

Reference

Cadent Response to Proposal to modify the Re-opener Guidance and Application Requirements Document

Date

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Network Directorate, RIIO Price Control Operations

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Correspondence sent by email to
ReopenerConsultations@ofgem.gov.uk

Dear Eliska,

Consultation on Proposal to modify the Re-opener Guidance and Application Requirements Document

I am writing in response to Ofgem's proposal to modify the Re-opener Guidance and Application Requirements Document.

We are supportive of the minor changes made to the guidance document; the current document provides sufficient guidance on the key aspects that need to be included within a re-opener application.

We also understand the introduction of a more comprehensive redaction policy as this will ensure a consistent approach across networks, however believe the existence of an Non-Disclosure Agreement (NDA) should in itself be sufficient reason for redaction.

We support the introduction of a common re-opener submission template as this will ensure information will be provided in a consistent manner, however the current template appears to be targeted at re-openers that are related to the commissioning of new assets / large-scale asset health related projects. The cost categories should align with those used in our annual Regulatory Reporting Pack (RRP) as this would allow both Ofgem and Cadent to track the impact of the re-opener submissions and understand how the costs align to the price control framework and allowances.

We are in the process of developing an alternative template which aligns with the cost categories in our annual RRP and will share this with you.

Our responses to the specific consultation questions are provided in the annex to this letter.

If you would like to discuss any of our comments further, please contact
jahirul.kashem@cadentgas.com.

Yours sincerely,

[by email]

Jahir Kashem

Re-opener Guidance and Application Requirements Document

Question 1: Do you have any views on the proposed revisions to the Re-opener Guidance and Application Requirements Document?

We support the proposed revisions.

Appendix 12: Redaction Policy

Question 2: Do you agree that a more comprehensive Redaction Policy is required, purposes explained in section 1 (Introduction) of the proposed Redaction Policy?

We welcome the purpose and principles of the redaction policy to ensure a consistent, standardised approach across all re-opener applications and publications

Question 3: Do you have any views on the proposed approach as set out in section 2 (Approach to Redacting Information) of the proposed Redaction Policy?

We welcome the approach set out in section 2.

Question 4: Do you agree with the three proposed redactable information categories? Are there any other categories that should be considered?

We agree with the proposed categories.

Question 5: Do you have any views on the redactable information category explanations set out in Annexes 1, 2, and 3?

We broadly agree with the explanations provided in Annexes 1, 2 and 3 but have provided further views on some aspects in our responses to the questions below.

Question 6: Do you agree that the existence of a Non-Disclosure Agreement (NDA) should, in itself, not be sufficient reason for redaction or non-compliance with the policy (as explained in Annex 2)?

We agree that licensees should work with Ofgem in an open and co-operative way.

To the extent that privileged communications are relevant to re-opener applications (which is likely to be a very rare occurrence) licensees should not be compelled to disclose such information and Ofgem does not have the power to do so. We note that privileged documents are referred to in the heading of this section but not in the main body. Given the established rules around privilege and the requirement (or otherwise) to disclose, we suggest that the reference to privilege is removed from the heading.

NDAs are entered into for many reasons and we agree that licensees should not enter into NDAs for the purpose of trying to withhold information from Ofgem. Some NDAs will be requested by third parties and not licensees and to disclose such information would place the licensee in breach of contract, potentially resulting in a claim and the loss of an important relationship. It may also damage

other relationships if the licensee becomes known as a third party who discloses third party confidential information in breach of contract. Narrowing the pool of companies willing to contract with licensees is not in customers' best interests and Ofgem should not compel licensees to breach legally binding contracts. The wording of this section should be changed to something like: Licensees are expected to work with Ofgem in an open and co-operative way. Where there is information relevant to a re-opener application that is subject to an NDA, the licensee should consider whether it is in the interest of customers to disclose such information and, if so, use reasonable endeavours to obtain consent from the contracting party to make such disclosure.

