ofgem Making a positive difference for energy consumers

RIIO-T2: Cost assessment and Business Plan Data Templates

How we will approach some of the decisions we need to make

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1. Purpose and principles of cost assessment
2. Business Plans: purpose and principles
3. Business Plan Template Outline Proposals

- The objective of our cost assessment, given Ofgem's role to make a positive difference for energy consumers, is

to set cost allowances that are achievable by efficient operators in the sector

whilst incentivising long term cost reductions and good asset stewardship.

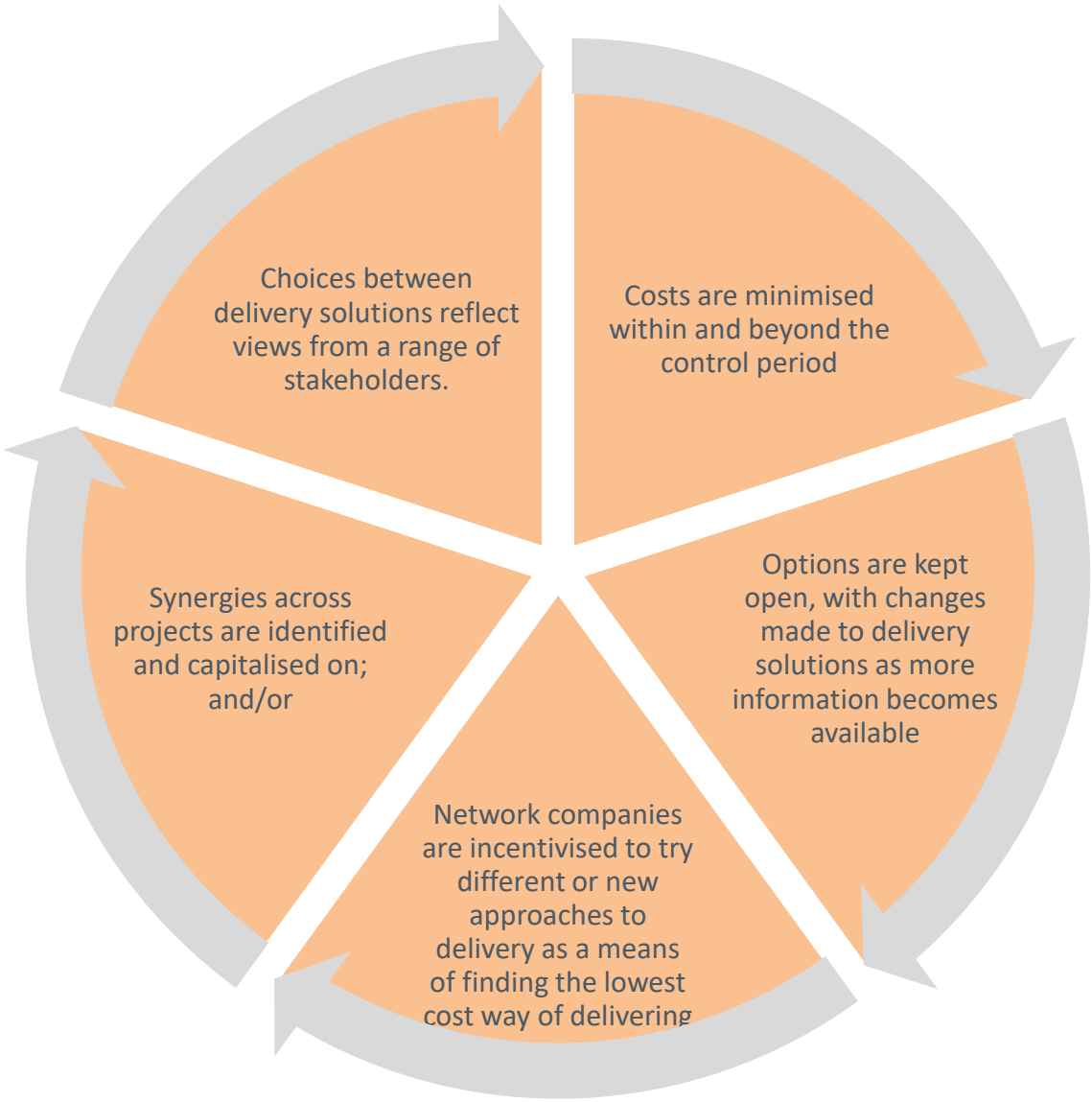
- The aim is to encourage and reward open minded, longer term, innovative thinking by network companies when deciding how best to deliver.

