that relate to the licensee's impact on the environment that are contained or could have been contained within the licensee's Environmental Action Plan (EAP).

### Process

A6.3 This section covers the process that the licensee will undertake when submitting a Re-opener application under the EVR. This should be read in addition to any general requirements set out in this Guidance document. In addition, we set out what the Authority will look into when assessing the scope of the Re-opener application.

A6.4 The licensee should submit a detailed Re-opener application which includes the information set out in paragraph 3.2.31 of the SpC 3.2 as well as the information provided in paragraph A6.6 of this appendix. The application must also relate to and/or take into account the requirements set in paragraph 3.2.32 of the SpC 3.2.

A6.5 The Authority, when assessing the scope of the EVR application, will take into account the relationship of the new or amended legislative requirement to the licensees' EAPs. Such legislative requirements may also be linked to areas that are closely linked to the EAPs and could have been contained in the EAPs. The Authority will consider the requirement of an EAP, as set out in the Business Plan Guidance<sup>18</sup>. In this case, the Authority will assess the importance and impact that these could have on the decarbonisation of the networks as well as the impact of licensee's activities to the environment.

A6.6 The EVR application should include the following information and evidence, as well as any other analysis or information that the licensee considers may be relevant to the Authority's consideration of the application:

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<sup>18</sup> Paragraph 3.33 to 3.35 RIIO-ED2 Business Plan Guidance

- A full needs case including:
  - (a) why the new or amended legislative requirements relate to the licensee's impact on the environment that are contained within or could have been contained within the licensee's EAP.
  - (b) why is it appropriate for this to be funded by network consumers through this re-opener.
  - (c) The timelines for the activities required for compliance, including why these activities should occur in RIIO-ED2 and their anticipated length.
  - (d) Justification that the activities required relate to EAPs or what could have been contained within the EAPs, the decarbonisation of the networks and the wider impact of licensee s activities on the environment, including:
- An Engineering justification paper detailing cost information and a cost benefit analysis where relevant; and
- A policy justification paper which explains why an adjustment to allowances is justified and how the proposal or proposed scope of work accomplishes the compliance obligation.

A6.7 The licensee's EVR application should demonstrate that the costs being sought cannot be and have not already been addressed in other ex ante allowances and do not fall within the scope of any other uncertainty mechanisms.



## Appendix 7 Digitalisation Re-opener Guidance

### Introduction

A7.1 This appendix sets out the minimum requirements expected from licensees when making an Application for additional costs under the Digitalisation Re-opener, in accordance with Part I of SpC 3.2 of the Electricity Distribution licence. This appendix, which should be read in addition to any general requirements set out in this Guidance document and in accordance with Part I of SpC 3.2, provides guidance as to the types of evidence and level of detail that licensees must include when submitting a Digitalisation Re-opener application, relating to the needs case and cost information.

A7.2 There may be some projects/solutions where licensees will not be able to provide the necessary level of details listed within this appendix. In such instances, licensees must provide a justification for not providing all of the necessary information. We will consider if such explanations/submissions are sufficient for the Re-opener application on a case-by-case basis.

A7.3 Our intent is for licensees to utilise a recognised cost taxonomy to classify Digitalisation spend when making an application under the Digitalisation Re-opener. However, this approach needs to be considered by relevant working groups across all network licensees. The exact implementation of a cost taxonomy in the RIIO-ED2 price control is still to be considered and we intend to establish a working team across Ofgem and the licensees to determine implementation.

A7.4 The proposal, set out in 1.3, was taken to the ENA's Data and Digitalisation Steering Group on the 30 September 2022 and agreed by all network licensees. We also signalled our intent to implement a cost taxonomy in our Final Determinations for the RIIO-ED2 price control<sup>19</sup>. If a cost taxonomy is required to be utilised when submitting a Digitalisation Re-opener application, we will develop and consult upon additional guidance relating to the implementation of the said cost taxonomy. Therefore, unless additional guidance is provided, a cost taxonomy is not required to be used as part of an application under the Digitalisation Re-opener.

### Scope

A7.5 The Digitalisation Re-opener may be triggered by the licensee during the re-opener windows set out in SpC 3.2, where the licensee has incurred or expects to incur costs as a result of any of the triggers set out in SpC 3.2 Part I.