Question 7: In your view, is the proposed scope of the redaction policy correct? Should it apply to all re-openers or should some mechanisms be excluded from scope?

We agree that Cyber re-openers should be excluded from scope. However, we also believe Physical Security applications should also be excluded from the scope of the redaction policy due to the sensitive information that an application will consist of and the potential risks to national security if this information is made public.

The exclusion may also extend to the broader Resilience re-opener mechanism proposed by Ofgem in RIIO-3 but will need to be confirmed when the scope of this re-opener has been finalised.

Question 8: Do you agree with the process as set out in Section 4 (Process for Publications) for (a) Ofgem's publications, and (b) licensee's publications?

No, we do not agree. We do not understand why justification for redaction and redacted information is required at the point that we submit our applications.

The Re-opener Guidance and Application Requirements (the Guidance) states documents should be published five working days from submission together with reasons for any redactions.

We would like to understand whether Ofgem will review the proposed redactions ahead of Licensee publication as this is not currently referenced in the Licensee publication process, and will the five working days timeline for Licensees to publish externally still stand?

If this is the case, then have concerns that time spent waiting for feedback or challenge, and making subsequent amendments within the five days is not feasible, and puts undue burden on ourselves and Ofgem.

Question 9: Do you have any views on the General Consideration set out in section 5 (General Considerations)?

We are comfortable with the proposals and welcome Ofgem's intent to work with Licensees as the need arises.

Appendix 13: Re-opener Submission Template, and Appendix 14: Instructions

Question 10: Please provide your views on the split between direct and indirect costs on each of the 2_Costs_Section worksheets.

We support the principle of splitting costs between direct and indirect costs but have some views on specific aspects which we have outlined in our response to Question 14.

Question 11: Please provide your views on the split between Company Costs and Contractor Costs on each of the 2_Costs_Section worksheets.

We would like to understand the reasons behind splitting company costs and contractor costs. We will always seek the right mix of resource to ensure we are efficient.

Question 12: In your view is specific instruction required for any of the individual worksheets? Please provide as much detail as possible on what is required. We also welcome suggested draft text.

In our response to Question 14 we provide our views on the scope and content of the template and believe there needs to be some significant changes to ensure it aligns with our annual regulatory reporting and this needs to be addressed for the template to be fit for purpose. However, for completion, we have provided views on the specific tabs in the existing template. The following table presents our views for each tab in the cost tracker:

Re-opener Submission Template Worksheet	Cadent Observation	Cadent recommendation or question?
0.1_Submission_Info:	The formula used to calculate the output in the field labelled File Name (cell B17) is hard coded with "RIIO1_NOMs_Closeout". This is irrelevant and it is unclear where we should input the specific re-opener name.	We believe an additional field for us to input the specific re-opener name would be most practical and should be linked to the File Name cell.
0.2_Contents	Nothing to add.	N/A
0.3_Reference	Nothing to add.	N/A
0.4_LkUp: Lookup References	If a bespoke asset is identified, within the scope of one of our re-openers, we need the opportunity to be able to request an update to this list.	We would like further clarity around what the process and timelines will be for updating this list (where relevant).
0.4.1_LkUp_Assets	Nothing to add.	N/A
0.5_Submission_Version_History:	The Re-opener Submissions Template Instructions does not explain what would trigger the need for multiple submission versions.	We would like to understand whether this is informed by Ofgem or initiated by GDNs as well?
0.6_Template_Version_History	Nothing to add.	N/A

