

Guidance

RIIO-2 FIOC Guidance and Submissions Requirements Document

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Contact: RIIO Team

Team: Network Price Controls

Tel: 020 7901 7000

Email: RIIO2@ofgem.gov.uk

This guidance covers the Funded Incremental Obligated Capacity Re-opener arrangements introduced as part of the RIIO-T2 gas transmission price control. The purpose of this re-opener is to assess projects associated with the release of incremental obligated capacity during the RIIO-GT2 price control (1 April 2021 to 31 March 2026).

This document is aimed at National Grid Gas plc (referred to in this document as National Grid Gas Transmission, NGGT) as the owner and operator of the Great Britain National Transmission System (NTS), and any stakeholders with an interest in the process. The document sets out the different stages and submission requirements of the re-opener. It is the responsibility of NGGT to decide what information is necessary to make a robust case for a proposed project and to provide us with all relevant information to inform our assessment.

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Context

Ofgem¹ is the Office of Gas and Electricity Markets, which regulates the electricity and gas industries in Great Britain. Our principal duty is to protect the interests of existing and future gas and electricity consumers. Consumers' interests are taken as a whole, including their interests in the reduction of greenhouse gases and in the security of the supply, and in the fulfilment of relevant statutory objectives when we are carrying out our functions as the gas and electricity regulator of Great Britain.

Regulating the network companies through price controls is one of the many ways we protect the interests of consumers. We set price controls to specify the services and level of performance that the network companies must provide for users and consumers and to set the amount of money that the network companies can recover through network charges over the length of a price control period.

In December 2020 we published our RIIO-2 Final Determinations for NGGT. This set out the key elements of the price control from 1 April 2021 to 31 March 2026. This included the replacement of the previous RIIO-1 Revenue Driver, for assessing Incremental Obligated Capacity projects, with the Funded Incremental Obligated Capacity Re-opener. These newly introduced arrangements are set out in the gas transporter licence of NGGT.

This document is intended to provide further information on the Funded Incremental Obligated Capacity Re-opener process.

¹ The terms 'Ofgem', 'the Authority', 'we' and 'us' are used interchangeably in this document.

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1. Introduction

Purpose of the document

- 1.1. This document sets out submission requirements under Part C of Special Condition 3.13 (Funded Incremental Obligated Capacity Re-Opener Price Control Deliverable) of NGGT's gas transporter licence.² Part G of that condition provides for the issuance of this document.
- 1.2. The Funded Incremental Obligated Capacity Re-Opener (the "FIOC Re-opener") allows NGGT to apply for funding required to release Incremental Obligated Entry Capacity or Incremental Obligated Exit Capacity that cannot be released by Entry Capacity Substitution or Exit Capacity Substitution.³

Who should read this document

- 1.3. This document should be read by:
 - NGGT, as the owner and operator of the NTS
 - Any stakeholders with an interest in the regulatory treatment of Incremental Obligated Entry Capacity or Incremental Obligated Exit Capacity gas transmission projects.

² References to Special Conditions in this document are to Special Conditions in NGGT's gas transporter licence.

³ Defined terms in this document are taken from NGGT's gas transporter licence unless otherwise stated.

2. Overview of the FIOC Re-opener process

Section summary

This section provides a summary of the FIOC Re-opener process. It sets out the different steps and a summary overview of the requirements for submissions made under this process.

- 2.1. NGGT is the owner and operator of the NTS. NGGT is funded to provide Entry Capacity and Exit Capacity through its price control settlement.
- 2.2. Where customers of NGGT wish to buy additional capacity above the existing levels of obligated capacity (such additional capacity is known as Incremental Obligated Entry Capacity and Incremental Obligated Exit Capacity), they will submit a Planning and Advanced Reservation of Capacity Agreement (PARCA) application to NGGT.⁴ NGGT will assess applications under this process and, if viable, will work to produce options for delivery of the additional capacity to, or from, the NTS.
- 2.3. In the event a request for additional capacity cannot be met through substitution, NGGT is able to request funding under the FIOC Re-opener by submitting a needs case submission, followed by an application for a FIOC Project Direction. If an application is approved by Ofgem, NGGT will be funded to deliver an output by the date specified, as a Price Control Deliverable.⁵
- 2.4. Ofgem will assess any applications made by NGGT under the FIOC Re-opener at both the needs case and FIOC Project Direction stages and will make a decision on whether an application should be approved. Where an application is approved by Ofgem, the funding allowance will be set via direction, given in accordance with Special Condition 3.13.

