

RIIO-2 Re-opener Guidance and Application Requirements Document: Version 1 Draft

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We are consulting on our proposed RIIO-2 Re-opener Guidance and Application Requirements Document.

This document is directed at gas and electricity transmission network companies and gas distribution network companies¹ (for the purposes of this document 'licensees'), as well as their stakeholders. The purpose of this document is to provide licensees with:

- Further detail on compliance with application requirements set out in Special Condition 9.4 (Re-opener Guidance and Application Requirements Document) of the Gas Transporter and Electricity Transmission licences (which will be effective from 1 April 2021).
- Guidance on the information that they should include in re-opener applications that will help us to reach a decision.
- Information on the re-opener application process we will follow when reaching our decisions (Annex 1).

¹ Special Condition 3.8 will also apply to electricity distribution network companies effective from April 2021.

This document reflects our review of responses to the 'Draft: RIIO-2 Re-opener Guidance and Application Requirements Document' published on 12 October 2020.

We wish to work with licensees following the Final Determinations to develop the re-opener pipeline process further and, in particular, to develop the concept of various tiers. We are looking to develop a flexible, and where appropriate, light touch process.

Version	Changes

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1. Introduction

- 1.1 Re-openers are a type of RIIO uncertainty mechanism. They allow Ofgem to adjust a licensee's allowances (either up or down) in response to changing circumstances during the price control period. Re-openers may be cross sector, sector specific or bespoke to an individual licensee.
- 1.2 The Re-opener Guidance and Application Requirements Document licence condition² requires that licensees complete their re-opener applications in accordance with this guidance. This is in addition to the requirements set out in the individual re-opener licence conditions.
- 1.3 This guidance sets out how the licensee must prepare its applications for re-openers, including:
- the level of detail required in a re-opener application
 - 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.
- 1.4 This guidance includes both general requirements that apply to all re-opener applications and specific requirements for individual re-opener applications. As specifically provided for in the Re-opener Guidance and Application Requirements Document licence condition, this guidance may be added to or modified by the Authority following the consultation process set out in the licence condition. Appendices to this guidance, which may be added over time, contain requirements and guidance applying to specific re-openers. For example, an appendix is provided for the 'Non-operational IT and Telecoms capex' re-opener in this consultation.
- 1.5 Failure to prepare an application in accordance with any of the relevant 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.

² Special Condition 9.4 in the GD, GT and ET Special Conditions.

- 1.6 Appendix 1 sets out the re-opener mechanisms that have been proposed as part of the RIIO-2 regulatory framework.
- 1.7 Appendices 2 – 4 contain guidance on the preparation of applications for specific re-opener mechanisms.
- 1.8 Annex 1 provides information on how we intend to manage the flow of applications during RIIO-2 and the process we will follow when assessing re-opener applications. This does not form any part of the Guidance and may be modified and updated at any time without prior consultation.

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2. Assurance and publication requirements

Section summary

Provides details of the assurance, publication and redaction requirements for licensee's re-opener applications.

Assurance requirements

- 2.1 Ofgem needs high-quality information from licensees in their re-opener applications in order to carry out robust and timely assessments of those applications. To this end, licensees must make re-opener applications that are accurate, unambiguous, complete, and concise.
- 2.2 We require that all re-opener applications must be accompanied by written confirmation from a suitable senior person within the company that the re-opener application has been prepared and submitted, such that³:
- it is accurate and robust, and the proposed outcomes of the re-opener are financeable and represent good value for money for consumers
 - there were quality assurance processes in place to ensure the licensee has provided high-quality information to enable Ofgem to make decisions which are in the interests of existing and future consumers
 - the application has been overseen and accepted by the Board, and the company board is 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.

³ These requirements are similar to our letter to the CEOs of licensees on 4 June 2019 - <https://www.ofgem.gov.uk/publications-and-updates/companies-provide-assurance-ahead-riio2-business-plan-submission-deadline>

Publication and redaction requirements

- 2.4 Subject to paragraphs 2.5 and 2.6, the licensee must, within five working days of submitting a re-opener application to Ofgem, publish its complete application in a prominent place on the company website, in such a manner that relevant stakeholders can easily locate the application.
- 2.5 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
 - Security.
- 2.6 Where publishing an application would pose a risk to national security, the application should not be published at all and no explanation of the lack of publication needs to be published. This may be the case with applications for cyber resilience and physical security.

3. Guidance on the style, structure and requirements for the content of re-opener applications

Section summary

Provide guidance on how to structure and present the key components of a re-opener application. We also set out requirements on what information an application must contain and the standards it must meet.

Introduction

Any re-opener application must clearly provide the Authority with answers to the two following questions:

- Why an adjustment to allowances is justified
- What that adjustment should be.

The various re-opener licence conditions prescribe the minimum sets of information that an application must contain to assist us in answering these two questions. Depending on the re-opener mechanism, answering either or both of these questions may be more, or less, difficult. In this chapter we provide guidance on how some key evidential tools should be used in answering these questions. This chapter should be read in conjunction with the relevant mechanism-specific appendix to this guidance.

Style & Structure of Application

- 3.1 Re-opener applications should be concise, clearly presented and easy to read (avoiding use of company-specific terminology or small font sizes). The core application narrative should be kept as short as possible, with concise, clearly stated content based on objective quantifiable evidence.
- 3.2 A proportionate approach should be taken with the level of detail, evidence and justification broadly increasing with the proposed level of additional allowances sought,

and the complexity of outputs measured. We do not expect extensive narrative to be used as a substitute for evidence and may place a limit on the length of the core application narrative for specific re-opener applications.

