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10 September 2019

Consultation on "Adjustment to the Electricity Market Reform Delivery Body Revenue"

Dear Sir/Madam,

As the EMR Delivery Body, we are grateful for the opportunity to respond to Ofgem's draft proposals. We welcome Ofgem's objective to ensure that the Delivery Body is sufficiently funded to deliver the crucial EMR roles for the GB energy system. We are committed to continuing to work with Ofgem, BEIS and customers to deliver an excellent level of performance. Since the start of EMR, we have delivered substantial change and additional outputs, often at financial risk. We are conscious that our customers expect further improvements in the service they receive. The proposed allowance adjustments go some way to reflect this, however, we would urge Ofgem to reconsider some of their proposals to ensure their objective of sufficient funding is met.

We welcome that Ofgem recognise the significant level of change that the Delivery Body has delivered and that these major scope changes justify adjustments to our allowances. The level and nature of change in EMR has been greater than anyone could have foreseen when we took on the role as Delivery Body, including the following:

- **Rule change**: Significant continuous change by Government and Ofgem to the EMR rules and regulations that we have had to implement in our processes, guidance and systems;
- **Market change**: A substantial increase in the number of market participants and changes in their needs and expectations, including a significant increase in the number of smaller, less established providers that turn to the Delivery Body for guidance, rather than just the assessment of applications;
- **Additional outputs**: Including a Government request to run an additional capacity auction in 2016 as well as unexpected work relating to the suspension and restoration of the Capacity Market (CM);
- **Output variation**: Fewer Contracts for Difference (CfD) rounds to date than anticipated in 2014, but significant change in the rules and requirements from one CfD round to the next;
- **Continuing change**: Significant levels of change are expected to continue, including the ongoing restoration of the CM as well as change resulting from the Five Year Reviews of the CM and CfD regimes conducted by Ofgem and BEIS.

Under RIIO, Ofgem introduced a Totex regime and we have managed expenditure efficiently within this framework. In light of the significant changes outlined above, we have carefully considered the most effective and efficient way to deliver the major scope changes and additional requirements placed upon the Delivery Body. The large volume of continuous regulatory change has required us to make substantial changes to our EMR portal, requiring significant additional Capex over and above our allowances. The high compliance and business separation requirements in EMR have also required automated solutions (Capex) instead of manual workarounds (Opex) being adopted to ensure data is secure, accurate and not liable to manual error.

We have taken proactive steps and made these investments at risk in challenging and changing circumstances in order to enable the running of the auctions as required by Government. Alongside this, we have continuously delivered improvements and efficiencies which have enabled us to keep Opex relatively stable, whilst dealing with an increase in the number of market participants and agreements as well as increasing requirements for guidance. We are well aware of the remaining challenges and pain points that our customers are experiencing. The Delivery Body is strongly committed to making further improvements, in terms of both the provision of guidance to customers and our systems, as long as we are sufficiently funded.

We welcome that Ofgem are proposing to provide additional allowances for the historic EMR portal investment we have made to deliver regulatory change and additional requirements. However, we consider that Ofgem should allow additional expenditure which they have not included in their draft proposals. It is our considered view that this expenditure was both driven by major scope changes and made efficiently, and we provide further information to support this position as part of this submission.

We support the proposal by Ofgem and BEIS to avoid additional regulatory changes that would need to be implemented in the current EMR portal. We will continue to work with Ofgem, BEIS and the other Delivery Partners to consider how this could be achieved and how any resulting risks could be managed. For the avoidance of doubt, if we were to reduce our change capacity to zero this would mean i) that no additional change could be delivered, e.g. in response to CM restoration, and ii) there could be a mobilisation impact in terms of cost and time, should further changes become necessary.

We note that Ofgem propose that all activities in 2019/20 and 2020/21, including all system changes apart from a system refresh, should be delivered within the original allowances. At the same time, Ofgem suggest that i) we should consider increasing our operational expenditure, and ii) we would still be able to 'outperform' against our allowances. As set out in our original submission, we are already committed to Capex during 2019/20 which has been used to deliver significant system changes projects such as OF12 and the implementation of the T-3 and the re-planned T-1 auctions. These commitments, which are driven by BEIS and Ofgem requirements, leave no opportunity to outperform as suggested in the consultation document. Furthermore, should additional operational or capital spend be required, either to deliver urgent changes in the existing portal (e.g. in response to CM restoration) or to increase operational activity as suggested in the consultation, this would push us further above the proposed allowances.