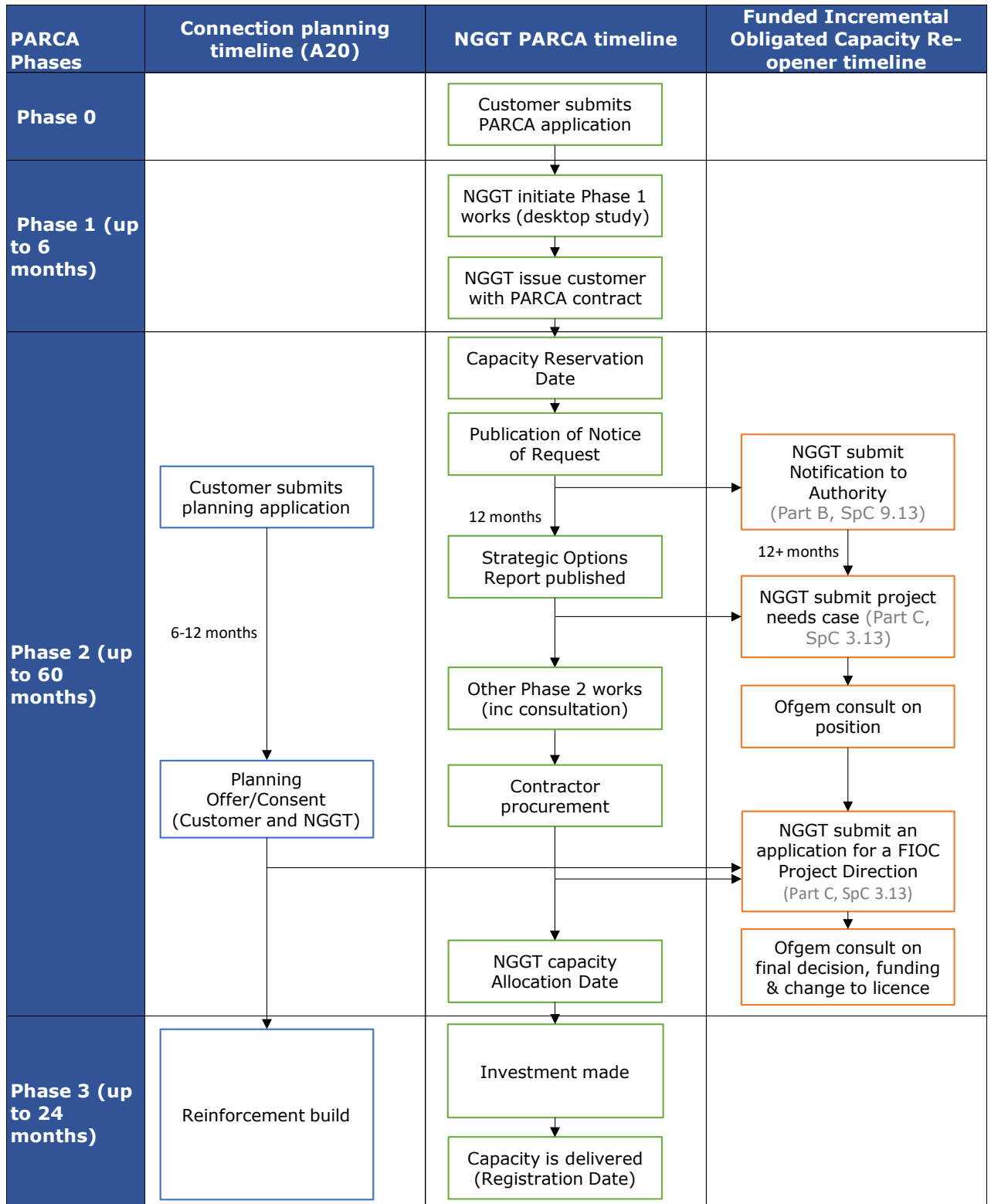
⁴ The FIOC Re-opener is separate from the PARCA process but both processes interact at stages, along with the Connection (A20) process, where relevant. See Figure 1 sets out the high-level of how these processes overlap.

⁵ The PCD framework provides for the adjustment of the level and timing of allowances in the event the output is not delivered, not delivered to the specification required, or delivered late.

Overview of the re-opener stages and interactions

- 2.5. Figure 1 sets out an overview of the process timeline for the reopener, against the PARCA and planning processes, excluding the mechanism referred to in para. 2.11. Note the figure is not to scale.

Figure 1: Overview of the FIOC Re-opener Stages and interactions



2.6. If NGGT applies for funding under the FIOC Re-opener, the first step is for NGGT to explain, in a notification to Ofgem submitted under Part B of Special Condition 9.13 (Capacity Requests, Baseline Capacity and Capacity Substitution), why the relevant

capacity falls within the scope of the FIOC Re-opener. Ofgem does not approve or reject such a notification. Receipt of the notification will initiate a process of engagement between Ofgem and NGGT.

