

Guidance

Draft: RIIO-2 Re-opener Guidance and Application Requirements Document

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This document is directed at gas and electricity transmission network companies, gas distribution network companies and their stakeholders. It provides information to be included in companies' re-opener applications during RIIO-2, and requirements network companies must undertake in relation to its re-opener applications. This document also provides information on the re-opener application process.

We are consulting on this first draft of the RIIO-2 Re-opener Guidance and Application Requirements Document, to gather views and feedback. We will consider views and continue to engage with stakeholders. We will formally consult on this Document in December 2020, with the intention for it to come into effect at the start of RIIO-2.

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1. Introduction

Purpose of this document

- 1.1 Uncertainty mechanisms, such as re-openers, allow Ofgem to adjust a network company's allowances (either up or down) in response to changing developments during the price control period. Re-openers can apply to all sectors (i.e. cross sector), or to all companies within a sector (i.e. sector specific). In contrast, bespoke re-openers are for individual companies to manage uncertainties that it faces and are likely to be regional or company-specific in nature.
- 1.2 The purpose of this document is to provide network companies with guidance as to what is required of them when submitting a re-opener application. The purpose of these requirements is to ensure that re-opener applications are in a format and to a standard that will allow us to make a timely and informed decision on the application.
- 1.3 The Re-opener Guidance and Application Requirements Document licence condition that we have proposed as part our informal licence consultation¹ requires that network companies complete their re-opener applications in accordance with this guidance document. This is in addition to the requirements set out in the individual re-opener licence conditions.
- 1.4 Failure to prepare an application in accordance with any of these requirements may result in rejection of the application. Companies must ensure that their application complies with this guidance and any other licence requirements prior to submission.
- 1.5 This document sets out:
 - requirements to publish the re-opener application;
 - when it is appropriate to make redactions in published re-opener applications;
 - requirements to ensure senior leadership assurance of the application; and,
 - the content and level of detail required in a re-opener application.
- 1.6 The guidance includes both general requirements that apply to all re-opener applications and specific requirements for individual re-opener applications. As

¹ Special Condition 9.4 in the GD, GT and ET Special Conditions.

specifically provided for in the Re-opener Guidance and Application Requirements Document licence condition this guidance maybe added to or modified by the Authority following the consultation process set out in the licence condition.

- 1.7 In addition there is also information provided on the process we intend to follow when assessing re-opener applications.
- 1.8 Table 1 below sets out all the re-opener mechanisms that have been proposed as part of the RIIO-2 regulatory framework. Where re-opener specific guidance is not included in this document, it is either, not needed, not yet available or is available in a separate document.

Table 1: Complete list of relevant re-openers

List of Cross Sector Re-Openers (all network companies)	
Coordinated Adjustment Mechanism	
Cyber Resilience OT	Appendix 1
Cyber Resilience IT	Appendix 1
Non-operational IT and Telecoms Capex	Appendix 2
Physical Security (PSUP)	
Net Zero	
Pensions (pension scheme established deficits)	
Tax Review	

List of Gas Transmission Sector Re-Openers (NGGT)	
Incremental capacity	
Quarry and Loss	
Pipeline diversions	
Bacton terminal site redevelopment	
King's Lynn subsidence	
Asset health – non-lead assets	
Compressors	

List of Electricity Transmission Sector Re-Openers (NGET SHET SPT)	
Large Onshore Transmission Projects (LOTI)	
Pre-Construction Funding (PCF)	
Medium Sized Investment Projects (MSIP)	
Visual amenity in designated areas provision	

List of Gas Distribution Re-Openers (Cadent SGN NGN WWU)	
Repex – HSE policy changes	
Repex - Tier 1 iron stubs	
Diversions	
Multi occupancy buildings (MOB)	
Heat policy	
New large load	
Smart meter rollout costs	
Specified streetworks	
Fuel Poor Network Extension Scheme (FPNES)	

