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Dear Graeme,

Consultation on an Extreme Weather Resilience Medium Sized Investment Project from National Grid Electricity Transmission

Thank you for the opportunity to respond to the above consultation which we do so on behalf of National Grid Electricity Transmission (NGET). This letter provides the summary of our response, and the full detail is included in Appendix 1, by way of answer to each question posed in the consultation.

We do not agree with the proposed costs that Ofgem has set out in the Extreme Weather Resilience Consultation. We have laid out below the 3 areas where Ofgem are minded-to reduce the funding and provided additional information as to why we do not agree with the treatment of the costs.

1) Contractor Preliminary costs

The proposal to remove contractor preliminaries from our funding request and categorise them as Closely Associated Indirect (CAI) costs is an error and is fundamentally at odds with the CAI and Opex Escalator framework designed for RIIO-2. For all the investments in the RIIO-2, contractor costs, apart from contractor design costs, are Direct costs. All the flooding contractor costs are onsite work relating directly to assets on the transmission system, dedicated for the period of delivery and cannot be classed as indirect or support roles. The flooding contractor costs in this submission are also all Direct costs. Further details on this item are listed against question 4.

2) Risk

It is not appropriate to apply a standard value of 7.5% to risk across all RIIO-2 projects, and our view is that the ideal treatment of these risk costs is to assess and mitigate on a bespoke project by project basis. The Ofgem Final Determinations ET Annex quoted that historically risk ranged from 5-25% of the final cost of a project, with the median being close to 10%. The most appropriate treatment for the risks would be to review the project specific risk assessment and agree to remove any risks identified as not valid. Our view is also that a portfolio approach could be taken, if the risk value was set at an appropriate level. On this basis, with a view to implementing the most suitable solution, we restate our risk assessment results and continue to request the 11% for the flooding project that was included in our submission.

3) RPEs or increased commodity pricing

Ofgem have requested further information to justify the request for 9% to cater for additional commodity price increases. Ofgem have stated that funding allowances are uplifted by CPIH in the finance model during the annual iteration process, therefore the inflationary increase we are requesting is solely the value over and above CPIH.

The average price of steel and concrete since 18/19 has risen by 51% and 13% respectively, in this time CPIH has risen by 13% and therefore RPE's are required to make up the difference between CPIH and these commodity rises. We have calculated that steel and concrete make up 56% and 10% of contractor costs, in this investment, respectively and therefore have a significant impact on the value of the projects. By defining a pre-determined or ex-ante allowance for future RPEs, either consumers or network operators will be exposed to the risk of commodity price movements, which remain entirely outside of their control.

Our proposal is to replicate a mechanism like the RPE mechanism included for all baseline allowances. This mechanism would be based on the steel and concrete components of the submission and be linked to the published indices – '70/12 Fabricated Structural Steel' (BCIS) and 'BCIS Concrete Framed Construction Cost Index' and the final funding for this aspect of the investment would be based on a true-up assessment at the end of the T2 period, using actual commodity price increases. Further information on the historic increase of commodity pricing is included in the appended spreadsheet 'Flood Inflation Exposure' and against question 4 below

Yours sincerely,

[By email]

Patrick Hynes

New Infrastructure Regulation Manager, National Grid

Appendix 1

Consultation Question 1: Do you agree with our view on the suitability of the needs case proposed by NGET?

Yes, we agree that the ETR138 framework sets out clear guidance which NGET have applied to define which of our sites need protection and what measures need to be applied.

Consultation Question 2: Do you agree with our assessment of the range of options to meet the needs case?

Yes we agree with Ofgem's assessment of the range of options to meet the needs case.

Consultation Question 3: Do you agree with our minded-to view of the solution proposed by NGET?

Yes we agree with Ofgem's minded-to view of the solution proposed by NGET.

Consultation Question 4: Do you agree with our view on NGET's proposed Extreme Weather Resilience MSIP costs?

We do not agree with Ofgem's view of the Extreme Weather costs and set out our detailed response against each of the specific categories below.