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<sup>19</sup> RIIO-ED2 Final Determinations Core Document Chapter 4, paragraphs 4.21-4.28

## **Needs Case**

### Alignment with overall business strategy and commitments

A7.6 In addition to the requirements set out in paragraph 3.8-3.15 of the main document, the licensee must provide:

- its Digitalisation Strategy and Action Plan (DSAP)
- evidence within the DSAP of the role it plays in facilitating the business to achieve its business objectives

### Demonstration of needs case

A7.7 In addition to the requirements set out in chapter 3 of this document, the licensee's problem statement must provide:

- The change in licensee roles and responsibilities requiring the use of this re-opener, if applicable.
- the outputs arising from the investment which should be clearly linked to delivering their Digitalisation Strategy

## **Appendix 8 Load Related Expenditure Re-Opener Guidance**

### **Introduction**

A8.1 This appendix covers the minimum requirements expected from licensees when making an Application for additional costs under the Load Related Expenditure (LRE) Re-opener, in accordance with Part K of SpC 3.2 (Uncertain costs and Re-openers) of the Electricity Distribution licence (which will be effective from 1 April 2023).

### **Scope**

A8.2 The LRE Re-opener can be triggered in relation to costs in the following cost categories, where these costs incurred or expected to be incurred, are caused by an increase in load on the network:

- CV1 - Primary reinforcement (including additional justification for flexibility services, if required)
- CV2 - Secondary reinforcement, excluding the areas covered by the LRE volume drivers
- CV3 - Fault level reinforcement
- CV4 - New Transmission Capacity Charges
- C2 - Connections.

### **Application Requirements**

A8.3 Licensees will be required to submit a two part submission when making an LRE Re-opener application. This section details the areas of information the Authority will consider when reviewing an LRE Re-opener application.

#### **Part 1- Overarching narrative**

A8.4 LRE Re-opener applications should, in the first instance, be formed of a narrative which contains the following:

A8.5 Evidence that actual demand and Low Carbon Technology (LCT) uptake on the network has grown beyond the forecast demand set out in the 2021 System Transformation FES, that ex ante allowances were in-part set against.

- Where actual or forecast demand or LCT uptake differ from the assumptions made in 2022 System Transformation FES details should be provided
- Where the location of LCT uptake differs from the assumptions and consequently the impact on the network differs, details should be provided.
- Where relevant a table which lays out a comparison between the assumptions made at the time ex-ante LRE allowances were set and the position at the time of re-opener application should be provided.

A8.6 A high-level description and analysis of the changes to the licensee's LRE plans that have resulted from the growth in network demand.

- Where the differences in expenditure relate to a difference between actual demand and the initial forecast demand used to set ex ante allowances at the start of RIIO-ED2, a comparison between actual demand and the initial ex ante forecast demand should be provided alongside a narrative explaining the changes.
- Where the differences relate to an external driver, such as a change to Government or Regulatory policy, the licensee should provide a narrative explaining how the change has impacted reinforcement requirements.
- Where the difference relates to demand growth on the network arising at different locations, evidence of how this change has impacted reinforcement requirements should be provided.

A8.7 An explanation, and supporting data tables, which show how LRE ex ante allowances have been used to-date in RIIO-ED2 on a project-by-project basis (or, where relevant, a programme-by-programme basis), and that the LRE ex ante allowances provided are not sufficient to complete the work required to keep pace with network demand. Licensees must demonstrate that the allowances being sought through the LRE Re-opener could not have been funded by the licensee's LRE ex ante allowances and do not fall within the scope of SpC 3.9 (LRE Volume Drivers) or any other uncertainty mechanism

A8.8 A forecast for LRE for the whole of RIIO-ED2 should be provided in detail, as should any planned works that have been temporarily or permanently deferred.

## **Part 2 -Project specific justification papers**

A8.9 The second part of the licensee's application must be formed of project specific Engineering Justification Papers (EJPs).

A8.10 The Authority will only review these EJP's if part 1 of the LRE Re-opener submission, described above, is satisfied.

A8.11 For the following cost categories, the licensee must submit an EJP for each specific project (or in the case of CV2, an EJP for the programme of works) that it intends to undertake:

- CV1 – Primary reinforcement (including additional justification for flexibility services, if required)
- CV2 – Secondary reinforcement, excluding the areas covered by the LRE volume drivers
- CV3 – Fault level reinforcement
- CV4 – New Transmission Capacity Charges,

A8.12 For C2- Connections, the licensee must provide an EJP to show, at a programme level; the change in nature and/or number of connection requests received and progressing to construction are exceeding the forecast provided by licensees in their RIIO-ED2 business plan submissions, and what the drivers of this difference are.

A8.13 Additional costs resulting from Access SCR can also be assessed under the above cost categories, and we expect that these will be embedded within those cost categories rather than separately identified.

A8.14 In addition to the RIIO-ED2 EJP guidance, the sections below provide additional targeted guidance on the information that we expect to see contained within each justification paper for cost categories CV1 to CV4.

### Targeted guidance

A8.15 Licensees' project specific EJPs should adhere to the following format:

- Demonstrate that the need for investment is substantiated against a range of plausible planning scenarios
- Demonstrate a structured options development process

- Detail the proposed investment scope, cost, risk and benefits.

