

Rebecca Pickett,
Network Price Controls,
Ofgem,
10 S Colonnade,
Canary Wharf,
London,
E14 4PU

19th September 2018

Re: RIIO T1 Reopener Consultation – Enhanced Security Costs

Dear Rebecca,

This cover letter and attached note provides a non-confidential summary of National Grid's formal response to Ofgem's consultation letter dated 8th August 2018 relating to costs associated with the RIIO-T1 Enhanced Security uncertainty mechanism. We separately submitted a confidential response to Ofgem's consultation on 29th August 2018. This non-confidential response is being provided for Ofgem to publish alongside their final decision.

Ofgem have assessed our request to adjust allowances by £125.3m as part of the May 2018 Enhanced Security re-opener and have proposed to allow £107.1m of these costs. In summary, we consider Ofgem's assessment of this request appropriate and thorough, however in some areas we do not consider the proposed allowances to have fully taken account of the requirements or supporting information provided within our submission. The areas in which we have asked Ofgem to reconsider their initial views are included at a high level within the consultation response attached to this cover letter.

Yours sincerely,

Chris Bennett

Director of UK Regulation

Response to Ofgem's consultation letter

As requested in Ofgem's consultation letter dated 8th August 2018, this document provides our response to Ofgem's consultation on the Enhanced Security re-opener funding submission.

This response includes:

- A. Responses to the four specific questions in Ofgem's consultation.
- B. Response to the proposed adjustments to the RIIO-T1 Enhanced Security costs for National Grid System Operator.

A. Responses to the four specific questions in Ofgem's consultation.

Responses to the four questions included within Ofgem's consultation are detailed below.

Question 1: Do you have any views on our assessment approach?

We thank Ofgem for sharing an overview of their assessment approach, their initial views on the Enhanced Security re-opener funding submission and for the time taken in developing these views. We also appreciate the recent engagement in clarifying the views and adjustments outlined within Ofgem's consultation.

We agree with Ofgem's approach of assessing how the projects included within the submission work towards achieving compliance with the Network and Information Systems (NIS) Directive.

With the appointment of consultants and specialists with prior experience on the subject matter, we consider Ofgem's assessment approach to have been appropriate. We thank Ofgem for their ongoing engagement throughout the assessment period which has allowed both parties to discuss specific areas in which Ofgem sought further clarity.

We do however disagree with a few of the initial conclusions expressed in Ofgem's consultation. We consider some of these conclusions to be based on assumptions and provide further detail on some specific points we would like Ofgem to reconsider in this response.

Question 2: Do you have any views on the outcome of our assessment?

We are pleased to see that Ofgem agree there is a clear requirement for all the projects included within our submission.

We agree with most of Ofgem's conclusions made in their cost assessment, however consider that Ofgem have not fully taken account of costs for specific aspects of our submission. We believe that there are certain assumptions made in the assessment of both our Data Centre investments and our Cyber Security investments which would benefit from further clarification. We have provided detail on these specific adjustments within our confidential response.

In a number of areas Ofgem seem to have based their conclusions on a view. Where this conflicts with the information provided within the Enhanced Security submission, we also consider that any views should be supported by evidence.

Question 3: Do you have any views on our proposal to link the funding of the cyber security programme to the delivery of an output?

We consider the proposal to link allowances with clear outputs on cyber security a sensible approach. In Ofgem's new role as joint Competent Authority under the NIS Directive, we would welcome closer engagement around the delivery of Cyber Security improvements. We therefore consider this an appropriate first step NIS Directive engagement.

We are pleased to see that Ofgem recognise the nature of the future cyber environment as being uncertain. We welcome Ofgem's proposals to consider whether any changes to our plans are appropriate. If changes to our plans are appropriate, we would expect that allowances are appropriately adjusted for delivering these projects.

We ask for further clarity of reporting requirements as soon as reasonably possible and an opportunity to share our thoughts on the information to be provided as part of this process. We would like to ensure at the earliest possibility that the relevant information required for reporting is currently being captured.

Whilst we consider the reporting approach sensible, this will add an additional layer of cost to these projects in capturing and reporting this information to Ofgem on a regular basis. For this reason, we consider Ofgem to have overestimated the reductions made on our Cyber Security proposals for resource costs as they have not accounted for this additional requirement when making these adjustments.

We also requested that Ofgem reconsider timescales for reporting to better align with the Enhanced Security plans or financial years (such as aligning with RRP). We are open to discuss and agree most appropriate reporting timescales with Ofgem.

Question 4: Do you have any views on our drafting of the proposed output?

We do not consider Ofgem to have outlined clear outputs within their consultation. We have clearly stated our view of RIIO T1 outputs within our confidential response.

B. Response to the proposed adjustments to the RIIO-T1 Enhanced Security costs for National Grid System Operator.

This section provides a response to the areas where Ofgem are proposing adjustments to allowances for the RIIO-T1 period. An overview is outlined below;

Ofgem are proposing to make an adjustment of allowances of £107.1m for Enhanced Security following assessment of £125.3m of costs outlined within our Enhanced Security submission. Within their consultation document, Ofgem outline the adjustments from the requested value as follows;

- 1. A reduction of £9.8m to Data Centre investments.*
- 2. A reduction of £8.3m relating to Cyber Security enhancements.*

1. Data Centre investments (adjustment of -£9.8m)

We welcome Ofgem's views that our Data Centres investments are appropriate in meeting our security and resilience requirements and thank them for their assessment which led to this conclusion.

Ofgem have adjusted several aspects of the costs related to our Data Centre plans. These adjustments have resulted in a total reduction of proposed allowances of £9.8m when compared to our requested allowances. Within our confidential response, we have outlined the specific adjustments which we consider were either based on assumptions which need to be clarified or may have been overestimated. We have asked that Ofgem re-consider their adjustments in four areas of costs relating to risk, licencing, resource and programme costs.

2. Cyber Security enhancements (adjustment of -£8.3m)

Ofgem have adjusted the costs for cyber security investments in two areas, these were;

- £4.7m reduction based on cross over with existing RIIO T1 allowances
- £3.6m reduction based on efficiency savings, resource, risk and project management costs

In response to the reductions made on our cyber security investments. We do not believe that there is a cross over with some of our existing RIIO T1 allowances and therefore have outlined the reasons why those projects are different to those included within our Enhanced Security re-opener submission.

We have also requested that Ofgem reconsider the reductions made against cyber security plans for efficiency savings possible on projects that have already been implemented and further questioned Ofgem's justification for reducing costs for risks on projects at early stages of development where the risk is naturally higher.

Following publication of Ofgem's consultation, it was recognised that there had been an administrative error in providing risk detail to Ofgem as part of the submission. We have highlighted this error within our response to Ofgem as well as providing the correct document which we have asked them to consider in making their final decision.

We are happy to discuss the specific detail included within our confidential response with Ofgem if required at a time of their convenience.