- 2.7. No less than 12 months⁶ after NGGT has submitted its notification under Special Condition 9.13, NGGT may seek our approval of the need for the proposed output to which its application under the FIOC Re-opener relates. As explained further below, this will include NGGT submitting information on project need, and options analysis. We will assess NGGT's submission, including considering whether NGGT has complied with Special Condition 9.17 and Special Condition 9.18. We will consult prior to making our decision on the project needs case. At this stage, we expect to also consider whether the project, in whole or in part, meets the criteria for late competition⁷ and, to the extent it does, whether it should be delivered through a late competition model identified in Chapter 9 of RIIO-2 Final Determinations Core Document⁸.
- 2.8. If we approve the project needs case, and (unless we otherwise direct) once NGGT has secured any material planning consents in relation to the proposed output, NGGT will then be able to submit its application for funding and we will undertake a FIOC Project Direction assessment. This is where we will assess NGGT's proposed costs and delivery plan.
- 2.9. Following the FIOC Project Direction assessment, if the funding application is approved, Ofgem will direct under Part F of Special Condition 3.13 the relevant output, delivery date and allowance in Appendix 1 of Special Condition 3.13, creating a new Funded Incremental Obligated Capacity (FIOC) PCD for the transmission project and an adjustment to NGGT's allowed expenditure.
- 2.10. When applying for a FIOC Project Direction, we may also apply one or more of our Large Project Delivery (LPD) incentive mechanisms⁹. These mechanisms are designed to further incentivise the timely delivery of large transmission projects and to minimise

⁶ Ofgem has discretion to set another such date

⁷ Paragraph 10.92 of RIIO-2 Sector Specific Methodology Decision – Core Document

⁸ This inclusion of information on competition does not place obligations on NGGT, and does not form part of any licence obligations.

⁹ Paragraph 4.59 of RIIO-2 Final Determinations 2 - Core Document, and Chapter 2 of the ET Annex

consumer detriment in the event of late delivery or non-delivery. See Chapter 5 for more information.

2.11. We will monitor the delivery of the project. Failure by NGGT to Fully Deliver¹⁰ the specified output, may result in adjustment to the allowance, in line with Ofgem’s PCD Reporting Requirements and Methodology Document, and potentially operation of one or more LPD mechanism.

2.12. Under certain circumstances¹¹, NGGT may apply to Ofgem to adjust the funding, output and delivery date for a project, where the project expenditure has increased, or decreased significantly during construction. Ofgem can also trigger this adjustment mechanism.

2.13. NGGT is funded to release the capacity associated with an output in Appendix 1 of Special Condition 3.13 in accordance with the terms of the relevant FIOC Project Direction.

¹⁰ Where the licensee has delivered the output set out in the relevant license condition on or before the delivery date set out in the relevant licence condition.

¹¹ Part D of Special Condition 3.13

3. Needs Case Assessment

Section summary

This section sets out the timings and requirements for submissions made under the Needs Case Assessment stage of the FIOC Re-opener process.

Overview of the needs case assessment stage

- 3.1. The purpose of the needs case assessment stage of the FIOC Re-opener is for NGGT to provide Ofgem with a detailed view of the project and its associated timings. NGGT's needs case submission will set out the different options considered by it and the preferred strategic option.
- 3.2. NGGT may make a needs case submission to Ofgem once the project has developed sufficiently and the requirements in paragraph 3.3 have been met. We would expect this to be in Phase 2 of the PARCA process, after the completion of the Strategic Options Report.
- 3.3. In any event, NGGT must not make its needs case submission until after the end of the period of twelve months beginning with the submission of the relevant notification to us, unless Ofgem has directed another suitable date.¹²
- 3.4. Ofgem will assess the need for the project using the information submitted.
- 3.5. Ofgem would also expect to consider whether the project, in whole or in part, meets the criteria for late competition and, to the extent it does, whether it should be delivered through a late competition model identified in Chapter 9 of RIIO-2 Final Determinations Core Document.

¹² Under Part B, Condition 9.13 (Notification to the Authority and approval of Entry Capacity Substitution or Exit Capacity Substitution)

Needs case submission requirements

General

- 3.6. NGGT must provide the information and evidence referred to in paragraphs 3.9 to 3.18 or explain why it has not provided such information.
- 3.7. NGGT must provide us with any other relevant information necessary to make a robust case for the project, including a suitable narrative to explain information submitted.
- 3.8. NGGT's submission must be clearly stated and based on robust quantifiable evidence. The submission must not include extensive narrative as a substitute for evidence.
- 3.9. Applications must be submitted in the RIIO-GT2 Engineering Justification Paper (EJP)_format and must meet the requirements of the RIIO-GT2 EJP Guidance.
- 3.10. We acknowledge that a proportionate approach should be taken to the level of detail submitted with a needs case submission, with the level of detail appropriate increasing as the level of costs and complexity of outputs increases. With that in mind, we acknowledge that the level of a project's costs/complexity may, where appropriate, provide a justification for not providing a particular item of information referred to below.