### *Optioneering*

A8.16 In addition to the guidance in Chapters 1-4 of this document, for the LRE Re-opener, licensees should provide a detailed analysis on options considered. The detail of the optioneering may vary depending on the expenditure areas and whether they are driven by specific projects on the primary network, programmes of work on the secondary network or in response to customer connection activity. Analysis should include:

- A description of the approach to reinforcement, drawing out how this is managing the risk of foreclosing possible future demand scenarios, including more highly electrified pathways to meeting net zero targets
- A detailed description of the balance of investment to be undertaken and how this is broken down across the voltage levels (i.e., named schemes for 132kV & EHV and programmes of work for HV and LV solutions)
- A description of the process for identifying and assessing credible network reinforcement options
- A description of the key assumptions made within the overall approach regarding the use of flexibility services and the use of data and monitoring to inform future investment timing
- A detailed description of solutions benefits, timing and risks as well as the impacts of the strategy across multiple price control periods. For instance, where investment has been deferred or brought forward and any consequent impact on future deliverability
- An explanation of approaches for the development of options considering synergies with other load and non-load network needs. This will include how options are created to avoid inefficient disruptive piecemeal development and highlight any proposed investment ahead of need.

### *Forecast*

A8.17 Where appropriate licensees should continue to clearly identify the building blocks of their forecasting approach, e.g. how the forecast has been informed by the Future Energy Scenarios and Committee of Climate Change assumptions and alternative

scenarios considered in the investment plan. Where appropriate, reference should be made to published Distribution Future Energy Scenario reports.

#### *Network Impact*

A8.18 Licensees should clearly identify any changes in network impact and provide an assessment of those changes. That assessment must set out a clear comparison between initial network impact and any new network impact, along with reasons explaining any significant changes. Any constraints on the networks as a result of these changes should be identified.

A8.19 Licensees must explain how any new scenarios included in the assessment will impact projected demand levels and include an update to the range of uncertainty. This explanation should include an assessment of current available capacity on the network versus initial capacity on the network (as submitted as part of the licensees RIIO-ED2 business plan). When providing detail of network impact, established metrics should be used and key drivers clearly outlined.

A8.20 As a minimum, the factors used to identify the need for network interventions should be detailed along with the associated thresholds, for example XX% of thermal ratings and XX% of short circuit ratings. Key assumptions should be detailed, especially when used in the absence of measured data.

### **Strategic Investment**

A8.21 Through the LRE Re-opener, licensees can also request additional allowances for Strategic Investment, i.e., investment which enables enhanced capacity on the Distribution System to be deployed in the short term in anticipation of expected longer term need. This may be needed to ensure no future net zero pathway is foreclosed or to ensure deliverability in the future, helping to keep longer term costs as low as possible for consumers.

A8.22 Where the licensee is proposing Strategic Investment, this should be clearly identified within the Re-opener application.

A8.23 Where the Authority approves a Strategic Investment project through the LRE Re-opener this will likely be set as a Strategic Investment Evaluative Price Control Deliverable (PCD) under SpC 3.3 and will be subject to the general PCD assessment principles set out in the PCD Reporting Requirements and Methodology Document.

### **LRE Closeout Adjustment**

A8.24 Although not directly relevant to the operation of the LRE Re-opener, this section sets out our intended arrangements for enacting paragraph 3.18 of the Authority's RIIO-ED2 Final Determinations Core Methodology Document. Paragraph 3.18 sets out that during RIIO-ED2 Closeout<sup>20</sup> the Authority may propose an adjustment to a licensee's Ex Ante LRE Non-variant Allowance<sup>21</sup> if the licensee's LRE Closeout Expenditure<sup>22</sup> during the Price Control Period is less than 80% of its Ex Ante LRE Non-variant Allowance.

A8.25 The Authority may only make modifications to a licensee's Ex Ante LRE Non-variant Allowance during RIIO-ED2 Closeout where the licensee has incurred LRE Closeout Expenditure that is less than 80% of Ex Ante LRE Non-variant Allowance.

A8.26 The Authority will, as soon as reasonably practicable after the end of the Price Control Period, undertake initial analysis to assess whether the licensee must provide further information to assist the Authority in determining whether allowance adjustments may be merited. If the Authority's initial analysis suggests that the licensee's actual LRE Closeout Expenditure may have fallen below 80% of the licensee's Ex Ante LRE Non-variant Allowance, the Authority will request information from the licensee regarding the extent to which the underspend arises due to factors such as efficiency savings or innovative solutions.

A8.27 Once the requested information has been obtained from the licensee, the Authority will undertake the following calculation, expressed as a percentage, to determine whether the licensee has incurred LRE Closeout Expenditure that is less than 80% of Ex Ante LRE Non-variant Allowance:

$$\text{LRE Closeout Expenditure} / \text{Ex Ante LRE Non-variant Allowance}$$

A8.28 If this calculation returns a value that is greater than or equal to 80%, the Authority will not take any further action. If this calculation returns a value that is less than 80%, the Authority will consider whether an allowance adjustment is merited.