- 3.3 We do not prescribe a particular structure that must be followed, but it is important to ensure Ofgem can easily identify material contained in an application that will be relevant to our assessment. The core application narrative should contain all relevant information necessary to understand the application.
- 3.4 Background detail and technical information should be set out in clearly referenced annexes, with hyperlinks to the relevant annex included in the core application narrative, where appropriate. Where an 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 as relating to an annex. A glossary of terms should be provided.
- 3.5 At a minimum, the application must cover each of the specified requirements set out in the relevant re-opener licence condition⁴, the Re-opener Guidance and Application Requirements Document condition⁵, and the requirements set out in this guidance including re-opener specific appendices where relevant. Each application must include a table that maps out how the application meets each of the relevant requirements.

Gas Distribution sector

- 3.6 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. Where a materiality threshold exists it is applied at the individual licence rather than the company level. For activities that are delivered centrally, for example IT services, where projects are delivered geographically independent, costs should be allocated to each licence in

⁴ Contained in chapter 3 of the GD, GT and ET Special Conditions.

⁵ Special Condition 9.4 in the GD, GT and ET Special Conditions.

accordance with the same principles applied in complying with other regulatory reporting requirements.⁶

Needs case and preferred option (where relevant)

3.7 Where a needs case is required as part of the application this will be made clear in the specific re-opener licence condition.

3.8 The needs case must contain the following:

Alignment with overall business strategy and commitments

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

Demonstration of needs case / problem statement

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

3.11 As well as demonstrating the needs case, the application must also evidence the required level of expenditure to achieve the desired outcome. The application must demonstrate how the proposed option will meet obligations and the efficient cost to achieve this.

Consideration of options and methodology for selection of the preferred option

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

- a clear description of the various options considered, setting out the key features of each option

⁶ Special Condition 9.9 in the GD Special Conditions.

- a 'do minimum' option to act as a counterfactual to demonstrate the financial impact of no additional investment or programme expenditure taking place
- an option to delay proposed capital expenditure recognising the option value of such delay
- a market based option, where there is a valid 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 the process used to select the options: either the internal process (for which relevant documents should be included) or the existing industry process
- where appropriate a sensitivity analysis, using relevant statistical analysis
- the full detail of any Cost Benefit Analysis carried out to assess the options, including the costs and benefits of all options included in the assessment, key assumptions and methodology used to assess the costs and benefits of each option considered
- a justification for the proposed timing of additional expenditure.

The preferred option

3.13 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 that option 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 of work that will be impacted by implementation of the preferred option.

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

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

3.16 The application must include appropriate detail on any project delivery and monitoring plan for the preferred option. This will include but is not limited to:

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

Engagement with stakeholders

3.17 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. Stakeholder engagement will not be necessary where it would pose a risk to national security, which may be the case with applications for cyber resilience and physical security.

Cost information

3.18 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 (ie demonstrating the additional expenditure required in addition to that already provided through baseline allowances, or will be provided through other mechanisms).

3.19 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, 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 the licensee to Ofgem
- with all relevant assumptions and sources of data used provided and clearly justified
- with key cost drivers explicitly identified and justified

- with uncertainties in forecast cost levels and any potential mitigations clearly identified. These uncertainties should form the basis of appropriate sensitivity analysis and, where appropriate, a register of these uncertainties must be included.
- with outturn data for similar projects, and a risk register for the specific project, for any allowances requested for project risk
- to demonstrate that cost efficiency measures have been identified and their impact fully accounted for
- to demonstrate additionality.

Cost benefit analysis (CBA) and engineering justifications

3.20 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 Book⁷ 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 values⁸ 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, and be 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

⁷ [HM Treasury Central Government Guidance on Appraisal and Evaluation](#)

⁸ 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.

- be transparent about the assumptions, inputs and rationale for the decisions, calculations and results arrived at.

3.21 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 papers⁹. That guidance and subsequent updates must be followed when including either decision tool in a re-opener application.

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⁹ [RIIO-2 Final data templates and associated instructions and guidance](#) – September 2019

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Appendix 1: Complete list of RIIO-2 re-openers

List of Cross Sector Re-openers (all network companies)		
Tax Review	Special Condition 2.2	This guidance does not apply – please see Price Control Financial Handbook
Cyber Resilience OT	Special Condition 3.2 (ET, GT and GD)	Appendix 4
Cyber Resilience IT	Special Condition 3.3 (ET, GT and GD)	Appendix 4
Physical Security (PSUP)	Special Condition 3.4 (ET, GT and GD)	
Net Zero	Special Condition 3.6 (ET, GT and GD)	This guidance does not apply - Authority triggered only
Non-operational IT and Telecoms Capex	Special Condition 3.7 (ET, GT and GD)	Appendix 2
Coordinated Adjustment Mechanism (Special Condition 3.8 will also apply to electricity distribution network companies effective from April 2021)	Special Condition 3.8	Appendix 3
Pensions (pension scheme established deficits)	Special Condition 6.1 (ET, GD) Special Condition 6.1 & 6.3 (GT)	This guidance does not apply – please see Price Control Financial Handbook