1. Criteria underpinning our cost assessment methodology

Robust	the methodology should be perceived to be robust by stakeholders.
Transparent	the methodology and rationale for its use should be clear, easy to understand and easy to replicate.
Promotes efficiency	the methodology should promote efficient cost management, provide value for money for delivering outputs, encourage innovation while protecting consumers from unnecessary expenditure and minimise the potential for network companies to favour one cost type over another.
Consistent	the methodology should be consistent with wider RIIO framework.
Reasonable	the methodology should be developed in a way that enables data collection and compilation to be undertaken without both Ofgem and network companies over-stretching their resources.
Adaptable	the methodology should be agile and remain fit for purpose given the likelihood of material changes as network roles evolve
Proportionate	the methodology should be developed in a way that is proportionate to the magnitude of costs involved and to avoid Ofgem and network companies over-stretching their resources.

1. View of efficiency for ex ante allowances

The best value for consumers now and in the future might be obtained where:



1. Enable ETOs to submit required data to Ofgem that:

    a. is consistent and comparable across ETOs,

    b. is comprehensive enough to enable Ofgem to assess the justification and efficiency of ETOs proposals in their entirety,

    c. enables a range of assessment techniques to be employed at both totex and category specific levels,

    d. minimises the requirement for future data requests during the assessment process.

2. Alignment with narrative submissions

3. Compatible with expectations on RIIO-T2 annual reporting

1. Move away from capex/opex distinction to totex reporting
    1. Better enable related activities to be considered together
    2. Remove uncertainty due to differences and changes in capitalisation and accounting policies
    3. Allowances set on same basis as we expect ETOs to report annually in RIIO-T2
2. Simplify the categorisation and align better with Ofgem's assessments

Reduce from seven high level categories to three:

1. Load Related Expenditure (LRE)
   - No change from current categorisation

2. Non-Load Related Expenditure (NLRE)
   - All current lead categories and majority of current non-lead categories
   - Plus direct opex

3. Indirect and Non-Operational Expenditure (INOE)
   - Non-operational capex
   - Business Support
   - Closely Associated Indirects
   - Plus some from NLR non-lead including 'weather related resilience'

2. Mapping Existing Categories: Load Related Expenditure

RIIO-T1 Cost Reporting

RIIO-T1 Cost Category	RIIO-T1 Cost Area	
1. LRE - sole-use	**1.01**	Local Enabling (Entry - Sole Use)
	1.02	Local Enabling (Exit - Sole Use)
2. LRE - Infrastructure	**2.01**	Schemes not subject to uncertainty mechanisms
	2.02	Sole-Use Infrastructure (BSUE) - SPTL only
	2.03	Shared-Use Infrastructure (BSHE) - SPTL only
	2.04	Generation Connection (6F) - NGET Only
	2.05	UM1 Sole-use Infra (GCE) - SHE Transmission Only
	2.06	UM1 Sole-use Infra A-typical (GCE)- SHE Transmission Only
	2.07	UM2 Shared-use Infra (GCE)- SHE Transmission Only
	2.08	UM2 Shared-use Infra A-typical (GCE)- SHE Transmission Only
	2.09	Sole-Use Infrastructure (VSUE) - SPTL only
	2.10	Shared-Use Infrastructure (VSHE) - SPTL only
	2.11	**Local Enabling Entry Total**
	2.12	Schemes not subject to uncertainty mechanisms
	2.13	Local Demand volume Driver (6L) - NGET only
	2.14	**Local Enabling (Exit) Total**
	2.15	Schemes not subject to uncertainty mechanisms
	2.16	Pre construction for strategic wider works projects
	2.17	Incremental Wider Works excluding TPWW(6J) - NGET only
	2.18	TPWW (6J)- NGET only
	2.19	DNO Volume Driver (6k) - NGET only
	2.20	Undergrounding provision (6k) - NGET only
	2.21	Strategic Wider Works (construction only)
	2.22	Baseline Wider Works (6I)