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<sup>20</sup> Prior to RIIO-ED2 Closeout the Authority will consult on its closeout methodology, which will include consultation on the detailed workings of how the Authority will action changes to a licensee's Ex Ante LRE Non-variant Allowance during RIIO-ED2 Closeout.

<sup>21</sup> For the purposes of the Closeout Adjustment Ex Ante LRE Non-variant Allowance is the five-year allowance set out in Appendix 2 to SpC 3.2 plus any additional allowances granted through the LRE Re-opener that is set in Appendix 1 to SpC 3.2, adjusted for the effect of Real Price Effects using the annual Real Price Effects Index values calculated in line with the methodology in Chapter 5 of the ED2 Price Control Financial Handbook.

<sup>22</sup> LRE Closeout Expenditure is actual Load Related Expenditure for the Price Control Period that does not fall within the scope of SpC 3.9 (Load Related Expenditure Volume Drivers) but excludes any expenditure that is subject to separate Price Control Deliverables. It is calculated in 2020/21 prices, on a net basis which offsets customer contributions against gross expenditure, plus an adjustment for any such expenditure avoided, or that may reasonably be expected to be avoided, as a result of factors such as efficiency savings or innovative solutions.



A8.29 The quantum of any allowance adjustment to a licensee's Ex Ante LRE Non-variant Allowance during RIIO-ED2 Closeout will not exceed:

$\text{LRE Closeout Expenditure} - \text{Ex Ante LRE Non-variant Allowance} + (0.2 \times \text{Ex Ante LRE Non-variant Allowance})$

A8.30 When deciding whether it is appropriate to make an LRE Closeout Adjustment, the Authority will:

- have regard to the basis on which the Ex Ante LRE Non-variant Allowance values were determined;
- consider whether the licensee's Load Related Expenditure has fallen outside any Specific Customer Funded Reinforcement Percentage Band under SpC 3.11; and
- take no account of the general financial performance of the licensee under the arrangements set out in the Special Conditions of this licence.

A8.31 The following modifications to the licensee's Ex Ante LRE Non-variant Allowance can be made during RIIO-ED2 Closeout:

- modifications to the Ex Ante LRE Non-variant Allowance set out in Appendix 2 of SpC 3.2 or modifications to the LRE<sub>t</sub> term in SpC 3.2; and
- modifications confined to allowances for Regulatory Years commencing on or after 1 April 2023.

A8.32 Any modifications to the licensee's Ex Ante LRE Non-variant Allowance during RIIO-ED2 Closeout will be made under section 11A (modifications of conditions of licences) of the Act.

## **Appendix 9 High Value Projects Re-opener Guidance**

### **Introduction**

A9.1 High Value Projects (HVPs) in RIIO-ED2 are defined as discrete non load projects valued at more than £25m (in 2020-21 prices) in RIIO-ED2. HVPs are discrete projects with specific deliverables. Given that their size and nature could involve a degree of uncertainty, we included provisions for Ofgem to review the licensees HVP expenditure, as well as a re-opener window for licensees to propose new HVPs within the Price Control Period.

### **Scope**

A9.2 The HVP Re-opener will cover new projects that were not known about when the Authority made its RIIO-ED2 Final Determinations, as well as projects that were known about but that were not included in baseline allowances. Where a licensee triggers the re-opener within the price control, schemes will be reviewed on a project-by-project basis, through an assessment of whether total expenditure for that HVP meets the £25m threshold (in 2020/21 prices), and that no adjustments would be made on account of existing projects.

A9.3 Any project that does not meet the relevant criteria (i.e., that costs less than £25m) will not be eligible for additional, discrete funding, and the overall costs of this would be subject to the Totex Incentive Mechanism. Therefore, if a licensee were to subdivide a project, it would bear a proportion of these costs rather than being provided with additional allowances. We believe this provides a robust framework for ensuring HVPs are assessed and delivered where they are in consumers' interests.

## **Appendix 10 West Coast of Cumbria Re-opener Guidance (ENWL only)**

### **Introduction**

A10.1 This section covers guidance on the minimum requirements expected from ENWL when making an application for additional costs under the terms of the West Coast of Cumbria (WCC) Re-opener, in accordance with Part N of SpC 3.2 (Uncertain costs and Re-openers) of the Electricity Distribution licence (which will be effective from 1 April 2023).

### **Ongoing engagement**

A10.2 The licensee must apply reasonable endeavours to ensure that the Authority is kept informed of any material developments it is aware of with regards to new nuclear generation projects at the Moorside Nuclear Site. This includes National Grid and ENWL's associated plans for connecting new nuclear generation at the Moorside Nuclear Site, and the associated potential cost implications for ENWL's network.