List of Gas Transmission Sector Re-openers (NGGT)		
Net Zero pre-construction and small projects	GT Special Condition 3.9	
Bacton terminal site redevelopment	GT Special Condition 3.10	
Compressors	GT Special Condition 3.11	
King's Lynn subsidence	GT Special Condition 3.12	
Incremental capacity	GT Special Condition 3.13	This guidance does not apply – please see separate Funded Incremental Obligated Capacity Re-opener Guidance document
Asset health	GT Special Condition 3.14	
Quarry and Loss	GT Special Condition 3.17	
Pipeline diversions	GT Special Condition 3.17	

List of Electricity Transmission Sector Re-openers (NGET SHET SPT)		
Visual amenity in designated areas	ET Special Condition 3.10	
Large Onshore Transmission Investments (LOTI)	ET Special Condition 3.13	This guidance does not apply – please see separate Large Onshore Transmission Investments Re-opener Guidance document
Medium Sized Investment Projects (MSIP)	ET Special Condition 3.14	
Pre-Construction Funding (PCF)	ET Special Condition 3.15	
Access Reform	ET Special Condition 3.16	This guidance does not apply - Authority triggered only

List of Gas Distribution Re-openers (Cadent SGN NGN WWU)		
Net Zero Pre-construction and Small Projects	GD Special Condition 3.9	
Fuel Poor Network Extension Scheme (FPNES)	GD Special Condition 3.14	This guidance does not apply - Authority triggered only
Repex – HSE policy changes	GD Special Condition 3.17	
Repex – Tier 1 iron stubs	GD Special Condition 3.18	
Heat policy and energy efficiency	GD Special Condition 3.19	
Repex – Pipeline Diversions (non-Rechargeable) and Loss of Development Claims	GD Special Condition 3.20	
Multi occupancy buildings (MOBs) safety	GD Special Condition 3.21	
New large load connection(s)	GD Special Condition 3.22	
Smart meter rollout costs	GD Special Condition 3.23	
Specified streetworks	GD Special Condition 3.24	

List of Bespoke Re-openers		
SF6 Asset Intervention PCD and re-opener (NGET)	ET Special Condition 3.27	This guidance does not apply
Subsea cable repairs (SHET)	ET Special Condition 3.28	
Uncertain non-load projects (SPT)	ET Special Condition 3.29	
Optel Fibre Wrap (NGET)	ET Special Condition 3.31	
Substation Civil Proactive Investment Works (NGET)	ET Special Condition 3.32	
Towers and Foundations (NGET)	ET Special Condition 3.33	
Tyne Crossing (NGET)	ET Special Condition 3.34	
Bengeworth Road GSP (NGET)	ET Special Condition 3.35	This guidance does not apply - Authority triggered only

Appendix 2: Non-operational IT and Telecoms (IT&T) Capex Reopener Application Guidance

This document should be used as guidance to assist licensees in preparing their RIIO-2 non-operational IT&T capex re-opener applications. This Appendix provides guidance as to the types of evidence and level of detail that licensees must include when submitting non-operational IT&T capex re-opener applications, relating to the needs case and cost information. There may be some projects/solutions where licensees will not be able to provide the necessary level of details listed within this Appendix. In such instances, licensees should provide a justification for not providing all of the necessary information. We will consider such explanations/submissions on a case-by-case basis.

Needs Case

Alignment with overall business strategy and commitments

- 1.1 Non-operational IT&T capex re-opener applications must include details on organisational context, strategy, and business alignment.
- 1.2 Licensees must provide a description of its overall strategy and current operations covering non-operational IT&T capex investments. The licensee must provide a description of:
 - IT strategy
 - Evidence within the IT strategy of the role it plays in facilitating the business to achieve its business objectives
 - Overall IT plan dependencies.

Demonstration of needs case

- 1.3 For non-operational IT&T capex re-opener applications, licensees must provide a problem statement which sets out:
 - A description of the need, requirements and capabilities that will be maintained and/or enhanced through the investment
 - A description of relevant risks and an explanation of why the current controls that licensees have in place to mitigate risk are insufficient
 - The challenges and/or opportunities that it proposes to address.

- 1.4 For Non-operational Capex IT projects that were included in a licensee's Business Plan and for which a needs case and justification were assessed as being appropriate, but for which no allowance has been provided to date, there is no requirement to provide an updated needs case and licensees should reference the materials previously submitted.

Options Selection

Consideration of project options and methodology of how preferred project option was selected

- 1.5 For non-operational IT&T capex re-opener applications, licensees must set out:
- The methodology and/or standard(s) used to select preferred option
 - What other projects/controls were considered during project selection
 - Why the preferred project/option has been selected.

Preferred project option details

- 1.6 For non-operational IT&T capex re-opener applications, licensees must include the information set out in paragraphs 1.7 to 1.11 below in relation to, (i) the description of the project, (ii) technical feasibility and consumer benefits, and (iii) project delivery and monitoring.

Description

- 1.7 The licensee must demonstrate that it has carried out:
- The project scope, including which assets are in scope
 - The proposed project/option, including general objectives of the project, applicability, and prioritisation
 - Project / work stream targeted for intervention within this re-opener application
 - How the preferred project will improve the operational capability of the network
 - How addressing the problem statement described above will assist the licensee in meeting its business objectives
 - How the preferred project reduces risk or creates opportunity for cost efficiency or operational improvements on the network.