Information referred to in paragraph 3.6 above

General information

- 3.11. Updated project summary, including identifying where any changes have been made to the information provided to Ofgem previously pursuant to the requirements in Part B of Special Condition 9.13.
- 3.12. Evidence that NGGT has applied the capacity release methodologies in the statements maintained by NGGT pursuant to Special Condition 9.18 (Methodology to determine the release of Entry Capacity and Exit Capacity volumes).

3.13. Evidence that any volumes proposed as Non-Incremental Obligated Entry Capacity or Non-Incremental Exit Capacity were determined in accordance with Special Condition 9.17 (Entry Capacity and Exit Capacity Obligations and Methodology Statements).

3.14. Information on any areas of its needs case submission NGGT expects may need to be updated in a subsequent application for a FIOC Project Direction.

Project delivery information

3.15. Latest project information, dependencies and estimated milestones, including:

- A delivery plan/schedule, including the project lifecycle, lead times, key milestones and annual monitoring.
- An assessment of the key uncertainties underlying the timing of the funding required.
- Description and explanation of factors that have driven the decision on timing.
- Key dates or deadlines for Ofgem to consider when making an assessment.

Information about technical requirements

3.16. Technical summary demonstrating the validity of the technical requirements of the project, including:

- Technical details of the existing network configuration and characteristics, and the relevant NTS Entry/Exit Point(s) affected.
- An explanation of the technical assumptions used in the submission.

Options analysis

3.17. Statement of preferred option for the project.

3.18. Evidence of the selection process for preferred option, and estimated costs, including:

- A clear description of the options considered, setting out the key technical features of each option.

- An explanation of the capital and operational cost estimates for each option.
- Where appropriate, a market-based option.
- An explanation of NGGT’s appraisal methodology, including the information and evidence NGGT has considered, and the weighting attached to the different factors.
- Consideration of potential benefits and risks of future proofing, e.g. including some anticipatory investment.
- The full detail of any Cost Benefit Analysis (CBA) carried out to assess options, in line with the RIIO-2 CBA guidance and submitted in the RIIO-2 CBA template.
- Full detailed description of the preferred option, and the rationale for selection, including the benefits and any drawbacks identified.
- Analysis and explanation of the consequences without the added investment

Information in relation to long-term consumer value

3.19. Evidence on the expected long-term value of the proposed project for consumers, including:

- An explanation of the needs case for investment using the preferred option, along with a clear statement of how the investment will take into account wider considerations, including net zero targets for emissions.
- Monetised costs and benefits for consumers across different scenarios and a breakdown of proposed costs, methodology/modelling used and any assumptions.
- The overall value to consumers expected to be delivered as a result of the preferred option. This must include a statement of the expected impact of the solution on network capability, long term costs and net economic benefits.

Information on procurement strategy

3.20. Information relating to the proposed procurement strategy and scope of works, including:¹³

- An explanation of the procurement and tender strategy for the project.

¹³ At the point of submission to Ofgem, we do not expect the full project tender of works to be complete, nor final costs agreed with the selected contractor(s).

- An overview of the risk profile of delivering the project, including how NGGT will manage these risks.
- An explanation of how lessons learned from previous projects will be applied to the project, where relevant.

Information on engagement with stakeholders

3.21. Information demonstrating that NGGT has engaged with stakeholders during the development of the project and options analysis, including:

- NGGT's stakeholder engagement plan and the range of stakeholders involved.
- An explanation of where and how stakeholders' views have informed the option analysis and selection of the preferred option.

Ofgem's Assessment

Ofgem's approach and considerations

3.22. Upon receipt of a needs case submission, we will do an initial completeness check to ensure that we have all of the information that we need for our assessment. We will also look to consider any key dates or deadlines identified by NGGT for the project.

3.23. As part of our needs case assessment, we would expect to consider a number of areas, including but not limited to:

- Whether NGGT has applied the capacity release methodology statements and the evidence of volumes proposed as non-incremental obligated capacity, in line with the respective licence conditions.
- The validity of the project delivery timing (including key dates), factors and uncertainty assumptions.
- The validity of the technical requirement for any proposed reinforcement.
- Whether NGGT has considered a reasonable range of the technically feasible options and/or operational measures to meet the network capability requirements.
- The quality of the optioneering, focusing on the justification for shortlisting options.
- Whether the cost benefit methodology is appropriate, and the sensitivity analysis is well justified.

- Whether there is a strong economic case for proceeding with the preferred solution, i.e. is it the most economical, efficient and coordinated solution relative to other options and is it in the interests of existing and future consumers overall.
- Whether the project is of long-term value to consumers.
- How the investment will take into account wider considerations, including net zero targets for emissions.
- The reasonableness of the procurement strategy and the associated risk management.
- Whether the project and options were developed with input from stakeholders.
- Aspects of the submission we consider may need updating by NGGT in any subsequent application for a FIOC Project Direction.
- Any explanations provided by NGGT, in accordance with paragraph 3.6 above, as to why information/evidence has not been submitted.