List of Bespoke Re-Openers	
Subsea cable repairs (SHET)	
Uncertain non-load projects (SPT)	
London medium pressure (Cadent)	

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2. Assurance and publication requirements, guidance on style and structure of applications

Assurance requirements

- 2.1 Companies must provide Ofgem with high-quality information in their re-opener applications. To this end, a re-opener application must be accurate, unambiguous, complete, and concise.
- 2.2 Similar to our letter to the CEOs of network companies on 4 June 2019², we require that all re-opener applications must be accompanied by written confirmation of acknowledgement and understanding from a suitable senior person within the company that the application has been prepared and submitted in line with the below points:
- the licensee's re-opener application will be accurate, financeable, robust and represents good value for money for consumers;
 - there are accuracy and quality assurance processes in place to ensure the licensee provides high-quality information to enable Ofgem to make decisions which are in the interests of existing and future consumers; and
 - the re-opener application has been overseen and accepted by the Board, and that company boards are responsible for the application submitted.
- 2.3 A point of contact must be provided for each re-opener application, including name, position, email, and phone number.

Publication and redaction requirements

- 2.4 Within five working days of submitting a re-opener application to Ofgem, the network company must publish its complete application in a prominent place on the company website, in such a manner that relevant stakeholders can easily locate the application.

² <https://www.ofgem.gov.uk/publications-and-updates/companies-provide-assurance-ahead-riio2-business-plan-submission-deadline>

2.5 Subject to paragraph 2.6 a licensee must publish its re-opener application in its entirety making only necessary redactions. Where redactions are made, we expect companies to publish an explanation for the redaction. We recognise that redactions may be appropriate for reasons including:

- Confidentiality;
- Commercial sensitivity; and,
- Security.

2.6 Certain applications however, for instance those relating to cyber resilience and physical security, should not be published at all due to risks to national security and no explanation of the lack of publication needs to be published.

Guidance on application style and structure

2.7 A re-opener application must be concise with the emphasis on keeping the core application narrative as short as possible, while presenting proportionate evidence and justification for the proposed expenditure and outputs. For specific re-opener mechanisms we may place a limit on the length of the core application narrative.

2.8 We will take a proportionate approach in assessing the level of detail we expect in applications, with our expectations broadly increasing as the level of additional allowances being sought increases as well as the complexity of outputs being measured. We seek concise clearly stated applications based on objective quantifiable evidence. We are not seeking extensive narrative as a substitute for evidence.

2.9 The core application narrative should contain all the relevant information necessary for our assessment of the application. Background detail and technical information should be set out in clearly referenced annexes. With hyperlinks to these included in the core application narrative. Where the annex is a data table or spreadsheet the data presented should be clearly labelled and any figures quoted in the core application narrative should be specifically identified.

2.10 An application must be clearly presented and easy to read (e.g. avoiding small font sizes or the use of company specific terminology) with a glossary of terms provided.

- 2.11 Though we do not prescribe a particular structure that applications must follow, it is important to ensure that Ofgem can easily identify material contained in the applications that will be relevant to our assessment.
- 2.12 At a minimum, the application must cover each of the specified requirements set out in the both the relevant re-opener licence condition³ and the Re-opener Guidance and Application Requirements Document condition⁴, as well as the requirements set out in this guidance document. Each application must include a table that maps out how the application meets each of these requirements.

Gas Distribution sector

- 2.13 In the Gas Distribution sector, where a company may hold separate licences for different network areas or one licence for several distribution networks, a single application covering all the separate network areas is required, unless otherwise specified. However, the application must include sufficient detail to permit adjustment of the relevant terms in each of the licences held by the company.

³ Contained in chapter 3 of the GD, GT and ET Special Conditions.

⁴ Special Condition 9.4 in the GD, GT and ET Special Conditions.

3. Content of re-opener applications

3.1 In this chapter we provide guidance as to how the key components of an application should be structured and presented, what information they should contain and the standards they should meet. More detailed guidance on specific re-opener mechanism application requirement is available in the annexes to this document.