Technical feasibility and consumer benefit

- 1.8 The licensee must demonstrate that they have carried out an appropriate risk mitigation exercise and that the proposed investments submitted to Ofgem as part of the re-opener application are commensurate to the level of risk.

- 1.9 The licensee must provide sufficient justification of the need to invest its requested amount in non-operational IT&T capex for the projects highlighted in the previous section.

Project delivery and monitoring

- 1.10 The licensee must provide a detailed description of project delivery plans including, but not be limited to:

- Detailed project plan and timelines (eg Gantt chart)
- Detailed project schedule, including activity milestones for project delivery, personnel on-boarding, training, etc
- Governance structure of each project, including project roles, responsibilities and the resources required
- Key performance indicators to be used to monitor the progress of the project.

- 1.11 Where an agile delivery methodology is being used, licensees must provide the following details:

- A description and use of a mature agile methodology/process that allows all stakeholders to understand how they will contribute to the successful delivery of a product, service, project or software with clear milestones. An example of this would be the Governments Digital Service (GDS) Standard <https://www.gov.uk/service-manual/service-standard>
- A description of the governance structure of the teams (eg SCRUM team), and how these teams interface with other stakeholders or teams such as legal, governance etc.
- A description of how monitoring, lessons learned and improvements will be tracked eg retrospectives, show and tell, sprint planning, etc
- A description of how performance will be monitored, including real users of the service whether external or internal
- A description of how project constraints, dependencies, priorities, risks and similar will be tracked/managed including for example, information reflected in a prioritised backlog
- Key performance indicators to be used to monitor the progress of the project.

Cost information

Breakdown and justification of costs

Consideration of options

1.12 For non-operational IT&T capex re-opener applications, the licensee must:

- Justify the need and amount of allowance required per project, demonstrating consideration against the requirements and capabilities that will be maintained and/or enhanced through the investment.
- Provide a description of the various options that were considered (eg by performing cost benchmarking, previous tenders or contract information, etc), and rationale for the preferred option to be presented.

Breakdown of costs of preferred option

1.13 For non-operational IT&T capex re-opener applications, the licensee should include the following cost information in its re-opener application:

- The overall costs of the licensee's IT&T non-operational capex project portfolio proposed for a reopener
- Delineation of the costs per project.

1.14 For non-operational IT&T capex re-opener applications, licensees must provide the following information:

Justification and efficiency of costs

- Demonstrable evidence that the costs presented within the reopener application are justified and efficient, similar to that provided under the original business plan and supporting IT annexes.
- Commitment to the use of good practice corporate governance ie a management structure that monitors and approves Programme and Project investments throughout project lifecycles. This is recognisable as a sequence of gate approvals as the project matures, its definition becomes less uncertain and potential risk events are understood and, where reasonable, mitigated. The maintenance and use of an accredited (eg ISO9001:2015) 'Business Management System' may provide the foundation for such a framework.

Requirement

- An explanation of the purpose, scope and dependencies of the project. This includes overall Project to Programme relationship, project interdependencies and timeline. Business Analysis may be appropriate to identify the business need delivered by the proposed project and formally capture the project requirements in a solution agnostic manner.

Solution

- A description of the proposed solution at an appropriate level of detail commensurate with maturity and stage of project approval.
- The framework, through comparison with the requirements, within which testing and acceptance will be conducted (Integrated Test Evaluation and Acceptance Plan (ITEAP)) and, post-delivery, how the delivery of the project benefits will be measured and verified (Benefits Realisation Management Plan (BRMP)).

Manage delivery

- A costed plan for project delivery, principally a Project Management Plan in line with recognised (eg APM) good practice.
- Key management components in the plan include:
 - Reference to the programme and project purpose, project approval status and the licensee's internal IT project delivery governance framework.
 - A schedule (Gantt chart) that enables progress and spend to be monitored. The use of processes such as Earned Value Management, schedule risk management and milestones linked to a Programme schedule and dependent projects may be appropriate.
 - Project delivery organisation.
 - A Risk (and Opportunity) Management Plan detailing the identification, capture, analysis and regular monitoring and review of the Risk (and Opportunity) Register.

Monitor delivery

- A description of the implementation of the Benefits Realisation Management Plan to record and report the delivery of the project benefits.

Level of detail of cost information

- 1.15 A licensee must provide an evidence trail flowing from a robust Project Definition to a Work Breakdown Structure (WBS) that can be costed against stated estimating sources

and assumptions. There is an expectation that, as a project matures, the detail available to support each attribute will increase.

Assessment Process

1.16 For non-operational IT&T capex re-opener applications, licensees will be subject to the same requirements that applied to the IT&T projects submitted in the RIIO-2 business plan. The materials submitted should provide focus on the four assessment areas set out below: Project Justification; Project Definition; Project Resources and Cost Assurance.

1.17 Project Justification

- There should be a compelling case for investment in the project based on delivered benefits. This could be the adoption of new technology; the provision of new customer focussed services; the replacement of obsolete existing in-service capabilities delivering increased efficiencies or customer-experience or reduced costs or risks.

1.18 Project Definition

- The re-opener application should address, commensurate with the maturity of the project, a schedule of the activities, and their interdependencies necessary to complete the project and a work breakdown structure that reflects the plan which can be resourced and then costed. The plan should also address the facilities and management structure to monitor, manage and authorise the venture including the means by which risks (and opportunities) will be captured, reviewed and managed.