3.24. At this stage we expect to also assess whether the proposed project, in whole or in part, meets the criteria for late competition and, to the extent it does, whether it should be delivered through the late competition models identified in Chapter 9 of RIIO-2 Final Determinations Core Document. This assessment would be conducted in parallel to the needs case assessment. We would consider any relevant project-specific factors or circumstances through a project-specific assessment of the consumer impact of applying a competition model, as well as the impact of the models on NGGT's financeability.

3.25. We will welcome engagement by NGGT throughout the needs case process to ensure that we understand the rationale behind the submission. Ofgem may ask supplementary questions to raise any queries with NGGT. The purpose of this process is to ensure we can capture any information/clarifications we require on project-specific issues.

3.26. If we consider that a submission does not contain all the relevant information that we need to carry out our assessment, we may decide to send the submission back to NGGT for resubmission, providing feedback on where additional information is required.

Consultation

3.27. Following assessment of the needs case project submission, we will consult on our views.

3.28. We will consult stakeholders on the issues considered in our assessments. We will consider stakeholders' responses before finalising our views on the project.

Output of the needs case assessment

3.29. We will publish our views on the areas covered by our assessment.

3.30. In the event that Ofgem does not approve the need for the proposed project, no obligation will arise for NGGT to release the capacity associated with the application. NGGT has discretion to release the capacity as Non-Obligated Entry Capacity or Non-Obligated Exit Capacity in accordance with its capacity release methodology statements. Any pass-through of a PARCA Termination Value will be carried out in accordance with Special Condition 6.1.

4. Application for FIOC Project Direction

Section summary

This section sets out the submission requirements for an application for a FIOC Project Direction. It also provides information on Ofgem’s assessment of such applications.

Overview

- 4.1. This is the stage of the FIOC Re-opener process where NGGT submits its application for a FIOC Project Direction. A FIOC Project Direction, if made by Ofgem, will specify an output, delivery date and associated allowances in NGGT’s licence.
- 4.2. NGGT may only apply for a FIOC Project Direction once it has obtained Ofgem’s approval of the needs case for its proposed project and (unless Ofgem otherwise directs) once it has secured any material planning consents.
- 4.3. NGGT may apply to Ofgem once the project has developed sufficiently and there is the necessary detail to inform our assessment. It is unlikely that an application for a FIOC Project Direction submitted before the following circumstances prevail will provide us with all of the information that we need for our assessment:
 - NGGT has confidence in its cost estimates;
 - NGGT has received its final procurement offers from external suppliers¹⁴; and
 - NGGT can provide clear evidence on subsequent negotiations with external suppliers leading to signing of contracts.
- 4.4. In considering NGGT’s application, we will look at the preferred option in greater depth with a view to potentially setting a new output and setting the efficient cost allowances that can be recovered from consumers for delivery of the project within Appendix 2 of Special Condition 3.13. We will assess the information submitted by NGGT, including any information updated since its needs case submission, and consider whether the proposed project represents value for money for present and future consumers. We will

¹⁴ This is not an implication or requirement that contracts should have been signed at this stage, rather that negotiations have reached final stages.

consider NGGT’s readiness to proceed with delivery and the efficiency of the total forecast costs of construction and other elements, including risk contingencies.

- 4.5. In considering the efficiency of the proposal we will use a number of approaches, including benchmarking costs, where comparable data is available. In other areas, our assessment may, for example, evaluate NGGT’s procurement strategy and the extent to which this is likely to lead to an appropriate market-tested outcome.

Project direction submission requirements

General

- 4.6. As a minimum, NGGT is required to provide the information and evidence referred to in paras. 4.11 to 4.45 or explain why it has not provided such information. Prior to its application NGGT must engage with us, to outline the materiality of the changes to the project need, cost and supporting evidence in comparison to the Need Case Submission approved for the relevant project earlier in the FIOC process.
- 4.7. It is the responsibility of NGGT to decide what information is necessary to make a robust case for a proposed project and to provide us with all relevant information to inform our assessment including supplementary supporting evidence.
- 4.8. Applications should be clearly stated and based on robust quantifiable evidence.
- 4.9. Evidence supplied must be accompanied with a suitable narrative, explaining the information and evidence presented. We are not seeking extensive narrative as a substitute for evidence. We expect the submission to be well-structured, evidenced and justified to provide a robust case for the costs, and their drivers, to be funded.
- 4.10. Applications must be submitted in the RIIO-GT2 EJP format and must meet the requirements of the RIIO-GT2 EJP Guidance.
- 4.11. Cost information must be submitted in a navigable format.

Information referred to in paragraph 4.6 above

Cost information

4.12. A breakdown of all costs, cost disaggregation for asset types and cost schedules associated with the project.

4.13. Information on any costs related to incurred spend (NGGT will need to clearly highlight this and demonstrate that the spend is efficient as with all other costs).