### **Triggering the re-opener – requesting Moorside Pre-Construction Funding**

A10.3 In order to initiate the West Coast of Cumbria Re-opener for funding the costs associated with early design, feasibility studies, consenting work and any other necessary activities on a project to connect new nuclear generation at the Moorside Nuclear Site, ENWL's should liaise directly with the Authority, and provide evidence that at least one of the events set out in paragraph 3.2.97(a) of the licence has occurred.

A10.4 Should the licensee or National Grid ESO accept an application for connection at the Moorside Nuclear Site, which the licensee considers warrants the commencement of early work on the connection, the licensee should submit a written request for Ofgem to trigger the re-opener, setting out:

- Any request for Moorside Pre-Construction Funding that will be included as part of a Re-opener application. Moorside Pre-Construction Funding is the funding required to develop a project to connect new nuclear generation at the Moorside Nuclear Site, to the point that consents are obtained, and the connection project is ready to begin construction.
- The licensee's best view of its proposed timetable of works on the connection project.

- A request for the Authority to confirm future indicative timing of triggering the West Coast of Cumbria Re-opener.

A10.5 Where the Authority decides to trigger the re-opener, ENWL's Re-opener application must provide the information set out in paragraph 3.2.99 of the licence and demonstrate that the costs being sought have not already been addressed in ex ante RIIO-ED2 allowances and do not fall within the scope of any other UMs.

### **Triggering the re-opener – requesting any other funding (including Moorside Pre-Construction Funding)**

A10.6 In order to initiate the West Coast of Cumbria Re-opener for funding the full construction costs (including indirect costs) associated with a project to connect new nuclear generation at the Moorside Nuclear Site, the licensee should liaise directly with the Authority, and provide evidence that at least one of the events set out in paragraph 3.2.97(b) of the licence has occurred.

A10.7 Following review of that evidence the Authority will notify ENWL of whether, and when, it intends to trigger the re-opener.

A10.8 If the Authority decides to trigger the re-opener, ENWL's Re-opener application must demonstrate that the costs being sought have not already been addressed in ex ante RIIO-ED2 allowances and do not fall within the scope of any other UMs.

A10.9 ENWL's Re-opener application must provide the information set out in paragraph 3.2.99 of the licence. That will require the inclusion of the following information, or a statement setting out the reason why the item isn't relevant or applicable in the circumstances, as well as any other analysis or information that the licensee considers is relevant:

- A description of the work the licensee has carried out or proposes to carry out in association with new nuclear generation seeking to connect at the Moorside Nuclear Site. This description must include detail of the plans for the licensee's works, such as project timeline, project development plans, planning consent details and status, stakeholder management plans, details of the construction programme and a scheduled completion date.
- Details of any interactions with all associated projects or infrastructure (i.e., the Transmission Network or relevant National Grid projects in Cumbria) clearly outlining the relationship and associated effects.

- A detailed description of the associated costs for each Regulatory Year, including evidence of how in aggregate across all years they meet the Materiality Threshold.
- The basis of calculation for the changes to the licensee's allowed level of expenditure.
- Information regarding the cost of work incurred or expected to be incurred, in association with new nuclear generation seeking to connect at the Moorside Nuclear Site, such that the Authority can determine its efficiency. Please consider information on detailed design works, the licensee's supplier procurement and tender procedures, forecast costs on a year-by-year basis, and a breakdown of the forecast costs.
- A description of the potential risks associated with delivery of new nuclear generation seeking to connect at the Moorside Nuclear Site that might impact on project costs and ENWL's associated risk management strategy.
- A description of how ENWL has considered the risk and costs associated with connecting the Moorside Nuclear Site to the transmission system and how this will be shared appropriately between the licensee, its consumers and, if relevant, National Grid.
- A description of any changes (including savings) to its Transmission Connection Point Charges.
- An explanation of how the licensee has ensured that charges to National Grid are economic and efficient (taking account of the interests of electricity consumers generally).
- A description of any revisions that the licensee considers should be made to its Network Asset Risk Metric as a result of its project to connect new nuclear generation at the Moorside Nuclear Site, and an explanation of why those revisions are necessary.

## Appendix 11 Authority assessment process

### Introduction

A11.1 This appendix sets out an indicative framework that is intended to ensure that our decision-making process for re-openers is as agile, efficient, and proportionate as is reasonably practicable. We are using several tools to do this, including:

- publishing this Re-opener Guidance and Application Requirements Document
- establishing a Re-opener application pipeline log
- providing for pre-application engagement with licensees
- pre-acceptance screening of applications
- a process for supplementary questions
- a proportionate approach using Assessment Tiers with differing levels of scrutiny for individual applications
- a gateway style approach where appropriate.<sup>23</sup>

A11.2 Our objective is to make re-opener decisions in accordance with our principal objective and statutory duties that can be reflected in the Annual Iteration Process (AIP) of the calendar year in which the application is received. Our assessment process is designed to deliver the majority of decisions within six months after a Re-opener application has been received. However, we recognise this may not always be possible.