Ofgem propose to allow additional funding for a major refresh of the EMR portal which is welcome. As we explained in our original submission and at the CM event in July, we are committed, with the appropriate funding in place, to delivering these improvements ahead of the prequalification process in 2021.

Finally, we welcome that Ofgem recognise the continuing uncertainty and that they are therefore proposing a further reopener in 2021. The uncertainty does not only relate to the detailed requirements regarding the system refresh, but also to other areas such as the restoration of the CM and the outcomes of the Five Year Reviews conducted by Ofgem and BEIS. Given these various areas of uncertainty, the additional reopener should not be limited to the system refresh but cover all areas of uncertainty, and this should be made explicit.

We expand on these points in our response to your questions which is appended to this letter.

We welcome the opportunity to further discuss the points raised within this response. Should you require any further information or would like to discuss any of the points in this submission, then please contact Stefan Preuss in the first instance at stefan.preuss@nationalgrideso.com .

Yours sincerely,

Dr Richard Smith CEng MBA MSc BEng FIET
Head of Commercial

Responses to your consultation questions

Question 1: Do you agree with consideration of TOTEX for the core role and exclusion from additional revenues?

We welcome that Ofgem recognise the significant amount of change and additional requirements that we have had to deliver as the EMR Delivery Body. Our role has evolved in response to changing markets and stakeholder needs and expectations. Whilst it was initially envisaged that the Delivery Body would solely administer the EMR process, this role has evolved and there is now an expectation that we guide participants through the process.

As explained in our original submission, in line with the RIIO framework set by Ofgem, we have managed spend on a Totex basis, finding the most efficient solution across Opex and Capex to deliver the outputs defined in our Business Plan and the major scope changes that have occurred since the start of EMR.

We have invested in the EMR portal to implement the substantial and continuous amount of rule changes, to respond to stakeholder feedback and changing requirements, including the significant increase in the number of participants and the changing nature and scale of cyber security threats. The large volume of system change has required significant additional Capex over and above our allowances. We have taken a proactive approach and made these investments, often at risk, in order to enable the running of the auctions. The high compliance and business separation requirements in EMR have also required automated solutions (Capex) instead of manual workarounds (Opex) being adopted to ensure data is secure, accurate and not liable to manual error.

Alongside this, we have continuously delivered improvements and efficiencies which have enabled us to keep Opex relatively stable, whilst dealing with an increase in the number of market participants and agreements. These efforts have enable us to keep the Totex increase over the funding period to a minimum, whilst delivering the large volume of change and completing all auctions to the required timescales.

We would therefore ask that Ofgem consider Opex in the context of a Totex position. We will return to this point in our response to Question 9 below.

Question 2: Do you agree with Ofgem's assessment of spend on the administration system (the 'Portal')?

We welcome that Ofgem recognise the significant level of change and major scope changes that required us to deliver much more system change than was anticipated in 2015. We also welcome Ofgem's proposal to provide additional allowances for historic EMR portal investment which we have had to deliver to implement major scope change.

However, we do not agree with some of Ofgem's assessment and consider that Ofgem should allow additional expenditure which they have not included in their draft proposals. Specifically, we request that Ofgem re-consider the following:

1) the specific circumstances and changing requirements in which we had to develop the EMR portal;
2) the allowances for parts of the initial build which had to be delayed due to regulatory change;
3) the system changes which Ofgem consider to be 'out of scope';
4) the application of an 8% 'efficiency measure'.

<u>The specific circumstances and changing requirements in which we had to develop the EMR portal</u>

As EMR was a completely new regime with its own rules and regulations, there was no 'off the shelf' solution available. The systems had to be built and tailored specifically to deliver the CM and CfD rules and regulations and enable customers to participate in these markets. Several important factors beyond the control of the Delivery Body have affected the requirements and development of the EMR portal:

a) **An ever changing rule book**: At the start of EMR, the Government, Ofgem and the Delivery Body anticipated that, following an initial set up period, there would then be a relatively small level of change annually. There was an understanding that key principles which underlie the system design would not change fundamentally. Our original Business Plan, including the system related outputs and Capex forecast, was prepared based on this shared understanding.