1. Contractors' Cost

Ofgem's Position

5.12. NGET's funding request included an amount for contractors' preliminary activities, which it calculated as percentage of the main works costs based on the proportion of cost that these activities made up in the tenders for the two RIIO-T1 sites. We understand from the supporting information that these preliminary activities comprise site set up, site civils, as well as site management and supervision.

5.13. We propose to reduce this cost category in NGET's funding request because under the RIIO-2 arrangements, site management and supervision are closely associated indirect (CAI) activities which fall under the scope of the costs covered by the opex escalator. As a result of removing costs for these specific elements, we propose to reduce the funding of preliminary activities by 49%.

Response

We accept your proposed adjustments outlined in paragraph 5.11.

We disagree with your proposed adjustments in 5.13 relating to preliminary activities as there is an error in application of the Opex Escalator.

The Opex Escalator was designed to reflect the additional costs incurred by networks through the delivery of additional capital investment triggered by reopeners and uncertainty mechanisms. It is based on the coefficient calculated, using the regression undertaken as part of the RIIO-2 price control assessment. This coefficient was arrived at using data provided by the network operators in line with

the RIIO-2 final instructions and guidance published on 20th September 2019¹. This coefficient was termed the 'opex escalator' and is applied after the reopener funding has been requested. Further details on this can be seen in the table below.

Broadly speaking and as defined by Ofgem, Indirect Activities, which in most cases support work being physically carried out on network assets, that could not on their own, be classed as a direct network or asset-based activity. Indirect Activities generally do not involve physical contact with system assets, whereas direct activities do. For instance, project management, contractor management and design work would sit in indirect costs because it is office based, whereas site supervision would sit in direct costs as it is based on site with assets. Within the final RIIO-2 guidance, Direct Costs (capex) are defined as including "the labour cost of staff, administration, support staff and safety inspection labour costs". Indirect costs include "Engineering, Management, Clerical Support and the office-based activities of engineering and clerical support staff". These definitions are shown in the RIIO-ET2 BPDT Guidance v1.4 document¹ issued by Ofgem and confirmed as the prevailing agreed definitions at the point of submission of this reopener. In this definitions document where the definition states that the costs are 'Indirect Activity' or expenditure which is not on system assets, this defines Indirects or CAI activities. Appendix 2 also gives an extract of this guidance document.

Our submission for Extreme Weather was based on these definitions, to ensure they were consistent with the inputs used in RIIO-2 to calculate the coefficient, and we have only included work directly relating to site flooding assets. Within our RIIO-2 submission and determination, site management and supervision were included in the baseline capex allowance and not the baseline CAI allowance (which is the equivalent of the opex escalator category). We are concerned that should we adjust the approach in the manner suggested by this consultation the network operators will be underfunded through a coefficient set on one basis and a cost assessment undertaken on another.

If we were to recategorise contractor site supervision and management, the CAI value and treatment for of the baseline costs within the RIIO-2 deal would also need modification. The table below illustrates the hypothetical impact of changing the definitions underpinning the coefficient agreed at final determinations and the current interpretation.

The table shows the agreed baseline position for capex and CAI. To arrive at the coefficient, the impact of additional capital investment on CAI is then multiplied by 73.4% to account for the portion of CAI that is deemed fixed, and so does not vary with additional capital investment. A value of £100m has been used to illustrate a potential example of the impact of restating capex as CAI through a change in interpretation of definitions.

¹ file:///C:/Users/sarah.kenny-levick/AppData/Local/Temp/Temp1_riio-et2_templates.zip/RIIO-ET2_Transmission%20Glossary%20v1.1.pdf

| | | Baseline Capex | Baseline CAI | CAI %age Capex | Opex Escalator Coefficient |
|----------------------------------|----------------------|----------------|--------------|----------------|----------------------------|
| | NGET - baseline | 3,606.0 | 829.7 | 23.009% | 16.889% |
| | NGET | 3,606.0 | 829.7 | 23.009% | 16.889% |
| Adjusted FD for reclassification | Site mgt adjustment | -100.0 | 100.0 | -100% | |
| | NGET adjusted values | 3,506.0 | 929.7 | 26.517% | 19.464% |

As the table shows, the resulting coefficient would be increased from 16.9% to 19.5%. Any change in definition or the interpretation of definition of CAI and Direct Capex during the RIIO-2 price control period would necessitate a recalculation of the coefficient to ensure that both consumers and network operators are treated fairly.