Needs case and preferred option

3.2 Where a needs case is required as part of the application it should be structured as follows:

Alignment with overall business strategy and commitments

3.3 The application must include a clear statement of how the proposed expenditure aligns with their future business strategy including consideration of how it relates to their RIIO-2 business plan and, if relevant, RIIO-3 business plan.

Demonstration of needs case / problem statement

3.4 The application must include a clear statement as to the need for the proposed expenditure or the problem the network company is trying to address in the context of its significance to consumers and network assets. The affected consumers / assets should be identified and the associated risk quantified.

Consideration of options and methodology for selection of preferred option

3.5 The application must include a clear description of the options considered and the selection process to reach the preferred option. The will include:

- a clear description of the various options considered, setting out the key features of each option;
- a 'do nothing' option to act as a counterfactual to demonstrate the financial impact of no additional investment or program expenditure taking place;
- an option to delay capital expenditure recognising the option value of such delay;
- where appropriate, a market based option (for example the use of interruption as an alternative to network reinforcement);

- a clear statement of the criteria used to assess the various options;
- a brief description of either the internal or existing industry selection process by which options were selected, in the case of the former relevant documents should be included;
- where appropriate a sensitivity analysis using relevant statistical analysis;
- the full detail of any Cost Benefit Analysis carried out to assess options; and
- a justification for the proposed timing of additional expenditure.

The preferred option

3.6 The application must include a detailed description of the preferred option. This will include but is not limited to;

- a detailed description of the key features of the preferred option including how it will address the issues set out in the Demonstration of needs case / problem statement;
- a full description of the scenario on which the preferred option is predicated;
- a statement of the key benefits of the preferred option along with any drawbacks identified;
- a register of the various assets or programs that will be impacted by implementation of the preferred option.

3.7 The application must include evidence of the technical feasibility of the preferred option, using technical annexes as appropriate.

3.8 The application must include a clear statement of the benefits to consumers, both quantitative and qualitative, of the preferred option.

3.9 The application must include a project delivery and monitoring plan for the preferred option. This will include but is not limited to:

- a project delivery programmes including dates and key milestones;
- a consideration of whether the network company has access to sufficient resources to ensure timely delivery;
- a description of mitigation measures that can be taken to address potential deviation for the project delivery plan; and
- a description of reporting mechanisms to monitor delivery and measure outcomes.

Engagement with stakeholders

3.10 The application must include an explanation of how stakeholder engagement contributed to the identification and design of the preferred option. This stakeholder engagement may be limited to those categories of stakeholder who are materially impacted by the choice of preferred option.

Cost information

3.11 In addition to setting out clearly the amount of adjustment to allowances being requested, the application must explain why an adjustment to allowances is justified, and also separately justify the amount of adjustment. This involves providing cost information, but also crucially involves demonstrating additionality.

3.12 The application must provide all 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, where appropriate instructions on the operation of workbook functionality will be required;
- in a sufficient level of detail to clearly demonstrate how overall values were derived and in a way that can be easily replicated it is expected that this will include the transparent formulae;
- in a way that is easily comparable with other benchmarks or other data provided to Ofgem;
- all relevant assumptions and sources of data used must be clearly stated and justified;
- key cost drivers should be explicitly identified and justified;
- uncertainties in forecast cost levels should be clearly identified. With any potential mitigations identified, these uncertainties should form the basis of appropriate sensitivity analysis. Where appropriate a register of these uncertainties must be included;
- demonstrates that cost efficiency measures have been identified and their impact fully accounted for; and
- demonstrate additionality.