Proposed RIIO-T2 Cost Categories

RIIO-T2 Cost Category	T1 CA	RIIO-T2 Cost Area	
1. Load Related Expenditure	**1.01**	**1.01**	Local Enabling (Entry - Sole Use)
	1.02	**1.02**	Local Enabling (Exit - Sole Use)
	2.01	**1.03**	Schemes not subject to uncertainty mechanisms
	2.02	**1.04**	Sole-Use Infrastructure (BSUE) - SPTL only
	2.03	**1.05**	Shared-Use Infrastructure (BSHE) - SPTL only
	2.04	**1.06**	Generation Connection (6F) - NGET Only
	2.05	**1.07**	UM1 Sole-use Infra (GCE) - SHE Transmission Only
	2.06	**1.08**	UM1 Sole-use Infra A-typical (GCE)- SHE Transmission Only
	2.07	**1.09**	UM2 Shared-use Infra (GCE)- SHE Transmission Only
	2.08	**1.10**	UM2 Shared-use Infra A-typical (GCE)- SHE Transmission Only
	2.09	**1.11**	Sole-Use Infrastructure (VSUE) - SPTL only
	2.10	**1.12**	Shared-Use Infrastructure (VSHE) - SPTL only
	2.11	**1.13**	**Local Enabling Entry Total**
	2.12	**1.14**	Schemes not subject to uncertainty mechanisms
	2.13	**1.15**	Local Demand volume Driver (6L) - NGET only
	2.14	**1.16**	**Local Enabling (Exit) Total**
	2.15	**1.17**	Schemes not subject to uncertainty mechanisms
	2.16	**1.18**	Pre construction for strategic wider works projects
	2.17	**1.19**	Incremental Wider Works excluding TPWW(6J) - NGET only
	2.18	**1.20**	TPWW (6J)- NGET only
	2.19	**1.21**	DNO Volume Driver (6k) - NGET only
	2.20	**1.22**	Undergrounding provision (6k) - NGET only
	2.21	**1.23**	Strategic Wider Works (construction only)
	2.22	**1.24**	Baseline Wider Works (6I)

It may be possible to consolidate or remove some sub-categories. However, there may also be a need for some additional sub-categories and for some sub-categories a greater level of disaggregation may be required.

2. Mapping Existing Categories: Non-Load Related Expenditure

RIIO-T1 Cost Reporting

RIIO-T1 Cost Category	RIIO-T1 Cost Area	
3. Non Load	**3.01**	Circuit Breaker
	3.02	Transformer
	3.03	Reactor
	3.04	Underground Cable
	3.05	Overhead Line Conductor
	3.06	Overhead Line Fittings
	3.07	Overhead Line Tower
	3.08	Protection, control, telecoms and metering
	3.09	Substation Other
	3.10	Other TO Capex
	3.11	Weather-related resilience
	3.12	Cable tunnels
	3.13	Mitigating the visual impact of pre-existing infrastructure (Other Capex)
	3.14	Physical site security (Other Capex)
	3.15	BT21 CN (Other Capex) - SHE Transmission only
	3.16	Compensation costs for Landowners for Way Leave (LRE) - SHE Transmission only

Key	
	Moved out of Category
	Moved in to Category

Proposed RIIO-T2 Cost Categories

RIIO-T2 Cost Category	T1 CA	RIIO-T2 Cost Area	
2. Non-Load Related Expenditure	**3.01**	**2.01**	Circuit Breaker
	3.02	**2.02**	Transformer
	3.03	**2.03**	Reactor
	3.04	**2.04**	Underground Cable
	3.05	**2.05**	Overhead Line Conductor
	3.06	**2.06**	Overhead Line Fittings
	3.07	**2.07**	Overhead Line Tower
	3.08	**2.08**	Protection, control, telecoms and metering
	3.09	**2.09**	Substation Other
	3.10	**2.10**	Other TO Capex
	3.12	**2.11**	Cable tunnels
	6.13	**2.12**	Fault Repairs
	6.14	**2.13**	Planned Inspections & Maintenance
	6.15	**2.14**	Vegetation Management

It may be possible to consolidate or remove some sub-categories. However, there may also be a need for some additional sub-categories and for some sub-categories a greater level of disaggregation may be required.

2. Mapping Existing Categories: Indirect and Non-Operational Expenditure

RIIO-T1 Cost Reporting

RIIO-T1 Cost Category	RIIO-T1 Cost Area	
4. Non-operational capex	**4.01**	Non-operational capex
5. Business support	**5.01**	IT & telecoms
	5.02	Property management
	5.03	HR & non-operational training
	5.04	Finance, audit & regulation
	5.05	Insurance
	5.06	Procurement
	5.07	CEO & group management
6. Closely Associated Indirects	**6.01**	Operational IT & Telecoms
	6.02	Project Management
	6.03	Network Design & Engineering
	6.04	System mapping
	6.05	Engineering Management & Clerical Support
	6.06	Network Policy (incl. R&D)
	6.07	Health, Safety & Environment
	6.08	Operational Training
	6.09	Stores & Logistics
	6.10	Vehicles & Transport
	6.11	Market Facilitation
	6.12	Network Planning
7. Direct Opex	**6.13**	Fault Repairs
	6.14	Planned Inspections & Maintenance
	6.15	Vegetation Management
	6.16	Operational Property Management
	6.17	BT 21 CN Teleprotection
	6.18	Offshore Transmission Project