1.1_Costs	See response to Q14 for our feedback on cost categories	See response to Q14 for our feedback on cost categories
1.2_Outputs	The Outputs tab does not allow for the ability to add additional units. The ones included in the drop down are not comprehensive	Either make free-text or allow for adding additional units
All Cost Worksheets (2.1 – 2.11)	In the Re-opener Submissions Template Instructions (clause 7 of para 1.12 on page 7) it says: <i>“all costs should be reported in 2018/19 prices”</i> .	Price base is correct for any RIIO-2 submissions, but would need to be amended for RIIO-3 submissions to ensure a consistent price base as RIIO-3 allowances.
2_Costs (2.1 – 2.11)	There are a finite number of rows in the template.	We would also like to understand what the process and timelines will be when we have a need to insert additional rows or columns. A flexible approach towards this is imperative to ensure that we do not face any undue delays.
2_Costs (2.1 – 2.11)	The cost worksheets begin in 2021 (RIIO-GD1) and end in 2028 (RIIO-GD3).	Why have Ofgem included these specific years? Will these be updated with the correct years as required in readiness for RIIO-GD3?
2.7 Commissioning	Table 2.7 has greyed out boxes for direct costs in the total estimated costs section. This looks to be wrong or not explained.	Amend or clarify why it has been greyed out
3.1_Asset_Volumes	Our understanding is that we will not populate this sheet where the scope of the re-opener does not relate to an asset category (e.g. HSE Fatigue).	Do you agree with this view?
4.1_CBA_Overview 4.2_Options_Long_List	Where the re-opener is being driven by a health & safety element (e.g. MOB's Safety), we would not complete a CBA of our options. In this event, we would not have a list of options that have not progressed to CBA.	The instruction <i>“All licensees are required to complete and submit all tabs in CBA Section”</i> should include <i>“when applicable”</i> . We would also appreciate specific guidance that explains Ofgem's intention for how the CBA Overview should be completed?

5.1_Risk_Register	We do not recognize the terms used: Factored P50 or Factored P75.	Can you please clarify? Can you also please provide specific guidance that explains Ofgem's intention for this should be completed?
6_Supporting_Data (6.1 – 6.4)	Nothing to add	N/A

Question 13: Do you have any views on the overall structure and design of the Re-opener Submission Template?

We are comfortable with the overall structure and design of the template. The colour key used mirrors the same key used for RRP which is beneficial from a consistency basis.

However, as part of our answer to Question 14, our proposed revisions will also require the structure and design to be amended slightly if taken forward.

Question 14: Do you have any views on the scope and content of the Re-opener Submission Template?

Cost Categories

The cost categories in section 2 look to be targeted at re-openers that are related to the commissioning of new assets / large-scale asset health related projects but are not appropriate for other sectors or types of re-opener applications.

The template allows for asset direct costs to be inputted (2.1) but there isn't anywhere to detail work execution costs which would be required for re-openers such as HSE Policy (Fatigue). Additionally, we cannot detail headcount and FTE implications.

Within our annual Regulatory Reporting Pack (RRP) submissions and our recently submitted RIIO-3 Business Plan Data Tables (BPDTs), the over-arching framework captures our cost expenditure [and correlating workload] into either Capex, Opex or Repex and further sub-categories within these (e.g. for Opex: Work Management, Work Execution)

The re-opener submission template does not appear to do this which presents a challenge, as for both Ofgem and Cadent to be able to track the impact of the re-opener submissions, we need to be able to see how the costs align to the price control framework and allowances.

Within RRP there is a tab titled '1.01a Allowance' which splits the allowances by cost category and shows base allowances and re-opener allowances (see below screenshot). Using these categories will allow for more valuable comparative analysis of our re-opener submissions.

Opex	Work Management - Holder Demolition
	Work Management - Land Remediation
	Work Management - Other
	Work Execution - Emergency
	Work Execution - Repair
	Work Execution - Maintenance

	Work Execution - (SIUs)
	Work Execution - ODA
	Business Support
	Training and Apprentices
Capex	Load - LTS, Storage and Entry
	Load - Connections
	Load - Reinforcement
	Non Load - LTS, Storage and Entry
	Non Load - Governors
	Non Load - Other Network Capex
	Non Load - IT
	Non Load - Vehicles
	Non Load - Other Non Network Capex
	Non Load - SIU
Repex	Tier 1 Mains
	Tier 1 Services
	Tier 2a Mains and Services
	Tier 2b Mains and Services
	Tier 3 Mains and Services
	<=2" Steel Mains and Services
	>2" Steel Mains and Services
	>30m Mains
	Other Mains and Services
	Diversions Mains and Services
	Other Services
	Tier 1 Stubs
	Risers
	Robotic Intervention

Further to this, the way that the cost sub-categories have been defined within the template does not correlate with what we typically adhere to for regulatory submissions.

