

RIIO-GD2 Draft Determination: Impact of COVID-19

Introduction

In March 2020, COVID-19 was declared a global pandemic, resulting in significant restrictions in social mobility and contact¹.

The restrictions created challenges for SGN in relation to:

- Social distancing, impacting contact with our customers (for example entering domestic premises) and workforce proximity (particularly amongst field staff where numbers of co-located staff needed to be limited)
- Changes to work profiling and processes to facilitate social distancing (for example focussing on non-customer facing work, or increased durations on projects requiring phasing due to customers self-isolating or shielding)
- Wider resourcing challenges should high staff absence through sickness or self-isolation occur
- Immediate requirement for equipment (for example PPE, office signage, laptops to facilitate remote working, enhanced safety equipment at field working locations to guide pedestrians and road users).

In the early stages of the pandemic, the severity of the restrictions created an immediate need for a business-wide response, for example:

- De-mobilisation of Repex teams
- Cessation of all non-essential work, such as metering (non-formula), non-essential maintenance and non-essential repairs. Connections work was limited to supporting the government's COVID response for our most vulnerable customers.
- Contingency arrangements, for example separation of critical teams (Gas Control, Call Handling) across multiple locations.

Regular reporting to Ofgem has provided visibility of our COVID-19 response strategy and, in the event of reduced/ceased activities, highlighted any potential need for regulatory easements. Where we have subsequently been able to recommence work safely and in line with government guidelines, we have done so.

From a field operations perspective, this strategy reflected our key assumption that face-to-face customer contact should be minimised, and the likelihood that access to domestic premises would be severely reduced. It also reduced those operational activities which typically involve several team members working in close proximity or took mitigation steps where the work was still essential. Critically, it created contingency arrangements to ensure that any reduction in resources due to staff absence would still be sufficient to maintain our essential emergency, repair and maintenance work².

This strategy has created a series of cost drivers relating to the pandemic, not included in our original GD2 business plan submission. These can be categorised as either within-year or ongoing:

Within Year: impacting only the financial year 2020/2021 due to the immediate impact of the pandemic. For example, increased Opex costs relating to;

- Additional costs for bringing works to a safe stop. Redacted
Ongoing checks required to ensure any remaining traffic management remained safe and intact, plus additional costs for re-starting work where appropriate.
- Additional COVID signage warning road users to either observe social distancing, or clearly guide other road users as to what is expected where they are impacted by temporary social distancing measures, plus additional traffic management to enable comfortable social distancing or to provide specific mitigation measures where maintaining the government-advised 2metres is not possible. These include the creation of frequent passing points or priority/give way measures.
- Additional costs for inspecting and upgrading services supplying critical locations.
- Additional resourcing required where work durations are extended due to reduced productivity on-site as a consequence of social distancing restrictions on operatives sharing limited workspace.
- Requirement for COVID marshalling of members of the public, and social distancing in areas of high footfall.

¹ Enacted in law through the Health Protection (Coronavirus, Restrictions) (England) Regulations 2020 and Health Protection (Coronavirus) (Restrictions) (Scotland) Regulations 2020, which both came into force on 26th March 2020.

² Combination of meeting required minimum standards (97% Emergency standard) and completing essential workloads to maintain safety standards

- Sharing of project locations to minimise impact of several companies at different times going into the same area, reducing COVID risks.
- Additional vehicle hire to maintain social distancing between staff
- The return of waiting time to our emergency service costs due to the reduction of non-formula work.
- Capex investment of additional IT equipment to facilitate remote working for office-based staff

Ongoing: Costs anticipated to impact future financial years. For example:

- Capex investment in maintenance and reinforcement
- **Redacted**

Many cost pressures have both a within-year impact and are also expected to be ongoing, for example the requirement for specific PPE³. PPE is a legal requirement but also a critical part of SGN's ongoing commitment to ensuring that our staff and customers feel safe and protected. In the initial stages of the pandemic, high demand for PPE resulted in equipment being purchased at a premium. Therefore, whilst we expect this cost driver to remain on an ongoing basis, we anticipate this will be at a lower rate than the within-year impact⁴. This is an example of where COVID-19 has created not only an unexpected cost driver, but also an unpredictable and unstable cost driver going forward.