4.14. Information on where any project revenues will be received outside of RIIO-GT2 price control mechanisms, and on what basis.

4.15. Cost assessment information:

- on the basis of 2018/19 prices
- in Excel format with all data tables, etc. clearly labelled and set out in a logical manner, including, where appropriate, instructions on the operation of workbook functionality
- in a sufficient level of detail to clearly demonstrate how overall values were derived and in a way that can be easily replicated, including the use of transparent formulae
- in a way that is easily comparable with other benchmarks, where applicable, or other data provided by NGGT to Ofgem
- with all relevant assumptions and sources of data used provided and clearly justified
- with key cost drivers explicitly identified and justified

4.16. Details of the calculations and assumptions that have been used (including relevant units and time profiles), with any source data from contractors in original format.

4.17. Evidence that the costs are efficient, e.g. through cost benchmarking, market testing, or competitive tendering.

4.18. A description of the cost methodology (e.g. estimates, market testing, benchmarking) and a comparison, where possible, to historic costs in carrying out similar projects.

4.19. An explanation of which cost components have been acquired through a competitive tendering exercise.

4.20. A clear indication of the maturity of each cost, in accordance with our classification and the cost estimate accuracy noted (+/-%), and accompanied by the relevant supporting documentation, set out in Table 1:

Table 1: Details of the project cost types

	Classification	Description	Supporting documentation required
1	Fixed	The cost has been incurred, is not subject to change and has supporting documentation matching the amount.	Contract/bill with supporting documentation of payment made. Fully auditable if needed.
2	Agreed, but re-measurable	The cost has been agreed or estimated but is subject to change according to a clear and agreed variation process. Changes only driven by unforeseeable circumstances.	Contract/bill with supporting documentation of payment made/to be made. Fully auditable if needed.
3	Agreed, but will be re-measured based on known future information received	The cost has been agreed or estimated but will be subject to change due to clarifying the scope of works or due to additional surveys and assessments being undertaken. As above, changes should follow a clear variation process.	Contract/bill with supporting documentation of payment made/to be made. Rates auditable, volumes subject to change based on quantifiable and foreseeable factors.
4	Estimated	Cost estimated on the basis of assessments and actual surveys and using experience and examples from other projects.	Spreadsheet with the calculations (methodology), assumptions, variables and evidence base, with explanations. List of any surveys done as well as documentation of the surveys.
5	Early estimate	Costs estimated through modelling cost ranges from different projects and past experience.	Spreadsheet with the calculations (methodology), assumptions, variables and evidence base, with explanations List of any surveys to be performed to increase the confidence of the cost estimates.

Technical information

- 4.21. A description and details of the technical scope, construction works, and project route.
- 4.22. Details of any changes in design since earlier Need Case submission approved for the project earlier in the FIOC process, with explanations and associated evidence as appropriate.

4.23. Details and justification of any technical designs (e.g. compressor station layout) and construction techniques to be used in the project (additional detail if design and/or construction activity is technically challenging, novel, or a cause for divergences in cost relative to industry benchmarks).

4.24. Details of any operational capability that is included in the technical proposal and justification for its inclusion.

Information on procurement and contracts

4.25. Details of the procurement strategy followed, including timetable and selection process.

4.26. Details of contract selection process, including how many bids were received on what terms and prices, and the process that was followed and justification applied for selecting a preferred bidder.

4.27. Project specifications (what was tendered).

4.28. Copies of the original Invitation To Tender (ITT) issued (or from subsequent tender rounds).

4.29. Outline of any relevant award criteria or negotiations in the selection process.

4.30. Justification for the chosen contractor in the form of a standardised and quantified comparison (with clear estimated value ranges for “difficult to quantify” selection criteria).

4.31. Any variation orders since signing major contracts.

4.32. Copies of signed contracts for all major construction sub-projects.

4.33. Details of the awarded contracts and a timetable for contracts which are to be awarded in the future.

4.34. Information on whether contracts are procured on a joint or individual basis between NGGT and any associated developers.

Delivery strategy and risk management information

- 4.35. An explanation and a summary of any contingencies and other factors included in the cost of individual items.
- 4.36. A description of the delivery model and a detailed delivery plan/schedule with key dates and critical paths clearly identified, including any key dates or deadlines for Ofgem to consider when making an assessment.
- 4.37. Evidence of readiness to proceed, e.g. details of delivery team structure, roles and responsibilities.
- 4.38. Project management details, including hours worked/to be worked and rates used.
- 4.39. Details of previous experience in managing similar projects and how learning from previous projects (if applicable) will inform proposal.
- 4.40. The delivery risk profile of the proposed project, and an assessment of the key risks, and uncertain costs.
- 4.41. The risk mitigation strategy and risk sharing arrangements, including what costs and risks have been included in supplier contracts, and why this represents an efficient level (all incentives in the contract to encourage the supplier to deliver on time and to budget highlighted).
- 4.42. Details on the level of contingency risk that is included in the proposed costs and justification for why this is an appropriate level given other risk sharing mechanisms, such as the Totex Incentive Mechanism and the Cost and Output Adjusting Event provisions that are part of the FIOC Re-opener process.
- 4.43. A summary of the insurance strategy and any signed or near-signed contracts (including what factors are insured against).
- 4.44. Information on NGGT's policies (and project policy, where different) for managing:
- risks,
 - hedging and foreign exchange,
 - cost overruns or delays.