   However, in reality, we have had to implement a substantial amount of system change each year. The amount of change has been much greater than anyone had anticipated and has been major in scope. The Delivery Body has had to deliver against a 'moving target' and changes introduced by BEIS and Ofgem have affected the fundamental principles that underpinned the design of the EMR system. This has made the system design and development process much more complex than under the more stable rule framework that was anticipated at the start of EMR. It has also meant that the implementation of system changes is more complex and expensive than would otherwise have been the case.

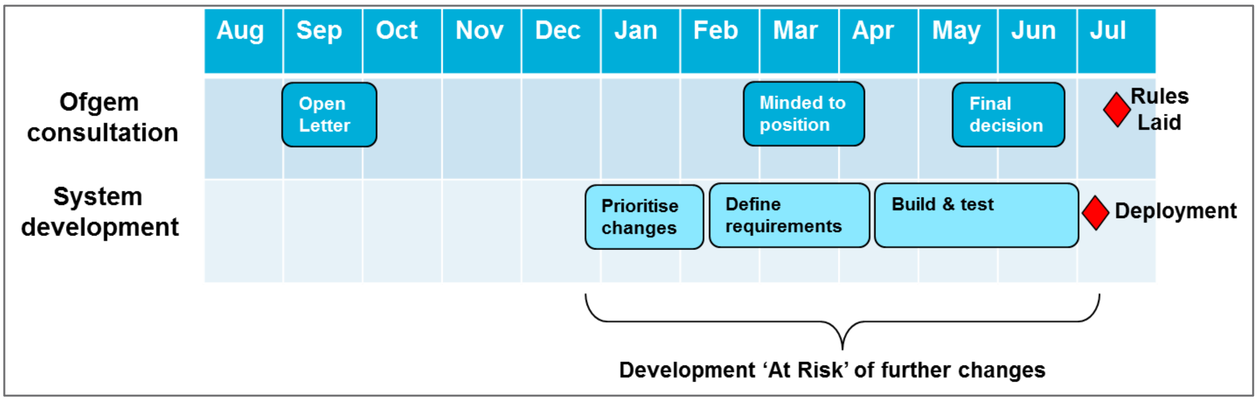
With the knowledge that is available today, it may be tempting to view some of the past system development as inefficient or expensive. But this would fail to recognise the challenges arising from the iterative and continuous nature of significant rule changes and new requirements placed upon the Delivery Body.

b) **System development at risk and within constrained rule change timescales**: As explained in our response to Ofgem's Five Year Review consultation in October 2018, the annual rule change process has not allowed sufficient time between the final rules being laid and them coming into force. Regarding system development, it is frequently the case that new system functionality is required to be 'live' within a few weeks of final rules being laid, and this has led to operational risks.

To account for this short implementation window, much of the system development work has so far had to take place alongside the consultation process and before a final outcome has been confirmed (see Figure 1 below). This rule change process introduces significant risk since expenditure can be wasted in developing functionality that subsequently is not required, needs to be amended when the rules are finalised or must be revisited at a later date for refinement. It is also difficult to accommodate large scale system changes as the limited time scales are not conducive to major development work.

We are conscious that Ofgem have proposed changes to the annual change process which would address this issue in the future. System development efforts and associated costs to date should, however, be seen in the context of the current rule change process and the inefficiencies it creates. The Delivery Body has made every effort to implement these rule changes within these challenging circumstances in order to facilitate the running of auctions.

Figure 1: Rule change process and system development 'at risk'



c) **Dependency on requirements defined by third parties**: The EMR portal includes interfaces which allow the transfer of data to our Delivery Partners […]. The regulations and rules do not prescribe the design of these interfaces. At the time we carried out the initial system build, the requirements for the settlement process and the necessary interfaces had not been specified […] as these processes would not start until later. As a result, this had to be added and modified at later stages which was more complex and onerous than had it been done as part of the initial build.

<u>The allowances for parts of the initial build which had to be delayed due to regulatory change</u>

In their draft proposals, at paragraph 2.17, Ofgem suggest that some of the initial portal build which was postponed from 2015/16 to 2016/17 had already been funded prior to March 2016 and that it will therefore not be provided again. Whilst our original Business Plan anticipated that the bulk of the system build would be delivered during 2015/16, the Delivery Body was already required to deliver significant changes in rules and additional requirements during that period. The need to implement these changes from early on meant we had to re-profile the work programme for the system build and push some of the initial build back to free up capacity to implement the rule changes during 2015/16 and early 2016/17. We would ask that Ofgem reconsider their conclusions on this point.