Redacted

Redacted

Redacted

Due to the unprecedented nature of the pandemic, the above cost drivers are based on a series of assumptions around how our workloads and workforce will need to flex, based on our experience of the pandemic so far. It should be noted that in the event of a second wave, the continued advent of localised lockdowns, or changes in the COVID regulations and/or advice, these assumptions may need to be reviewed and updated. We may also re-incur within-year costs, for example if we are required to demobilise certain activities again. Our assumptions are discussed in detail, with an indication of materiality, in Appendix Two.

³ Noting that our existing PPE is designed to enhance safety around gas works (for example high-visibility clothing, gas detection equipment), while COVID-specific PPE relates to the prevention and protection from the virus (for example face masks, hand sanitiser, signage in offices and depots)

⁴ PPE is estimated at **Redacted** although we would expect this to reduce in future years.

A key risk in relation to our assumptions and anticipated cost drivers is the increased operational challenge created by winter. Our experience of COVID-19 so far is based on the summer period, where emergency and repair workloads are relatively reduced. During a normal winter period, these workloads can double, creating an enhanced focus on resource utilisation and prioritisation. Should this coincide with a national or localised lockdown, a second wave, or a change in customer comfort levels and expectations, we would need to review our cost drivers and assumptions.

Conclusion

COVID-19 creates a significant risk to financial planning due to the unexpected and unproven cost drivers which it creates. Critically, the COVID-19 response is government-driven⁵ and not within SGN's control. As such, we are bound by the advice at the time and the limitations this may place on our activities. While safety will always remain our top priority, it is likely that our best cost estimates may be subject to unforeseen influences and hence regulatory easement and close-out re-assessments may be required.

⁵ It should also be noted that the regulations and advice may differ in devolved geographies

Appendix One

COVID-19 Cost Driver Detail

Major Projects Southern and Scotland (capex)

Increased costs estimated as a **Redacted**, to continue work while remaining within COVID-19 guidance, for example:

- Up to triple the non-COVID levels of welfare provisions required
- Individual vans and trucks for travel for crews to avoid close proximity
- Additional plant to avoid shared equipment
- Risk of cost and availability of accommodation
- Restrictions on working numbers affecting programme, creating either elongated or compressed programmes
- **Redacted**

Should lockdowns continue (either localised or nationalised) there would also be the costs associated with increased site checks (to maintain security and safety), along with demobilisation and remobilisation costs.

Maintenance (capex)

Increased costs associated with general enhanced COVID provisions apply to our maintenance activities, for example:

- Individual vans and trucks for travel for crews to avoid close proximity
- Additional plant to avoid shared equipment
- Restrictions on working numbers affecting programme creating elongated programmes or compressed programmes
- **Redacted**

The impact on our maintenance costs create a wide range of risks and associated increased costs, which vary by activity. For example:

- Electrical upgrades **Redacted** relatively low risk as costs primarily relate to increased design and material costs.
- Condition Monitoring inspections **Redacted**: relatively low risk as this is typically a 2-person activity and therefore the increased welfare facilities and social distancing is easier to manage.
- Heating/filter/pig trap re-validation **Redacted**: relatively low risk as activities are largely external and above ground with small numbers of staff on site.
- Site painting **Redacted** mid-range risk as this requires multiple people on site but social distancing is generally easier to manage as there are few multi-person tasks.
- Marker post replacement **Redacted** mid-range risk as these are transient sites and typically require a 2-person operation. Transport in particularly can be challenging due to the relatively remote working locations.
- Replacement or Modification of Network Governor Installations (<7bar) **Redacted** mid-range risk as relatively small numbers of staff on site make the increased welfare and social distancing more manageable.
- Access Prevention Measures **Redacted** mid-range risk as work is above ground and external so social distancing not a significant challenge. Occasional need for specialist contractors does present some added risk.
- Below 7bar fabric upgrades **Redacted**: mid-range risk as due to the degree of multi-person tasks such as working at heights and within buildings, which creates challenges when adhering to strict social distancing measures.
- LTS Fabric upgrades **Redacted** mid-range risk as this involves several multi-person tasks, such as working at heights and within buildings, which creates challenges when adhering to social distancing.
- Condition Monitoring critical repairs **Redacted** relatively high risk due to strict social distancing being particularly challenging. For example in confined spaces, working at heights and within kiosks/building. These repairs require multiple trades to be on site at one time which creates complexity.
- Dip point remediation **Redacted** high risk as activities are primarily taking place in deep excavations and confined spaces, with a high frequency of multi-person tasks. Cost increases are particularly driven by the requirement for larger excavations to create space and the need for additional mechanical plant to avoid shared equipment.
- On Line Inspections feature investigations **Redacted** – high risk as there is typically the requirement for large scale scaffolding, used by multiple trades on site, and additional engagement with third parties such as Network Rail.