A11.3 This appendix also provides information on additional re-opener windows and Authority instigated Re-openers.

A11.4 The following re-openers have their own specific processes and timescales set out in separate documents that should be read in conjunction with this document:

- Net Zero Pre-Construction and Small Projects Re-opener;<sup>24</sup>

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<sup>23</sup> For example, gas transmission compressor and major asset health projects will follow a four step Project Assessment Process (GT PAP).

<sup>24</sup> <https://www.ofgem.gov.uk/publications-and-updates/net-zero-pre-construction-work-and-small-net-zero-projects-re-opener-governance-document>

- Large Onshore Transmission Investments (LOTI) Re-opener;<sup>25</sup> and
- RIIO-2 Funded Incremental Obligated Capacity (FIOC) Re-opener.<sup>26</sup>

**Stages in the indicative assessment process**

A11.5 Table 1 below summarises the various stages of our indicative assessment process. The rest of this appendix explains each stage of the process in greater detail.

**Table A11.1: Stages in the indicative assessment process**

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<sup>25</sup> <https://www.ofgem.gov.uk/publications-and-updates/large-onshore-transmission-investments-loti-re-opener-guidance>

<sup>26</sup> <https://www.ofgem.gov.uk/publications-and-updates/riio-2-fioc-guidance-and-submissions-requirements-document-0>

<b>Stage 1: Engagement</b>	
1a. Re-opener application pipeline log	<ul style="list-style-type: none"> <li>Re-opener application pipeline log to be updated at least annually.</li> <li>Discussions expected at least three months before an application window opens.</li> </ul>
1b. Pre-application engagement	<ul style="list-style-type: none"> <li>The nature and timeframe of engagement will depend on the specifics of the re-opener under discussion.</li> </ul>
<b>Stages 2 – 5: Assessment</b>	
2. Application window for submission opens	<ul style="list-style-type: none"> <li>The level of scrutiny applied to an application will be proportionate to the materiality of the application and the complexity of the decision.</li> </ul>
3. Screening checks	<ul style="list-style-type: none"> <li>We have developed three Assessment Tiers:</li> </ul>
4. Assessment, including: 4a. Assigning the Assessment Tier 4b. Supplementary question process	<ul style="list-style-type: none"> <li>Fast Track Assessment</li> <li>Standard Assessment</li> <li>Additional Scrutiny.</li> <li>Our default position is that all applications will be subject to the</li> </ul>
5. Policy consultation	Standard Assessment Tier unless we have sufficient evidence to adopt an alternative.
<b>Stages 6 – 7: Direction</b>	
6. Proposed Direction	<ul style="list-style-type: none"> <li>Content of proposed and final direction set out in licence conditions.</li> </ul>
7. Direction issued	<ul style="list-style-type: none"> <li>Direction published at the time it is made (not at the time of the AIP)</li> </ul>
<b>Stage 8: Annual Iteration Process</b>	
8. Publishing allowed revenue	<ul style="list-style-type: none"> <li>Direction must be issued by 31 October to be reflected in Annual Iteration Process of that year.</li> </ul>

Stage 1a: Re-opener application pipeline log

A11.6 The Re-opener application pipeline log is part of the annual Regulatory Reporting Pack.<sup>27</sup> Licensees will be required to provide, so far as is reasonably practicable at the time of submission, forecast information about applications they anticipate submitting.

A11.7 The principal purpose of the Re-opener application pipeline log is to allow us to forecast the likely pattern of Re-opener applications. This will assist us in planning the

<sup>27</sup> Information, including on how to complete the Re-opener application pipeline log, provided as part of the Regulatory Instructions and Guidance document for RIIO-2.



appropriate internal and external resources to process these Re-openers in a timely and efficient manner. Not only will we gain an understanding of the flow of applications but also the likely materiality and complexity of these applications, which are factors that influence the Assessment Tier applied to individual applications.

A11.8 In addition, the Re-opener application pipeline log will provide licensees with an opportunity to forecast Re-opener PCFM Variable Values in the Price Control Financial Model (PCFM).<sup>28</sup> As a consequence, Allowed Revenue forecasts for future years are intended to reflect the likely impact of Re-opener applications prior to the submission of an application or a Direction being issued.

A11.9 These forecast Re-opener PCFM Variable Values will be updated each year following submission of the Regulatory Reporting Pack until final values are assigned by the issue of Directions or not as the case may be. Final Re-opener PCFM Variable Values will be adjusted to take account of the effect of an appropriate measure of the time value of money<sup>29</sup> on the variance between forecast values and any Direction.