- 4.45. An up-to-date risk register (including the elements in Table 2 below along with details of how the risk register has been derived and the process for updating it (including audit trail)).

Table 2: Risk register codes and ID

ID	Unique risk code
Project area	Which part of the project the risk relates to (example: weather downtime – subsea cable; ground conditions – underground cable)
Description of risk	A detailed description and rationale behind the risk, including the source of the risk.
Action	What actions have/will be taken towards the risk and how will the risk be monitored
Mitigations	What actions will/have been taken to mitigate the risk, with associated cost (estimates)
Fall-back action	Action that can be taken to fully mitigate the risk and negate its effects
Fall-back action cost	The cost of “fall-back action”
Risk identification date	Date when the risk was identified
Risk owner	Party best placed to control the risk (developer, contractor, etc.)
Risk owner rationale	Rationale why the party owning the risk has been identified as such
Risk date	Date when the risk is due to materialise or expire
Minimum cost	Minimum cost of the risk, after the mitigation actions
Minimum cost method	Calculations showing how the minimum cost has been derived together with the input value sources and rationale.
Most likely cost	Most likely cost of the risk, after the mitigation actions
Most likely cost method	Calculations showing how the most likely cost has been derived together with the input value sources and rationale.
Maximum cost	Maximum cost of the risk, after the mitigation actions
Maximum cost method	Calculations showing how the maximum cost has been derived together with the input value sources and rationale.
Probability of the risk occurring	Probability of the risk occurring
Probability of the risk occurring method	Calculations showing how the probability has been derived together with the input value sources and rationale. Values must be shown as P50.
Reference	Reference to the document/hyperlink to source of supporting documentation for calculating the min, best, max and probability values.

Updated information on need case

4.46. Updated information on need case:

- any missing or amended information relating to the requirements set out in Chapter 3.
- an explanation of the key drivers of the 'need' for the project and any material changes since the needs case submission.
- Details of the technical design of the project and any material changes to that proposed at the needs case submission.
- whether the results of the original CBA submitted in the needs case submission is still valid, and whether NGGT considers the solution proposed in its needs case submission remains the optimal solution.

Ofgem's Assessment

4.47. Upon receipt of a submission, we will do an initial completeness check, to ensure that we have all of the information that we need for our assessment. We will also look to consider any key dates or deadlines identified by NGGT for the project.

4.48. As part of our assessment, we would expect to consider a number of areas, including but not limited to:

- Whether there is sufficient detail on the technical design to demonstrate that the costs are efficient and that any optional capabilities included in the proposal represent long-term value for money.
- The robustness of the TO's process for procurement and selection, and whether this process had been efficiently applied and could be expected to lead to an efficient market outcome.
- The efficiency of the proposed costs, taking into account the conclusions on the above and any additional detailed cost assessment including benchmarking of specific elements where comparable data is available.
- The evaluation of risks, and the appropriateness of the proposed risk management strategy including the allocation of risks and the associated costs.
- The appropriateness of the construction programme and progress made towards being ready to proceed in the proposed timescales.
- Whether the need for the project remains valid, taking into account any additional evidence or information provided, following the needs case submission in Chapter 3. NGGT should expect that we will revisit areas of our needs case assessment.

The extent to which we assess those areas may vary depending on the extent to which the project has changed since the needs case submission.

- The validity of any justification for why any required information was not provided.

4.49. The benchmarking exercise consists of comparing the submitted costs with those of comparable projects, ensuring that we take into consideration aspects such as the technical characteristics of the project. This enables us to identify areas of the developer's submission where costs are higher than anticipated. The costs are disaggregated to enable us to analyse costs on an asset level.

4.50. The main purpose of our benchmarking is to guide our assessment, rather than as an absolute determinant of allowable costs. Where this highlights specific costs as a concern, further analysis is conducted to determine whether these costs would be, or were, incurred in an economic and efficient manner. We will give NGGT the opportunity to explain why any costs may differ from industry averages derived from comparable projects. In the absence of appropriate evidence to justify these differences, we may use benchmarking data to inform our view of economic and efficient costs.

4.51. In addition to the benchmarking of the project's assets, we also conduct further analysis to compare other aspects of the developer's submission to our datasets of historical projects. We will undertake high-level comparisons of aspects such as resource costs and risk budgets. We will also undertake comparisons of more granular costs, and discuss any concerns or issues with the developer.