1.19 Project Resources

- A detailed project plan to enable the definition of the resources necessary to achieve the plan. Resources in this context encompasses any costs that falls to the project e.g. manpower, software and hardware procurement, third party services, facilities and system design, development, testing, integration, documentation and training.

1.20 Cost Assurity

- A forecast of the project delivery costs derived by associating a 'cost per' estimate for each entry in the resource plan. It is expected that uncertainty and risk costs be included in the calculation of project delivery costs.

Appendix 3: Coordinated Adjustment Mechanism Re-opener Application Guidance

Content of re-opener applications

- 1.1 The re-opener application should follow the Guidance in the main document unless indicated otherwise below. Additional points in this Appendix are to be taken as additional requirements to those in the main document.
- 1.2 Applications for this re-opener must come from a single licensee, but contain a statement of agreement on the content of the re-opener application between the licensee who was originally assigned the responsibility and associated revenues for the output or project and the licensee who is able to deliver it with greater overall value to consumers.

Needs case and preferred option

- 1.3 The requirements of Section 3, paragraph 3.7 – 3.15, in the main document do **not** apply to this re-opener.

Demonstration of needs case / problem statement

- 1.4 An application must provide the original justification for the existing planned activity that was submitted to the Authority, or through a recognised industry process (eg NOA).
- 1.5 An application must also provide the justification for the proposed alternative activity. This must include a CBA comparing the two activities, expected outputs related to the two activities, and year of delivery of the two activities.
- 1.6 The licensee must set out the overall value to Network A's consumers and Network B's consumers of cancelling an existing planned activity, and another network carrying out an alternative activity in order to solve the original issue. The value comprises not only the quantifiable benefits (as set out below) but any additional value to consumers that is not necessarily quantifiable such as benefits to the wider energy system.
- 1.7 The licensee must also demonstrate a net benefit to the relevant group(s) of consumers (further information on net benefits provided below).

- 1.8 The application must set out the problem that the alternative activity is designed to solve, including context, sites, risks, and how the proposed reallocation of RIIO-2 price control funds is in the best interests of future and existing consumers.

Cost information

- 1.9 Costs must be provided for both the existing planned activity and the proposed new activity.
- 1.10 We recognise that an agreement between two licensees to submit an application under this re-opener may incur costs related to the change of activity, such as foregoing potential gains under the Totex Incentive Mechanism, or adjustments to related output delivery incentives.
- 1.11 Where this is the case we acknowledge that networks may negotiate compensation between themselves to recover these costs. An application must also contain the amount and the rationale of any such arrangement made between the applying network and the partner network, or state that none such has or will be made. Any such amount need not be included in the CBA assessment.
- 1.12 The application must also set out which output conditions and/or performance-related payments will be affected by the change, for both the applying licensee and the Partner Licensee(s).

Cost benefit analysis (CBA) and engineering justifications

- 1.13 The requirements of Section 3, paragraphs 3.19 – 3.20, in the main document do **not** apply to this reopener.
- 1.14 We expect licensees to use the 'Whole System Cost-Benefit Analysis' framework as developed by the ENA in order to show that the reallocation of the output for consumers is in the best interests of future and existing consumers, referring to the User Guide and Methodology documents also developed by the ENA to support the CBA framework.¹⁰

¹⁰ These will be published on the Energy Networks Association website at <https://www.energynetworks.org/>

- 1.15 The application must also demonstrate that the expected net benefit to the consumer exceeds the cost of submitting the application.

Demonstrating net benefits to consumers

- 1.16 An application must demonstrate that there is a net benefit to consumers as a result of the proposed change. Depending on the type of licensees making the re-opener application, licensees must identify each consumer group affected, and the net benefit each is expected to gain.
- 1.17 For the CAM re-opener, 'electricity' is a sector, so that electricity transmission and electricity distribution consumers are considered to be a single sector consumer group.
- 1.18 Similarly, 'gas' is a sector, so that gas transmission and gas distribution consumers are considered to be a single sector consumer group.
- 1.19 An application submitted by any combination of only electricity licensees must demonstrate a net benefit for all its consumers considered as one group, and not as two distinct set of benefits allocated to each licensees' specific network consumers.
- 1.20 Similarly, an application submitted by any combination of only gas licensees must demonstrate a net benefit for all their consumers considered as one group, and not as two distinct sets of benefits allocated to each licensees' specific network consumers.
- 1.21 An application made by any combination of electricity and gas licensees (a cross sector application) must demonstrate a net benefit to both electricity and gas consumers.

Net benefits

- 1.22 For there to be a "net benefit", the relevant consumers must receive a net gain (that is quantifiable in financial terms) to their position immediately before the reallocation of price control revenues, that is in excess of the funds that consumers are paying for the cost of the output, even if that net benefit takes time to materialise.
- 1.23 An application must only demonstrate that there is a net benefit to the relevant energy consumers. The benefit to the relevant energy consumers need not be the primary benefit as consumers of other energy sectors, or sectors outside of energy, may receive greater benefits from the reallocation of the output.