<u>The system changes which Ofgem consider to be 'out of scope'</u>

In response to an Ofgem request following our original submission, we provided Ofgem with a breakdown of the main driver of each EMR system change. The consultation document, at paragraph 2.18, asserts that "much of the investment in the Portal was in order to undertake general improvements or changes as would be expected under the core role of the DB for which they have been provided revenue". At paragraph 2.25, Ofgem conclude that "Through identifying Portal investment that was required as a result of policy change implemented by the DB, it was possible to justify a total of £8m spend related to 'Additional change'".

We understand that Ofgem have *included* the changes marked in our previous submission as "Rule change" and some of the changes marked as "Rule improvement", and that Ofgem have *excluded* all changes marked as "User experience", "Compliance / security" or "Process improvement". We understand that, based on the information previously provided, Ofgem consider that the latter changes should be considered as part of the 'core role' for which funding was provided through the original allowances.

As we explained at the time, we set the main driver for each change, i.e. the primary driver for the change in question, whilst recognising that, in practice, a change may be caused by multiple drivers. In response to Ofgem's analysis, we have reviewed the changes marked as "User experience", "Compliance / security" or "Process improvement". Where we consider it adds to the process, we have provided further information to demonstrate why it is our considered view that the changes in question were over and above our 'core role' as set out in our original Business Plan.

As set out in our original submission, the level of change in the EMR portal that the Delivery Body has had to deliver has been far greater than was expected at the time of the 2015 Business Plan. Many of the changes marked as "User experience", "Compliance / security" or "Process improvement" were the result of one of the following:

- **Change in circumstances**: The Delivery Body had to implement a change due to i) a larger than expected increase in the number and nature of EMR participants (as described in detail in our original submission) which substantially altered the requirements for the EMR portal (e.g. leading to a substantial increase in the volume of traffic on the system) or ii) the changing nature and scale of cyber security threats since the introduction of EMR which required greater additional protection than was anticipated at the time of the Business Plan. As explained in our original submission, the EMR system is high profile and has experienced (so far unsuccessful) cyber attacks, and the nature and scale of these threats has changed more than was expected at the time of the Business Plan.

- **New/Changing Delivery Partner requests**: As explained in our original submission, we have had to deliver system change in response to requests from our Delivery Partners […].

- **Disrupted delivery process**: As explained in our original submission, whilst at the time of the Business Plan it was assumed that the Delivery Body would be able to develop the EMR system within the context of a stable set of regulations and rules, this did not happen in practice, as rule changes and new requirements were introduced from early in the EMR process (see pages 17 onwards in our original submission). These changes disrupted the process of the initial build of the EMR system.

  The Delivery Body put in place a system that enabled it to deliver all its original obligations and ensure all CM and CfD milestones were met. However, the disruption caused by early and continuing rule changes meant that in some cases solutions had to be delivered that met the minimum requirements (which ensured that CM and CfD processes could proceed) but that required the Delivery Body to implement further changes later on. Similarly, as set out above, the nature and timeline of the annual rule change process have required the Delivery Body to develop system changes at risk (i.e. before the rules were confirmed by BEIS/Ofgem) and/or to implement changes within the very short implementation window between finalisation of rules and start of the prequalification process. Whilst the Delivery Body managed to implement the required changes, again, due to the above constraints, sometimes solutions had to be delivered that met the minimum requirements (which ensured that CM and CfD processes could proceed) but that required the Delivery Body to implement further changes later on.

The application of an 8% 'efficiency measure'

At paragraph 2.27, Ofgem state that "We assessed the efficiency of system development spend by the DB by specialist IT system developers familiar with the Portal architecture and consulted the DB on the process and time taken to deliver the changes. We found that in considering the time taken to deliver alongside the cost of each itemised change, the average system development 'day rate' is approximately 8% higher than reasonable industry standards". We do not agree with this assessment which, in our considered view, does not fully take into account the specific circumstances and changing requirements in which we had to develop the EMR portal, as described above. It is therefore inappropriate to compare EMR system development to an 'average system development' cost which is bound to lead to the wrong conclusions.