Please see the following examples:

Example 1

Within the RIIO-GD2 RIGs, procurement costs are listed as a type of business support cost. Whereas in the re-opener submission template, procurement costs (2.2) & business support costs (2.10) are separated.

Re-opener submission template

4.02 Business Support Allocation

- 6.4. The purpose of this table is to provide the allocation of group gross cash controllable costs for business support (including any cost transfers to/from direct activity functions of the company's organisation) that are charged to the UK regulated network businesses, and other non-regulated businesses. It captures the costs allocated to Capex and Repex. It also provides the allocation of operational and non-operational costs for certain activities, and the number of end users for IT&T.
- 6.5. This table should be completed once in each RRP submission, showing the direct network business support costs and the costs allocated from the group for the relevant GDN.
- 6.6. For each activity, input the costs allocated to each GDN, other businesses (UK regulated), and other non-regulated businesses.
- 6.7. Input the following additional detail:
- IT & Telecoms
 - Property Management
 - Insurance
 - HR & Non-Operational Training
 - Audit, Finance & Regulation
 - **Procurement**
 - Stores & Logistics
 - CEO & Group Management

Worksheets in this section

- 2.1_Asset_Direct_Costs
- 2.2_Procurement
- 2.3_Land_Consents_and_Wayleaves
- 2.4_Legal
- 2.5_Detailed_Design
- 2.6_Project_Management
- 2.7_Commissioning
- 2.8_Risk_and Contingency
- 2.9_Maintenance_and_Operating
- 2.10_Business_Support_Costs
- 2.11_Other_Costs

Example 2

Risk and contingency expenditure could be either a direct or an indirect cost, but the relevant worksheet tab in the submission template only allows input for indirect costs.

Re-opener submission template

[illegible]

Example 3

Maintenance costs are defined in RIGs as a direct cost (see below screenshot), but the direct costs input field in the submission template are greyed out.

Extract from RIIO-GD2 RIGs

Direct activity

This includes the following activities:

- Work Management (i.e., Asset Management, Operations Management, Customer Management, and System Control);
- Work Execution (i.e., Emergency, Repairs and Maintenance);
- Statutory Independent Undertaking; and
- Other Direct Activities.

RIIO-2 Re-Opener Submission Template

2.9 Maintenance and Operating

We would encourage that completion of every tab in the template should not be mandated to be filled out as standard for every reopener. There should be flexibility in which elements of the template we need to fill out depending on the type of reopener. This is because as mentioned previously, not all reopeners are linked to CBA and therefore the current template has sections which are not appropriate for other types of reopener. Flexibility would mean the template could be adapted and used for more types of projects without the need for a different template for each reopener type or the creation of a complex template.

In the Re-opener Submission Instructions and Guidance document, there are three options offered for re-openers which have multiple projects:

- Our preferred option is Option 2. Submitting a separate completed template for each project would substantially increase the regulatory burden, both in terms of template completion and the associated internal review and assurance processes. For example, our diversions re-opener submitted in January 2024 encompassed a complex scope, including over 13 individual capital projects, 4 loss of development claims, and encroached mains and services. Applying Option 1 in this scenario would have necessitated the submission of 19 separate cost trackers, an unnecessary and inefficient requirement that would have significantly increased the workload for both Ofgem and Cadent.

We are in the process of developing an alternative template which aligns with the cost categories in our annual RRP and allows for submission of a single completed template covering all the projects in aggregate and will share this with you.