- 1.24 Benefits are not restricted to actual project costs or savings between the original activity and the proposed new activity. Benefits may also include non-financial benefits (such as environmental benefits, or the carbon cost) that can have a value assigned that is calculated under approved methodologies, such as the RIIO-2 CBA model, or the Green Book.
- 1.25 These, and other, methodologies have been incorporated into the 'Whole System Cost-Benefit Analysis' framework developed by the ENA, which we expect applications to use. This covers the main societal, environmental, emissions reductions and financial benefit types, but where additional benefit categories are relevant to the specific application being made, we expect the application to include these in the rationale and CBA, and explain why they are relevant.

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Appendix 4: Cyber Resilience IT and OT re-opener application requirements

This appendix sets out the information that a licensee must provide when making a re-opener application under the cyber resilience OT licence condition or the cyber resilience IT licence condition.¹¹

If a licensee considers it is not able to provide a piece of information set out in this appendix, it must explain why in its application. We will consider any such explanations on a case-by-case basis.

The rest of this Appendix is in three parts: needs case; options assessment; and cost information.

Needs case

- 1.1 This section sets out the information that must be provided on the needs case for the proposed funding request.

Alignment with overall business strategy and commitments

- 1.2 Applications must include details on organisational context, strategy, and business alignment.
- 1.3 Applications must include, but need not be limited to, a description of:
 - the licensee's overall business strategy
 - the licensee's cyber resilience strategy
 - how the cyber resilience strategy aligns with its business strategy
 - how the application aligns with previous/in-flight cyber resilience delivery (i.e. Improvement Plans¹² or RIIO-1 activity)
 - internal and external dependencies affecting the proposals set out in the application

¹¹ SpC 3.2 (Cyber resilience operational technology Re-opener, Price Control Deliverable and use it or lose it adjustment) and SpC 3.3 (Cyber resilience information technology Re-opener and Price Control Deliverable)

¹² Unless otherwise stated, defined terms in this appendix have the meanings given in the licensees' licences.

- the current and targeted security state and/or maturity of the licensee (e.g. National Cyber Security Centre (NCSC) Cyber Assessment Framework (CAF)¹³ self-assessment¹⁴).

Demonstration of needs case

1.4 Applications must include, but need not be limited to, a description of:

- relevant cyber risks and why current security and resilience control is insufficient
- the detailed risks posed to the network and consumers including details on threat, vulnerability, and impact
- the risk severity in terms of likelihood and impact for the inherent, residual (current), and target risk positions
- the services, systems, sites and assets that relate to the identified risks
- the licensee's risk tolerability and risk response decisions
- how the licensee calculated the level of cyber risk.

Options Selection

1.5 This section sets out the information that must be provided on the options selection process.

Consideration of project options and methodology

1.6 Applications must include, but need not be limited to, the following:

- the methodology and/or standards used to support security and resilience management and decision making
- the methodology and processes on how cyber risks are assessed, managed, and responded to
- the security and resilience controls required to reduce risks to tolerable levels (and options considered)
- the targeted solutions and projects required to develop and implement the identified security and resilience controls (and options considered).

¹³ <https://www.ncsc.gov.uk/collection/caf/cyber-assessment-framework>

¹⁴ CAF self-assessment is relevant only to OT re-opener applications.

Preferred option details

Description

- 1.7 Applications must set out, but need not be limited to, the following for each project contained within the application:
- the project scope, including which sites and assets are in scope
 - the proposed project/option, including a Cost Benefit Analysis (CBA)¹⁵, general objectives of the project, sites applicability, and prioritisation
 - site breakdown per project/work stream targeted for intervention within this re-opener application
 - the security and resilience controls targeted for implementation as part of this project, and cross-referencing to the CAF outcomes or relevant standards
 - project outputs, including the specific deliverables of each project (what specific products, solutions and technologies are being targeted for delivery)
 - the security and resilience control links to current and targeted security state and/or maturity (e.g. CAF self-assessment).
- 1.8 Applications must include details of any site related to the application, including:
- site function and purpose
 - site criticality rating and justification
 - overview of the technological architecture and assets.

Technical feasibility and consumer benefit:

- 1.9 For applications the licensee must set out, but need not be limited to, the following:
- the relevant risks that will be influenced and mitigated through successful delivery of the project
 - the inherent and residual (current) risk positions as well as the target risk positions for the end of the RIIO-2 period, based on successful delivery of the project

¹⁵ The CBA must include "do nothing" options.

- a detailed list of project constraints, project risks and dependencies (i.e. dependence on IT Cyber/Business as usual (BAU) projects, alignment with broader site maintenance activities)
- details of any underpinning technical feasibility evidence relating to the project and description of how this reduces the delivery risks of the project. Technical feasibility evidence may include, but need not be limited to, research and development outputs, proof of concepts and demonstrations, and design work.

Project delivery and monitoring

1.10 Applications must include, using the licensees own project delivery methodology, the following:

- a detailed project plan and timelines (e.g. Gantt chart)
- a detailed project schedule, including activity milestones for project delivery, personnel on-boarding, training, etc.
- the governance structure of each project, including project roles and responsibilities and number of resources required
- the organisational structure of the cyber security team and demonstration of capacity and capability to deliver the plan
- the fundamental components that are being used to measure delivery of the cyber resilience plan (i.e. risk reduction to the business/consumers/ stakeholders)
- a description of how project delivery will be assessed for targeted risk reduction and how assurances will be sought for the effectiveness of delivered security and resilience controls
- a description how project constraints, dependencies, priorities, risks and similar matters will be tracked/managed, for example whether they will be reflected in a prioritised backlog, risk and/or issues log
- a description of how performance will be monitored, including key performance indicators to be used to monitor the progress of the project.