In the supporting material, we have provided further information on the selection of change requests which we understand Ofgem have used to compare system change costs. This illustrates the challenges in developing the EMR system and how the specific circumstances described above have affected the delivery of these change requests. The supporting material also includes updated costs for the changes in the July 2019 release. In May 2019 when the request to adjust our allowances was submitted, we had yet to deliver the July system release. Now that this release is complete, we are able to give an update of firm costs, rather than the forecast previously submitted. We believe this is an important point to raise, as the July 2019 release (and specifically two large changes within that release) was used by Ofgem to arrive at the 8% ‘efficiency measure’.

In addition to this, we provide further information below that demonstrates that the commercial arrangements as well as the project management and implementation arrangements we have put in place ensure efficient system development spend.

Commercial arrangements

The delivery model for EMR system delivery has been continually reviewed and updated to ensure that we can continue to develop, test, and implement the required high volume of complex change at a swift pace, whilst also ensuring value for money. National Grid has an IT framework which involves several suppliers that have been selected via competitive tender exercises in line with EU procurement rules.

The current provider, IBM, was appointed initially under National Grid’s Solution Delivery Centre (SDC) framework contract. The SDC framework was awarded following an extensive external tender event. The SDC framework rates were periodically benchmarked and the various rate cards within the SDC and related Tier 2 frameworks were used to maintain a competitive drive for continuous improvement. During the initial development phase, we drew on experts from our provider’s operations in Slovakia. This ensured access to the necessary expertise during that important stage. Upon completion of that initial development phase, the EMR application support function has been moved from Slovakia to the IBM Centre of Excellence in India. The latter location is a larger operation and is able to provide a service which better meets the needs of system maintenance. The offshore move delivers [significant] saving […] compared to the previous solution.

National Grid’s strategy has been to consolidate IT vendors to further enhance our buying power as a major player, simplify processes, and deliver clear accountability. In 2018, National Grid undertook an exhaustive, OJEU compliant, external market engagement to replace the SDC framework with a new Application Development and Application Maintenance (ADAM) framework. This is a global framework, with an aggressively negotiated set of rates and commercial terms, reflecting the large scale IT development anticipated in National Grid over the coming years. As part of this, external consultants undertook a benchmarking which gave us the assurance that we negotiated competitive rates.

ADAM delivers competitive rates and commercial terms, and EMR services have been transitioned over to the ADAM Master Services Agreement. As part of this, we have achieved a further reduction in cost, whilst also securing additional resources, additional capacity for development and enhanced requirements for security, project controls and governance. The ADAM framework also includes provisions under which we can require periodic external benchmarking.

Efficient IS project management and delivery

During the initial development of the EMR portal, we implemented system build through work packs in which the required deliverables were individually priced by IBM and prioritised by the business. These were collated into groups, and delivered in largely three main drops a year. This provided an efficient framework during the initial build period. As the requirements for system change increased, we adapted the delivery model and have implemented a more iterative development cycle, using regular sprints to deliver a set of changes prioritised by the Delivery Body.

Under this ‘capacity model’, a fixed amount of supplier resource is made available to the project. This supports effective sprint planning and our ability to baseline a target capacity for each sprint. It allows roadmap planning and prioritisation of deliverables, as we have a guaranteed capacity and plan future releases based on the forecast capacity. The capacity model also ensures we can retain the necessary skill set and knowledge of the EMR system which reduces turnovers and, in turn, the need for additional training.

The team has a mix of […] offshore and […] onshore resource. The predominantly offshore model brings significant cost savings and, having the team working in two different time zones, extends the workday (4:30 AM UK time to 5:00 PM UK time) which allows faster project completion. We use collaboration and performance management tools such as Microsoft Azure DevOps which provide real time reporting with visualized dashboards and daily work schedules to monitor the project status in real time. Finally, we have adopted an approach that is based on user stories which helps ensure change requirements are clear and solution focused.

In summary, based on our original submission and the additional information provided in this submission, we request that Ofgem reconsider their assessment of spend on the EMR portal, specifically:

1) the allowances for parts of the initial build which had to be delayed due to regulatory change;
2) the system changes which Ofgem consider to be 'out of scope'; and
3) the 8% 'efficiency measure'.