A11.10 Licensees are encouraged to update their re-opener pipeline log (submitting and discussing updates with Ofgem as necessary) submission at any point in the Regulatory Year should there be material changes that would impact the principal purpose of the pipeline log. However, if updated outside of the annual Regulatory Reporting Pack submission, these updates cannot be reflected in the PCFM.

#### Stage 1b: Pre-application engagement

A11.11 The objective of the pre-application engagement process is to:

- enable us to get a clear understanding of how effective a future Re-opener application is likely to be with respect to answering each of the questions set out in Chapter 3, paragraph 3.1
- allow us to get a clear understanding of the appropriate Assessment Tier for the application, and discuss this with the licensee
- allow us to get a clear understanding of the internal and external resources necessary to process the application

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<sup>28</sup> A licensee will have the option of individual forecast values provided in the Re-opener application pipeline log not being reflected in the PCFM due to the level of uncertainty associated with the forecast.

<sup>29</sup> Time value of money has the definition given in the glossary of the PCFM Handbooks for ED2, ET2, GT2 and GD2.

- enable the licensee to test the evidence intended for inclusion in the application against the questions set out in Chapter 3, paragraph 3.1.

A11.12 The appropriate timing, and extent, of the pre-application engagement will vary depending on the specific nature of the Re-opener application being discussed. We expect licensees to initiate discussions with us no later than three months prior to an application being submitted. We expect that the information provided in the Re-opener application pipeline log will provide a starting point for these discussions.

A11.13 None of the discussions during this pre-application engagement will commit either party during the later stages of the assessment process.

A11.14 Should experience from pre-application engagement suggest that it would be helpful we may develop a more structured engagement process.

#### Stage 2: Application window for submission

A11.15 The licensee must submit its Re-opener application during the application window as set out in licence conditions.

#### Stage 3: Screening checks

A11.16 Upon receipt of an application, we will conduct screening checks to ensure that it is valid and can proceed through the subsequent stages. An application that has been rejected may be submitted during another application window, assuming it fulfils the relevant criteria. An application will be deemed to be invalid if it does not:

- comply with the requirements of relevant licence conditions
- comply with the requirements set out in this Re-opener Guidance and Applications Requirements document including relevant Appendices.

A11.17 During the screening checks we will assess whether the application should be assigned an Assessment Tier other than the Standard Assessment Tier (see Stage 4a: Assigning the Assessment Tier).

A11.18 We will write to the licensee setting out the outcome of these screening checks setting out the reasons for our decision should we determine that the application is invalid, or if we consider that an Assessment Tier other than the Standard Tier is appropriate.<sup>30</sup> In addition we will provide an indication of when we intend to publish our Proposed Direction (Stage 6) and Direction (Stage 7).

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<sup>30</sup> This assignment should not be regarded as definitive, and it may be that during the detailed assessment of the application it becomes appropriate to assign a different Assessment Tier.

#### Stage 4: Assessment

A11.19 The main body of this document sets out the process for our assessment of re-openers.

#### Stage 4a: Assigning the appropriate Assessment Tier

A11.20 We have developed a Re-opener application assessment process that ensures each application receives an appropriate level of scrutiny. These Assessment Tiers are designed to allow flexibility in the level of scrutiny applied and the time taken to assess individual Re-opener applications. It may be necessary to change the Assessment Tier during the course of the full assessment.

A11.21 The table below summarises the differences between the three Assessment Tiers:

**Table A11.2: Assessment Tiers**

	<b>Fast Track</b>	<b>Standard</b>	<b>Additional Scrutiny</b>
Policy Consultation	No	Optional	Optional
Estimated time to decision	Under 3 Months	3-6 Months	Over 6 Months

A11.22 Our default position is that all applications will be subject to the Standard Assessment Tier unless there is a clear justification for adopting an alternative Assessment Tier. Any decision to adopt an alternative Assessment Tier will be based on reasons including:

- whether the application very clearly does, or does not, contain the quantity and quality of evidence that we require to answer the questions set out in Chapter 3, paragraph 3.1
- the size of adjustment sought measured as a multiple of the Materiality Threshold (as defined in SpC 1.1 of the licence for ET, GD and GT, or SpC 1.2 for ED).
  - where the size of adjustment sought in the Re-opener application is up to 1.5 times the Materiality Threshold, it may be considered suitable for the Fast track Assessment Tier
  - between 1.5 and 5 times the Materiality Threshold may be considered suitable for the Standard Assessment Tier

- above 5 times the Materiality Threshold may be considered suitable for the Additional Scrutiny Assessment Tier
  - The ranges mentioned here are indicative only, and just one factor we will consider when assigning the Assessment Tier
- the alignment of the proposed intervention with relevant policy objectives and precedent as well as any implications for other regulatory mechanisms
- the quality of pre-application engagement and the clarity with which the application is presented
- other factors that we determine are relevant when reaching our Assessment Tier decision.