Cost information

1.11 This section sets out the information that must be provided on costs.

Breakdown and justification of costs

Consideration of options

- 1.12 The licensee must provide information to justify the need and amount of allowance required per project, demonstrating consideration against the targeted risk reduction and site prioritisation.
- 1.13 The licensee must also provide a description of the various options that were considered (i.e. by performing cost benchmarking, previous tenders or contract information) and the rationale for the selection preferred option.
- 1.14 The licensee must provide information to demonstrate consideration of the expected lifetime of security and resilience controls in the context of a changing threat landscape.

Breakdown of costs of preferred option

- 1.15 Applications must set out, but need not be limited to, the following:
- the overall costs of implementing the proposals contained in the applications
 - source information used to build up the costs for each application
 - a breakdown of the overall baseline costs for the applications per year
 - a breakdown of the capex and opex costs of the overall costs per year
 - a breakdown of the capex and opex for the overall costs for each project
 - for each project, a breakdown of the costs for each site which is in scope in terms of capex and opex costs and volume and unit costs (wherever applicable).
- 1.16 Applications must set out, but need not be limited to, the following:
- the current overall running costs as well a breakdown of the current running costs for each site
 - the future overall running costs as a result of project implementation as well a breakdown of the future running costs for each site
 - where an agile delivery methodology is being used:
 - estimated team cadence e.g. who will be included on each project
 - estimated burn down charts
 - scrum team cadence costs and key external stakeholder costs.

Justification and efficiency of costs

- 1.17 The licensee must provide a description of the sourcing approach, such as procurement or tendering, to be adopted and demonstrate how this process supports cost efficiency.

1.18 For projects at an early stage of development that have not entered their sourcing approach, an application must include:

- source information for the baseline costs, supplemented with uncertainty costs based on assessed delivery risk
- source information for the licensee's approach to cost estimation, which may include a qualitative or quantitative explanation of a baseline cost element (e.g. probabilistic P50 value)
- a cost comparison analysis against the market or benchmarking
- a description of how and when cost uncertainty will be reduced as the project proceeds towards initiation and throughout delivery.

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Annex 1: Application process

We provide below an indication of the application process. This does not form part of the guidance document and is provided on an indicative basis only.

Licensee triggered re-opener process

- 1.1 Table 1 below sets out the indicative application process. We will seek to complete the review process following receipt of an application within a period of nine 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.

Table 1: Indicative application process

Indicative re-opener process
<p>1. Re-opener pipeline log</p> <ul style="list-style-type: none"> The re-opener pipeline log is a living document established at the commencement of RIIO-2 that must be updated as part of the annual RRP, but licensees can provide updates between RRP. Discussions between Ofgem and the licensee take place to understand forthcoming applications, any difficult areas, and for the Authority to provide guidance where appropriate. These discussions should take place at least six months before the application window opens.
<p>2. Application window for submission opens (start of nine month indicative process)</p> <ul style="list-style-type: none"> Licensee to submit its application during the application window and publish the application, redacted where appropriate, on its website within five working days of submission.
<p>3. Pre-acceptance Screening</p> <ul style="list-style-type: none"> Before accepting an application, Ofgem will conduct an initial assessment of whether the application: <ol style="list-style-type: none"> 1) complies with relevant licence requirements 2) complies with this guidance 3) contains sufficient information on which to undertake a full assessment. <p>Applications will only be accepted and proceed to the next stage if they pass this initial assessment. We will notify licensees if an application is rejected and publish details on our website.</p>
<p>4. Assessment including supplementary question (SQ) process</p>

<ul style="list-style-type: none"> Ofgem will carry out a detailed assessment of the application (as appropriate for the tier), including asking any SQs it considers appropriate and prepare a decision for consultation.
<p>5. Minded To Decision (optional)</p> <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).
<p>6. Draft Decision</p> <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.
<p>7. Decision</p> <ul style="list-style-type: none"> Ofgem will issue a direction following consideration of consultation responses received.
<p>8. Annual Iteration Process¹⁶</p> <ul style="list-style-type: none"> Ofgem will reflect the Stage 7 Decision in the next Annual Iteration Process.

Ensuring an agile, efficient and proportionate process

1.2 We will put in place a number of mechanisms to ensure the overall process remains as agile, efficient and proportionate as is reasonably practicable. These are:

- publishing a Re-opener Guidance and Application Requirements Document
- establishing a re-opener pipeline log
- applying a system of tiered assessment
- pre-acceptance screening of applications
- a process for supplementary questions
- a gateway style approach where appropriate.

Re-opener pipeline log

1.3 The aim of the re-opener pipeline process is to ensure an efficient and timely approach is taken when a re-opener is to be triggered. As such, a re-opener application pipeline log will be used to:

- monitor the flow of expected re-opener applications

¹⁶ Special Condition 8.2 in the GD, GT and ET Special Conditions.

- create a common understanding on which assessment tier is likely to be appropriate for each application
- encourage companies to align applications in response to triggers
- understand if the Authority will be required to direct additional re-opener windows
- make companies aware of our intention to trigger an Authority triggered re-opener.