4.52. The updated project need information will be assessed taking into account the level of detail and evidence provided in the need case submission (Chapter 3), and the extent to which the project need has changed. Based on the information provided, we will consider whether the proposed project represents value for money for present and future consumers.

4.53. Our assessment will also consider whether any of our LPD mechanisms should be implemented on the project. We would expect that our considerations when assessing this will include:

- The consumer benefits that NGGT has identified could be achieved if this project is delivered on time (and hence the potential for consumer detriment if delivered late)
- Cashflow and financeability of NGGT

- The length of the construction period, and key milestones within that period which will be critical to ensuring timely delivery.

4.54. We will welcome engagement by NGGT throughout the assessment process of the application for a FIOC Project Direction, to ensure that we understand the rationale behind the submitted costs, as well as the project's scheduled activities. This also provides transparency to the TO and ensures that they are aware of our reasoning if, and when, we make any adjustments to their submitted costs. Where there are aspects of the submission that need clarifying, Ofgem may ask supplementary questions to raise any queries with NGGT. The purpose of this process is to allow Ofgem to capture any information/clarifications we require on project-specific issues. If we consider that a submission does not contain all the relevant information that we need to carry out our assessment, we may decide to send the submission back to NGGT for resubmission, providing feedback on where additional information is required.

Consultation and Output of the Assessment for a FIOC Project Direction

4.55. We will consult stakeholders on the issues considered in our assessments, as well as a final view of the project. We will consult for a minimum of 4 weeks. We will consider stakeholders' responses before finalising our views on the project.

4.56. If we decide to issue a FIOC Project Direction,¹⁵ any new FIOC output(s), delivery date(s), associated allowance(s) and any applicable LPD mechanisms will be specified in Special Condition 3.13 in accordance with the provisions of that condition and our policy outlined in Final Determinations¹⁶.

4.57. In the event of a project being rejected by Ofgem, no obligation will arise for NGGT to release the capacity associated with the application. NGGT will have discretion to release the capacity as Non-Obligated Entry Capacity or Non-Obligated Exit Capacity in accordance with its capacity release methodology statements. Any pass-through of a PARCA Termination Value will be carried out in accordance with Special Condition 6.1.

¹⁵ In accordance with Special Condition 3.13 (Part F)

¹⁶ Paragraph 4.62 of RIIO-2 Final Determinations 2 - Core Document

5. Delivery and adjustment to outputs, delivery dates or allowances

Section summary

This section sets information about the delivery, and adjustment to project outputs, delivery dates or allowances.

Reporting

- 5.1. NGGT is required to adhere to the PCD Reporting Requirements and Methodology Document for its responsibility for reporting on outputs under this condition.

Cost and Output Adjusting Event

- 5.2. Under certain circumstances, NGGT may apply to Ofgem to amend the FIOC Output, delivery date or allowance, where project expenditure has increased, or decreased significantly during construction. The provisions for a Cost and Output Adjusting Event (COAE) are set out in Part D of Special Condition 3.13.
- 5.3. In order for NGGT to trigger an adjustment, the eligibility criteria specified in Part D of Special Condition 3.13 must be met and the application must be made within the timescales defined in the condition. An application must include the licence specified information and supporting evidence.
- 5.4. Ofgem may also amend a project FIOC Output, delivery date or allowance, where it considers there has been a Cost and Output Adjusting Event. If Ofgem decides to do this, it will contact NGGT to, for example, request supporting information and provide detail of the changes.

Large Project Delivery Mechanisms

- 5.5. We may apply the LPD framework to large (£100m+) NGGT projects in order to incentivise timely delivery, and consequently minimise the detriment of late project delivery on consumers.
- 5.6. The framework consists of three mechanisms, of which one or more could be applied to a project.

5.7. We would consider and make a decision on which mechanism to apply on a project-by-project basis by giving consideration to, amongst other things, the likely detriment that delayed delivery would cause for consumers and the financial impact of the mechanisms on NGGT. The three mechanisms are as follows:

- *Re-profiling of allowances* – In the event of delay, we re-profile the allowances provided to NGGT in its licence to reflect actual expenditure, to avoid the network company benefitting from delayed expenditure.
- *Milestone-based approach* – we would set project allowances based on the delivery of specific and pre-set milestones – the allowances would only be granted following confirmation that a milestone had been delivered (this mechanism would be used instead of re-profiling).
- *Project Delay Charge* - this mechanism could be applied in addition to either of the two mutually exclusive mechanisms listed above, where we expect that there could be a particularly large consumer detriment caused by late delivery. For each day that a project is delivered late, network companies would pay a pre-set day-rate charge to compensate GB consumers for the late delivery. We will consult on the level of the Project Delay Charge no later than the Project Direction stage.