Question 3: Do you have any opinion on the level of ESO spend on the current administration system (the 'Portal')? Please explain these views.

See our response to Question 2.

Question 4: Do you feel that there are any areas of additional revenue that have not been considered?

See our response to Questions 2 and 5.

Question 5: Do you feel that there is a basis for increased spend on resource by the DB in order to maintain a high level of service to applicants and why?

In our original submission, we described the significant shift in what our customers and stakeholders expect of the Delivery Body and our systems. As the market has evolved, the rules and regulations have increased in complexity. The increased complexity and growing number of market participants have led to the Delivery Body taking a wider role than was envisaged when EMR was set up. Rather than solely administering and assessing applications, there is now an expectation that we guide and facilitate participants into the market as well as working with BEIS and Ofgem to drive the development of rules and markets. This has had substantial impacts on what we deliver and how we do it as well as on the systems that we use and how we develop them to meet evolving customer needs and expectations.

The Delivery Body is keen to ensure our resourcing and capabilities are adequate to continue to manage these changes effectively and efficiently. We are conscious of previous stakeholder feedback and current customer pain points, including during peak periods such as prequalification. We will continue to deliver the 'business as usual' outputs described in our original Business Plan, and we have identified a number of priority areas, activities and outputs that we plan to deliver in the remainder of the funding period. These include the following:

- Enhance the self-service approach to enable our customers to navigate through the EMR processes, whilst making 1-2-1 time available for more complex queries. This will be facilitated through updated and enhanced guidance and working with BEIS and Ofgem to simplify and clarify any ambiguity in rules and regulations;
- A significant refresh of the EMR portal to make it more user friendly, improve functionality and increase validation of information on input, with the prequalification process being a priority area;
- Increase the level of process automation, especially during prequalification, using innovative robotics to reduce the need for manual inputs and assessments;
- Ensure the Delivery Body team is adequately resourced and trained to further improve how we manage customer enquiries;
- Develop our customer relationship management (CRM) capabilities by introducing a new CRM system and rolling it out across the team;
- Continue to support BEIS and Ofgem in developing, testing and implementing regulatory changes, including the ongoing work to restore the CM as well as the development and implementation of their Five Year Reviews.

We note that Ofgem, at paragraph 2.14, state that "It appears that there is scope to increase spend on OPEX if it is identified that this would provide an improved service to EMR applicants". As explained in our response to Question 1 above, this should be considered against a Totex position. The rule changes required by BEIS and Ofgem for 2019/20 already mean that we will have to overspend against our combined Capex allowance for remaining two years, leaving no headroom for increased Opex if our allowances are not adjusted accordingly.

We note further that Ofgem do not propose any increase in our allowances for the remainder of the funding period, other than for a system refresh. At the same time, there are various areas of ongoing work and uncertainty that could require further operational expenditure. These include the ongoing Five Year Reviews by BEIS and Ofgem which, among other things, could require the Delivery Body to deliver the following additional outputs that are not funded under our existing allowances. This includes, for example:

- The CM Advisory Group role which may include a code administrator/secretariat, but as a minimum will require an increase in the level of impact assessment by the Delivery Body on proposed changes;
- Potential amendments to Secondary Trading rules to support a move to encourage this market. This includes a reduction of the time the Delivery Body has to validate trades, a reduction in the minimum trading capacity, a reduced time period that the Delivery Body has to approve a new entrant application and potentially maintenance of a new register.

There are other areas of uncertainty such as the ongoing suspension of the CM and the potential for additional work as part of its restoration.

The Delivery Body is ready to implement further service improvements and to deliver additional outputs arising from the above areas of uncertainty. Given the current funding position, if Ofgem are not minded to reopen Opex allowances through the current reopener, we would expect a clear commitment from Ofgem to allow the Delivery Body to seek additional Opex allowances through the 2021 reopener, if required.

Question 6: Do you agree that the priority should be achieving a step change in IT system functionality and change implemented in the current administration Portal should be minimised in order that this happens by April 2021?

As set out in our original submission and at our recent CM stakeholder event, we are committed, with the appropriate funding in place, to delivering a significant system refresh ahead of the prequalification process in 2021. We agree that, as far as possible, priority should be given to the system refresh and that change in the existing portal should be minimised. Notwithstanding, we wish to refer to the challenges and risks relating to the proposed rule change freeze in our response to Question 7 below.