Cost benefit analysis (CBA) and engineering justifications

3.13 Both Cost Benefit Analysis and Engineering Justifications Papers are important sources of evidence that can be included in an application. In either case they must:

- be consistent with published guidance and recognised best practice, for example the Green Book⁵ and the Spackman discounting approach;
- demonstrate evidence of structured options development, including consideration of whole system options and non-network options, where applicable, against a baseline scenario which involves the minimum level of intervention that would be required to remain compliant with all applicable regulation;
- demonstrate the value of projects across different scenarios, and include an explicit consideration of (quasi) option values⁶ of deferring the investment;
- be clearly linked to the re-opener application, where applicable, with sensitivity to changes in input parameters assessed, for example future energy scenarios;
- act as a robust decision support tool, open to scrutiny and challenge in conjunction with other appropriate means of justification for investment decisions;
- be transparent about which risks, costs and benefits have neither been considered nor monetised as part of the analysis; and
- be transparent about assumptions, inputs and rationale for decisions, calculations and results

3.14 Prior to the submission of RIIO-2 Business Plans in December 2019 Ofgem published sector specific guidance on both Cost Benefit Analysis and Engineering Justification papers⁷. That guidance and subsequent updates must be followed when including either decision tool in a re-opener application.

⁵ [HM Treasury Central Government Guidance on Appraisal and Evaluation](#)

⁶ Guidance on this option value from Ofgem can be found in our [Strengthening strategic and sustainability considerations in Ofgem decision making](#), and [Real Options and Investment Decision Making papers](#) and annexes.

⁷ [RIIO-2 Final data templates and associated instructions and guidance](#) – September 2019

4. Application process

Indicative process

4.1 The table below sets out the indicative application process. We will seek to complete the review process within a period of 9 months or less, so that our decision on a particular re-opener can be reflected in the Annual Iteration Process, immediately following the relevant application window. However, we recognise that for a variety of reasons this may not always be possible.

4.2 Table 2 below sets out the indicative application process:

Table 2: Indicative application process

Indicative re-opener process	
1. Pre-application discussion	<ul style="list-style-type: none"> Discussions between Ofgem and the network company to understand forthcoming application, any technically difficult areas, and provide guidance to potential applicant where appropriate.
2. Application window for submission opens	<ul style="list-style-type: none"> Network company to submit their application and publish redacted version on its website within five days.
3. Screening	<ul style="list-style-type: none"> Ofgem to conduct an initial assessment of whether the application is; 1) complies with relevant licence requirements, 2) complies with this guidance and 3) contains sufficient information on which to make a decision. Applications will only proceed to the next stage if they pass this initial assessment. Otherwise the Authority will consult/publish its intention to reject the application.
4. Assessment including supplementary question (SQ) process	<ul style="list-style-type: none"> Ofgem will carry out a detailed assessment of the application and prepare a decision for consultation.
5. Minded To Decision (optional)	<ul style="list-style-type: none"> Ofgem may consult on a minded to decision if it considers that it would be valuable. Otherwise the process will move immediately to stage 6 Draft Decision (below).
6. Draft Decision	<ul style="list-style-type: none"> Ofgem will consult on the wording of its proposed direction for a period of not less than 28 days in accordance with the licence.
7. Decision	<ul style="list-style-type: none"> Ofgem will issue a direction following consideration of consultation responses received.
8. Annual Iteration Process	<ul style="list-style-type: none"> Ofgem will reflect the stage 7 Decision in the next Annual Iteration Process.

Screening

- 4.3 The purpose of the screening process is to determine at an early stage any applications that are invalid, do not comply with the requirements of relevant licence conditions / this guidance or do not contain sufficient information to allow a proper assessment of the application without material effort on the part of Ofgem to gather additional information. This screening process will allow Ofgem to focus resources on those applications that do contain the information necessary to make informed decisions.

Supplementary Question (SQ) Process

- 4.4 The SQ process is for clarification purposes only. Network companies should not expect to use it as a means of submitting additional information that the original re-opener application should have included and is missing.
- 4.5 Network companies will be required to respond to an SQ within 5 working days unless otherwise stated by Ofgem.