#### Stage 4b: Supplementary question (SQ) process

A11.23 The SQ process is intended for clarification purposes only. Licensees should not expect to use it as a means of submitting additional information that the original Re-opener application should have included and is missing. It is not our intention to use the SQ process as a means of working up weak or poor-quality applications. This Re-opener Guidance and Application Requirements Document is to assist licensees in preparing their applications. In combination with pre-application engagement this provides licensees with the assistance they require to submit high quality applications.

A11.24 To aid the agility of the process, licensees are expected to respond to an SQ within five working days unless otherwise specified by us.

#### Stage 5: Policy consultation (optional)

A11.25 We anticipate that a separate policy consultation stage will be unnecessary for most Re-opener applications. However, a policy consultation stage will likely be used when a Re-opener application raises an issue, not previously considered, that is likely to have a material impact on our decision.

#### Stage 6: Proposed direction

A11.26 As set out in the relevant licence condition for each re-opener mechanism, before making a direction, we will publish on our website:

- the text of the proposed direction

- the reasons for the proposed direction<sup>31</sup>
- a period during which representations may be made on the proposed direction, which will not be less than 28 days.<sup>32</sup>

#### Stage 7: Direction

A11.27 We will issue a direction, setting out our decision, following consideration of consultation responses received in Stage 6. As set out in the relevant licence condition for each re-opener mechanism, we will publish on our website:

- the text of the direction
- the reasons for the direction.

A11.28 The direction will be issued as soon as reasonably practicable to provide certainty to the licensee and will not be withheld until the time of the Annual Iteration Process.

#### Stage 8: Annual Iteration Process

A11.29 Each year we will run the Annual Iteration Process (AIP), which is the process of annually updating the variable values in the PCFM to calculate and publish updated Allowed Revenue and Adjusted Revenue values.

A11.30 The Direction will be used to assign a final value to the relevant Re-opener Variable Value within the PCFM at the next available Annual Iteration Process which is completed by 30 November each year. To be reflected in the Annual Iteration Process the Direction must be issued by 31 October.<sup>33</sup>

### **Additional Re-opener windows and Authority instigated Re-openers**

A11.31 The re-opener licence conditions may provide either or both of two relevant options.

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<sup>31</sup> Our reasons will generally include our assessment of the needs case for the proposed project, our assessment of the options and justification for the proposed project and our assessment of the efficient costs of the proposed project.

<sup>32</sup> The process described here is the self-modification direction process which is used for most Re-openers in the RIIO-2 price control. However, there are some Re-opener decisions that are subject to statutory consultation. The statutory process is set out in the Electricity Act 1989 and the Gas Act 1986.

<sup>33</sup> Please see the PCFM Guidance for ED2, ET2, GD2 and GT2 for further information on this process: <https://www.ofgem.gov.uk/publications-and-updates/decision-riio-2-pcfm-guidance>

A11.32 The first option is to direct additional re-opener windows, allowing licensees to submit applications. Where this happens, the process for assessing any application submitted during this window will be as per Stages 2 to 8 of this Re-opener application assessment process document. It may be appropriate to exercise this option in situations where we believe that it is in the consumers' interests to provide licensees with an additional opportunity to submit Re-opener applications. Prior to any such direction we would discuss the option with relevant stakeholders. For example in a situation where external factors have led to the relevant project not being sufficiently advanced to allow a well evidenced application to be made during the window specified in the licence and we consider it is in the interest of consumers to allow a later submission.

A11.33 The second option is an Authority instigated Re-opener. The licence conditions stipulate the specific circumstances in which we can choose this option. With this option we would be likely to use our existing information gathering powers<sup>34</sup> to obtain any further evidence we deem necessary to make a decision whether or not it is appropriate to issue a direction amending outputs, delivery dates or allowances. Should this option be utilised we would, where appropriate, follow the principles on which this indicative re-opener assessment process is based. In particular, a proportionate approach to the information requested and level of analysis. We may also follow the various stages set out in Table 1 above.

## **Appendix 12 Redaction Policy**

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## **Appendix 13 Re-opener Submission Template**

Please see separate Excel file published alongside this document:



## **Appendix 14 Re-opener Submission Template Instructions**

Please see separate pdf file published alongside this document:

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<sup>34</sup> The Authority may gather information under powers set out in section 47A Electricity Act 1989 or section 34A Gas Act 1986. The Authority may also request information from the licensees under the RIIO-2 licence conditions for ED, ET, GT and GD. These are set out in Condition B4 of the Electricity Transmission Standard Conditions, Condition 24 of the Gas Transporter Standard Licence Conditions and Condition 6 of the Electricity Distribution Standard Licence Conditions.