We welcome that Ofgem propose to allow additional funding for the system refresh. We note that the proposed initial £2m of additional funding is at the lower end of our previous forecast. We are currently progressing discovery work for the system refresh and, with a positive funding decision by Ofgem at the end of September, we will progress this work rapidly with a view to implementing major system improvements ahead of the prequalification process in 2021. We will continue to engage Ofgem fully in the process and provide updated cost estimates as they become available.

As outlined above, there are a number of areas of ongoing work and uncertainty such as the Five Year Reviews and the CM suspension. It is our current view that we will require clarity on rules and any additional system requirements as soon as possible and at the very latest by March 2020. Any change after that date risks delaying the system refresh and/or adding cost to the project.

Question 7: Do you agree that the change implemented in the current administration Portal should be minimised to ensure value for money?

We support the proposal by Ofgem and BEIS to avoid additional regulatory changes that would need to be implemented in the current EMR portal. We will continue to work with Ofgem, BEIS and the other Delivery Partners to consider how this could be achieved and how any resulting risks could be managed. For the avoidance of doubt, if we were to reduce our change capacity to zero this would mean i) that no additional change could be delivered, e.g. in response to CM restoration, and ii) there could be a mobilisation impact in terms of cost and time, should further changes become necessary.

In light of the proposed change freeze, we have already reviewed our work programme and system change backlog for the remainder of this year. We have identified opportunities to reduce the amount of change in the current portal which would reduce our Capex forecast for 2019/20 […]. This takes account of the out turned cost of the 2019 Summer release (our May submission was based on an estimate) and updated forecasts for the remaining releases in 2019/20, including:

- Removal of risk margin associated with the summer release;
- Successful delivery of the summer release meaning no cost to remedy defects;
- A reduction in the EMR business resource being capitalised to the IT system release.

The supporting material submitted as part of this response provides further details of this.

We note that Ofgem propose that all activities in 2019/20 and 2020/21, including all system changes apart from the system refresh, should be delivered within the original allowances. As set out in our original submission, we are already committed to Capex during 2019/20 which has been used to deliver significant system changes projects such as OF12 and the implementation of the T-3 and the re-planned T-1 auctions. These commitments, which are driven by BEIS and Ofgem requirements, leave no headroom to outperform as suggested in the consultation document. Furthermore, should additional capital spend be required to deliver urgent changes in the existing portal, this would push us further above the proposed allowances.

Further to our original submission, we wish to highlight the following areas where we have already committed to implement system change or where further system change in the current portal may be required in certain circumstances:

a) **Committed system changes in 2019/20:** In our original submission, we detailed the system changes that we delivered in the July 2019 release. These amounted to ca. £xx Capex, the bulk of which was to deliver the substantial system changes required to implement OF12. In our original submission, we also outlined the backlog of system changes. In the supporting information supplied with this consultation response, we have provided an update of the two releases which we have committed to implement before the end of 2019. A release in September 2019 will implement regulatory requirements arising from the EU Emissions Directive. The release in December 2019 will implement important compliance/security patches as well as some of the interface modifications requested by the Settlement Company as a result of OF12. Altogether, these committed changes (July, September and December 2019 releases) will amount to ca. £xx Capex.

b) **Remaining change capacity during 2019/20**: In addition to the committed changes described above, we are retaining some further change capacity (ca. £xx) in the current financial year to implement a limited amount of change as a result of the CM State Aid decision, should any be required, further OF12 interface changes requested by the Settlement Company and/or further improvements ahead of the CM prequalification process in 2020.

   Regarding the OF12 interface changes, the Settlement Company has provided a high level outline of the requirements. As requested by Ofgem, we have undertaken an initial assessment of the potential system changes that could be required to implement these requests. We have included this in the supporting information submitted as part of this response. It should be noted that this is based on the high level outline provided by the Settlement Company. The detailed nature of the changes, associated costs and delivery timescales can only be confirmed once workshops with the Settlement Company have been carried out to confirm their specific requirements in more detail.