Proposed RIIO-T2 Cost Categories

RIIO-T2 Cost Category	T1 CA	RIIO-T2 Cost Area	
3. Indirect and Non-operational Expenditure	**4.01**	**3.01**	Non-operational capex
	5.01	**3.02**	IT & telecoms
	5.02	**3.03**	Property management
	5.03	**3.04**	HR & non-operational training
	5.04	**3.05**	Finance, audit & regulation
	5.05	**3.06**	Insurance
	5.06	**3.07**	Procurement
	5.07	**3.08**	CEO & group management
	6.01	**3.09**	Operational IT & Telecoms
	6.02	**3.10**	Project Management
	6.03	**3.11**	Network Design & Engineering
	6.04	**3.12**	System mapping
	6.05	**3.13**	Engineering Management & Clerical Support
	6.06	**3.14**	Network Policy (incl. R&D)
	6.07	**3.15**	Health, Safety & Environment
	6.08	**3.16**	Operational Training
	6.09	**3.17**	Stores & Logistics
	6.10	**3.18**	Vehicles & Transport
	6.11	**3.19**	Market Facilitation
	6.12	**3.20**	Network Planning
	6.16	**3.21**	Operational Property Management
	6.17	**3.22**	BT 21 CN Teleprotection
	6.18	**3.23**	Offshore Transmission Project
	3.11	**3.24**	Weather-related resilience
	3.13	**3.25**	Mitigating the visual impact of pre-existing infrastructure (Other Capex)
	3.14	**3.26**	Physical site security (Other Capex)
	3.15	**3.27**	BT21 CN (Other Capex) - SHE Transmission only
	3.16	**3.28**	Compensation costs for Landowners for Way Leave (LRE) - SHE Transmission only

Key	
	Moved out of Category
	Moved in to Category

It may be possible to consolidate or remove some sub-categories. However, there may also be a need for some additional sub-categories and for some sub-categories a greater level of disaggregation may be required.

Suite of secondary workbooks linked to a primary Totex (summary) workbook

- Single very large workbook would be slow and cumbersome for submission and for analysis
- Disaggregating workbooks:
  - allows for resubmission of individual elements without resubmission of entire BPDT
  - easier to manage multiple scenarios
  - greater flexibility

Necessary to ensure structural consistency across secondary workbooks and integrity of links to primary Totex workbook

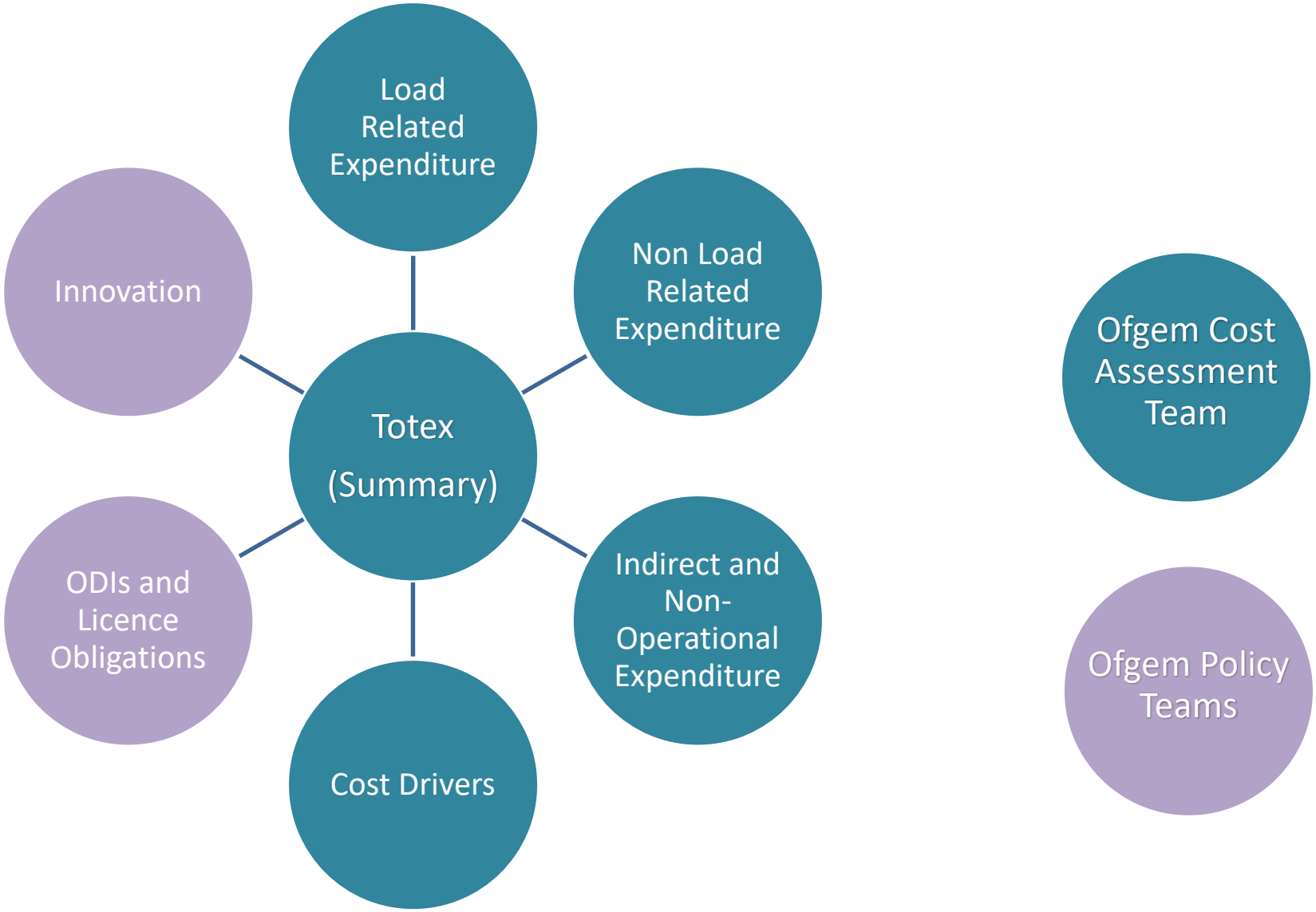
- Identify cells linked to Totex through colour coding