Should lockdowns continue (either localised or nationalised) there would also be the costs associated with increased site checks (to maintain security and safety) and demobilisation and remobilisation costs.

Reinforcement (capex)

Increased costs estimated at [REDACTED], to continue work while remaining within COVID-19 guidance, for example:

- Up to triple the non-COVID levels of welfare provisions required
- Individual vans and trucks for travel for crews to avoid close proximity
- Additional plant to avoid shared equipment
- Risk of cost and availability of accommodation
- Restrictions on working numbers affecting programme creating elongated programmes or compressed programmes
- [REDACTED] Redacted

Should lockdowns continue (either localised or nationalised) there would also be the costs associated with increased site checks (to maintain security and safety) and demobilisation and remobilisation costs.

Contractor Rates Southern and Scotland (repex)

Increases in rates due to:

- Unproductive time cause by social distancing, staggered meal breaks etc
- Variability in delivery outputs
- [REDACTED] Redacted

IT (opex)

Increase in service desk costs due to providing ongoing support of home working and incurring greater data bandwidth and usage charges.

PPE (opex)

Increased costs relating to the ongoing procurement of COVID-specific PPE, such as masks and visors. As part of our internal commitment to keeping staff safe, re-usable masks have also been delivered to all office-based staff currently working remotely.

Sanitisers (opex)

Hand sanitiser for field use and installation of dispensers in offices/depots, requiring ongoing top-ups and maintenance.

Appendix Two

COVID-19 Cost Driver Assumptions

Business Activity	Description of Assumption	Estimated Materiality	
		Scotland	Southern
Mainlaying – Insertion vs Open Cut (repeX)	Work package re-designed to focus on non-intrusive customer facing work	Redacted	Redacted
Live Service Transfers (repeX)	Innovation technique to remove the requirement to enter a customer's home. Services expected to be impacted by: <ul style="list-style-type: none"> - Additional materials: Redacted - Redacted increase in contractor rate - Additional amount of Part Relays required 	Redacted	Redacted
Variation Costs (repeX)	Redacted	Redacted	Redacted
	Specialist Contractor Costs		
Streetworks (repeX)	Potential increase in pedestrian zones etc to increase distancing. <ul style="list-style-type: none"> - Increased site costs e.g. PPE, Signage, Welfare, Vehicles - SGN safety controls / site compliance inspections - Signing, lighting, guarding to maintain social distancing around works - Potential requirement for screening and security - Risk of Local Authorities closing down works 	N/A	Redacted
Diameter Mix (repeX)	Amendments to mandatory/discretionary mix	N/A existing mix maintained	Mandatories as a proportion of total workload rising from Redacted
Commercial (repeX)	Contractor variations for loss of productivity caused by working restriction, possible claims for loss of length target in a Contract Year	Cannot be fully quantified	Redacted
Riser Projects (maintenance)	Possible requirement for extra Scaffold costs on mothballed Projects and additional costs due to social distancing measures	Redacted	Redacted
Unproductive Labour Time (opex)	Additional administration, including risk assessments. Additional time to account for precautions on site and staggered meal breaks. Additional welfare facilities, vehicles, plant, tooling to avoid sharing	Estimated Redacted	per team per shift