1.4 Licensees are required to provide up to date information in their annual RRP on potential applications they anticipate submitting during RIIO-2. The information required may include:

- the trigger for the application and the relevant re-opener mechanism
- likely date of application and the probability of submission
- potential value of adjustment to baseline allowances
- outline description of the application to be submitted, which should include:
 - the needs case
 - the nature of costs incurred and the evidence presented in support of these
 - the options for the proposed work and the methodology used for their assessment.
- identification of issues (eg regulatory and commercial barriers) that may need to be resolved during the assessment process
- an indication of the appropriate assessment tier for the application and reasons for this opinion.

1.5 The process for this is set out in Chapter [X] of the Regulatory Instructions and Guidance (RIGs) for RIIO-2 [to follow]. We will work with stakeholders to develop this re-opener pipeline process.

Tiered assessment

1.6 We intend to apply a proportionate treatment when assessing re-opener applications, as per section 7.32 of the Final Determinations – Core Document¹⁷. This will be based on the quality of the application, the size of adjustment to allowances sought and the complexity of the issue being addressed. This will act as an incentive for licensees to

¹⁷ https://www.ofgem.gov.uk/system/files/docs/2020/12/final_determinations_-_core_document.pdf

fully engage with our re-opener pipeline process and submit well-structured fully evidenced applications. It is consistent with better regulation principles as it allows us to apply greatest regulatory scrutiny where it is likely to produce greatest value and in areas that represent the biggest risk for consumers.

- 1.7 As part of the pre-acceptance screening process, we will undertake an initial review of the information provided and consider the overall quality of the application. At this point we will take a view on which tier the application should progress in and confirm this to the company.
- 1.8 The review will be informed by three different sources of evidence:
 - The quality of the company's application (including accompanying data, evidence of stakeholder engagement and their financial model)
 - The complexity of the issue being addressed and size of adjustment to allowances sought
 - The impact of expedited assessment.
- 1.9 Applications will be subject to one of three tiers:
 - **Fast-track:** a lighter touch process may be applied where a company provides a high quality re-opener application, with evidence of a robust standard and no areas of significant concern. This may also be applied if some aspects of Ofgem's assessment are already clear (such as a demonstrated needs case), where there is a substantial benefit and if the decision is not complex.
 - **Standard:** our default position is that all re-openers will be subject to a similar standard level of regulatory scrutiny.
 - **Additional scrutiny:** an application may attract additional scrutiny, potentially lengthening the process timescales from the indicative nine months, if the decision is complex, proposed costs are large, or if the submission is of a poor quality.
- 1.10 We will work with stakeholders to develop this tiered assessment process, including the criteria for the three tiers.

Pre-acceptance screening

1.11 The purpose of the screening process is to determine at an early stage that an application:

- Complies with the requirements of relevant licence conditions
- Complies with this Guidance
- Contains sufficient information to allow a proper assessment of the application without material effort on the part of Ofgem to gather additional information.

1.12 This screening process will allow Ofgem to focus resources on those applications that do contain the information necessary to make informed decisions.

1.13 If the re-opener is accepted, Ofgem will also review the tier level proposed as part of the re-opener pipeline log. Ofgem will confirm to the company if the proposed tier is still suitable or propose a new tier, outlining the reasons for this change.

Supplementary question (SQ) process

1.14 The SQ process is intended for clarification purposes only. Licensees 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.

1.15 Licensees will be required to respond to an SQ within five working days unless otherwise specified by us.

A gateway style approach

1.16 We have adopted a gateway style approach for those areas of uncertainty where it is deemed appropriate. For example gas transmission compressor and major asset health projects will follow a four step Project Assessment Process (GT PAP). Details of this approach can be found in Chapter 3 of the Final Determinations – NGGT Annex.¹⁸

¹⁸ https://www.ofgem.gov.uk/system/files/docs/2020/12/final_determinations_-_nggt_annex.pdf

Authority triggered re-opener process

1.17 In a number of cases a re-opener can only be triggered by the Authority or can be triggered by both the Authority and the licensee. We set out below the process in cases where the Authority triggers a re-opener:

- The Authority becomes aware of information or events that lead it to consider triggering a re-opener.
- The Authority will use its existing information gathering powers¹⁹ to obtain the evidence it deems necessary to make its decision.
- The Authority will follow the consultation process, set out in the licence when reaching its final decision:
 - publish a draft direction
 - consult for no less than 28 days
 - consider responses received
 - publish a final decision including if necessary a direction, as to the modification of outputs and allowances.

1.18 When we request information, we will be transparent and clear in setting out the evidence we expect from licensees. We will also be considerate of the proportionality in the level of data and other evidence requested, and the timeframe within which this must be submitted.

1.19 When we are considering or decide to trigger a re-opener, we will be transparent as to our reasons. We will only trigger a re-opener if we consider that one of the triggers (set out in licence condition) has materialised. The provision for an Authority triggered re-opener will be subject to the same scope and materiality thresholds that apply to the licensee, unless otherwise stated in the relevant re-opener licence condition.

¹⁹ The Authority may gather information under powers set out in section 47A Electricity Act 1989 or section 34A Gas Act 1986. The Authority may also request information from the licensees under the current RIIO-1 licence condition "Provision of information to the Authority". These are set out in RIIO-1 licence conditions: Condition B4 of the Electricity Transmission Standard Conditions, Condition 24 of the Gas Transporter Standard Licence Conditions, Condition 6 of the Electricity Distribution Standard Licence Conditions.