One way link (secondary to primary)

- Avoid secondary to secondary linking

Effective version control essential

3. BPDT Outline Workbook Structure



3. BPDT Development: Other Proposals and Considerations

Topic	Proposals
Historical data	BPDTs to contain data from start of RIIO-T1
Post RIIO-T2 data	BPDTs to contain annual data for 8 years post T2
Scenarios	Different scenarios to be submitted as separate workbooks
Look and feel and colour key conventions	To be consistent across sectors
Naming conventions	Agreed and defined naming conventions for workbooks, licensee names, category names, etc. to enable easy referencing and lin
Workbook Structure	Consistent structure across workbooks to enable easy referencing and linking
Supporting workbooks/workings	Where it will improve transparency or Ofgem's understanding then ETOs should provide additional workings as supporting linked workbooks or additional sheets within BPDTs
Alignment with narratives	All tables, figures, charts within narrative should be provided in Excel format with links to BPDTs where possible.

3. Example Content for Cost Category Workbook: Non-Load Related Expenditure

RIIO-T1 Current Worksheets

RIIO-T1 Worksheets (in accordance proposed new categorisation)
3.3_Asset_Management_Opex
4.3_NLRScheme_Expenditure
4.3.1 NLR Volume Change
4.3.2 RIIO-T2 output scheme cost deferral
4.3.3 Tower Steelwork Volumes and Expenditure
5.2_Faults_and_failures
6.15.1_NOMs_detail
6.15.2_NOMs_RP

RIIO-T2 Proposed Worksheet Structure

RIIO-T2 BPDT Worksheets	Comments
General	Need
NLR Summary	
Scheme Data	Need to consider what tables contain. Do we include cost and output data on the same sheet or on separate sheets?
Transformers	
Reactors	
Underground Cables	
Cable Tunnels	
Overhead Lines	
Towers	Including Steelwork
Protection, Control, Telecoms, Metering	Level of disaggregation to be worked out
Strategic Spares and Provisions	
Substation Land and Buildings	
Decommissioning	
Non Scheme Cost Data	
Inspection and Maintenance	
Faults and Failures	
PCD Data	
NOMs Monetised Risk and Volume Tables	
Non Lead PCDs	

1. ETOs to provide views in writing on:
    1. Overall proposals
    2. Categorisations
        1. New sub-categories required
        2. Sub-categories that can be combined
        3. Sub-categories were further disaggregation required

2. Ofgem to provide mockup sample workbooks for review

ofgem Making a positive difference for energy consumers

Our core purpose is to ensure that all consumers can get good value and service from the energy market. In support of this we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change whilst protecting consumers.

We will ensure that Ofgem will operate as an efficient organisation, driven by skilled and empowered staff, that will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experiences and the operation of energy systems and markets.

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