- **(Known) areas of uncertainty potentially requiring further investment in the current portal in remainder of RIIO-1 period**: In addition to potential changes as a result of the CM State Aid decision, there are other (known) areas that may require further change in the existing portal. These include the Five Year Reviews of the CM undertaken by BEIS and Ofgem as well as the ongoing clean Energy Package implementation. We are conscious of BEIS's intention "to implement any agreed solutions swiftly". The specific nature of any changes, associated costs and delivery timescales can only be confirmed once BEIS and Ofgem have finalised their proposals. We will continue to work closely with BEIS and Ofgem to consider the impact of the proposed changes and what impact these may have on the current portal, the system refresh and/or our operational activities and expenditure.

As explained above, we are conscious of Ofgem's intention to minimise spend on the current portal and we will seek to facilitate this, notwithstanding the risks described above. It should be noted that any decision on a change freeze needs to be agreed and implemented as a matter of urgency as the Delivery Body is bound to certain contractual obligations and requirements. It should also be noted that if we were to reduce our change capacity to zero this would mean i) that no additional change could be delivered, e.g. in response to CM restoration, and ii) there could be a mobilisation impact in terms of cost and time, should further changes become necessary.

Question 8: Do you agree with a future uncertainty mechanism to account for the uncertainty in developing a new IS administration system?

We welcome Ofgem's proposal to provide a further uncertainty mechanism in 2021 to account for uncertainty. This includes uncertainty around the requirements for, and costs of, the EMR system refresh. As indicated in Ofgem's consultation and highlighted in our responses above, there are further areas of uncertainty that may impact on the outputs expected of the Delivery Body in the remainder of the current funding period. It is entirely possible that there will be other events that are not currently known which may require changes to the outputs expected of the Delivery Body.

We therefore request that the further uncertainty mechanism should not be limited to the system refresh. Like the current uncertainty mechanism, the Delivery Body should be able to recover any additional efficient spend (Capex and/or Opex) that is necessary to deliver agreed outputs in the remainder of the current funding period.

Question 9: Do you agree with the level of additional revenue provision in each category given the DB's requirement to manage change and why?

Based on the evidence provided as part of our original submission and the additional information submitted in this response, it is our considered view that Ofgem should revise its proposals as follows:

Historic BAU:

- reconsider the allowances for parts of the initial build which had to be delayed due to regulatory change;
- include the system changes which Ofgem consider to be 'out of scope'; and
- reconsider the 8% 'efficiency measure'.

Future BAU:

- We note that Ofgem propose that all activities in 2019/20 and 2020/21, including all system changes apart from the system refresh, should be delivered within the original allowances. At the same time, Ofgem suggest that i) we should consider increasing our operational expenditure, and ii) we would still be able to 'outperform' against our allowances.
- As set out in our original submission, we are already committed to Capex during 2019/20 which has been used to deliver significant system changes projects such as OF12 and the implementation of the T-3 and the re-planned T-1 auctions. These commitments, which are driven by BEIS and Ofgem requirements, leave no opportunity to outperform as suggested in the consultation document.
- If we were to reduce our change capacity to zero this would mean i) that no additional change could be delivered, e.g. in response to CM restoration, and ii) there could be a mobilisation impact in terms of cost and time, should further changes become necessary.
- Furthermore, should additional operational or capital spend be required, either to deliver urgent changes in the existing portal (e.g. in response to CM restoration) or increase operational activity as suggested in the consultation, this would push us further above the proposed allowances.
- There remain various (known) areas of uncertainty and potential change which could have an impact on the current portal and/or our operational activities and expenditure.
- In view of this, significant uncertainties and risks remain that could mean delivery within the original allowances may not be possible. We would request that any outputs over and above what Ofgem have committed to fund at this stage should be included in the further uncertainty mechanism and the Delivery Body should be allowed to seek any necessary further allowance adjustments through that mechanism.

System refresh:

- We welcome that Ofgem propose to allow additional funding for the system refresh. We note that the proposed initial £2m of additional funding is at the lower end of our current forecast.
- We are currently progressing discovery work for the system refresh and, with a positive funding decision by Ofgem at the end of September, we will progress this work rapidly with a view to implementing major system improvements ahead of the prequalification process in 2021.

- We will continue to engage Ofgem fully in the process and provide updated estimates as they become available. The Delivery Body should be allowed to recover any efficient spend for the system refresh through the further uncertainty mechanism in 2021.