Our proposal is to reinstate the funding of preliminary activities (site management and supervision), as they are not covered by the scope of opex escalator.

2. Risk

Ofgem's Position

5.16. Our RIIO-2 determinations capped average risk across projects at approximately 7.5% of contract value, following a review of outturn risk on a number of RIIO-1 projects. We are proposing to do the same across risk-sharing projects, which could result in some variation between the proposed contract prices and our proposed allowance. This will incentivise NGET to manage these works efficiently.

Response

We do not agree that the RIIO-2 determinations capped average risk across projects at approximately 7.5%. The Final Determinations ET Annex quoted that historically risk ranged from 5-25% of the final cost of a project, with the median being close to 10%. The approach to determining an efficient level of asset related risk and contingency was done on a bespoke basis based on the specific project evidence provided by each TO².

The approach taken on risk and contingency should be to assess each project on its merits. For the extreme weather submission, we provided a project specific risk register which has been assessed using the monte-carlo technique to determine the P50 risk outcome. This identified the following areas of project risk.

| Cause | Description | Impact | Mitigation / controls | Probability | Status (Value / Probability) |
|-----------|---|---------------|--|-------------|--|
| Covid -19 | Work delays due to COVID-19 issues in supply chain or Resource unavailability | Delay in work | Covid -19 regular testing in place for all operational staff | 30% | High Value (labour) / Medium Probability |

² https://www.ofgem.gov.uk/sites/default/files/docs/2021/02/final_determinations_et_annex_revised.pdf
p54 3.21 – para 3.30

| Cause | Description | Impact | Mitigation / controls | Probability | Status (Value / Probability) |
|---|---|---|--|--------------------|--|
| Lack of ground condition information | Sites requiring foundation works due to ground contamination or underground obstructions | Additional design & construction works. | Contractors to check on-line and site drainage records and site plans | 20% | High Value (design / material) / Low Probability |
| Outage cancellation post-contract award due to resource constraints and/or more critical works arising. | The planned outage(s) may be cancelled. Operational restrictions may be imposed. | Delay to work delivery. Compensation Event claims from main works contractor. | All outages and resources booked and monitored as part of the Transmission Net work System outage/resource plan | 20% | High Value (labour) / Low Probability |
| Design changes driven by reduced site details | Some of estimates are based only on annotations on a marked-up drawing without any site specific detailing | Design changes are implemented incurring additional costs. | Not available due to changed approach with focus on producing cost estimates | 20% | High Value (design/material) / Low Probability |
| Further changes required to proposed Scope of Works | Following involvement of NG site staff and Team Leader, as they may not have been involved in the original site surveys and in many cases have changed personnel. | Additional costs due to changed scope of works and delay to work delivery. | Early engagement of contractors with ET operational staff for site visits | 20% | Medium Value (labour) / Low Probability |
| Exclusion zones (RMHz/OESBs) - Close proximity to exclusion zones. | Probable Exclusion Zones imposing restriction or no access to work area. | Schedule delay associated with working around restrictions. | Close monitoring of OESB published and close liaison with the ET Operations team to confirm any restrictions early | 40% | Low Value (labour) / high Probability |
| Third party interface delays | Delays created by EA or DNOs agreement on works | Delays, cost increase and out of sequence working. | Early liaison with EA and DNOs | 20% | Low Value (labour) / Low Probability |
| Site access not available when required due to operational, security or other restrictions. | Site is not available as planned. | Delay to installation works and potential mitigation strategy. | Continuous liaison with the ET Operations team to confirm any restrictions early | 20% | Low Value (labour) / Low Probability |

* 20% - low probability; 30% medium probability; 40%+ high probability

The appropriate approach to determining the correct allowances would be to review the project specific risk assessment and agree to remove any risks identified as not valid.

We would be open to discuss further taking a portfolio approach as proposed, providing the portfolio risk value is set at an agreed appropriate level.

3. RPE Contingency

Ofgem's Position

5.17. NGET has requested a contingency of 9% of total contractors' costs to cover real price effects (RPE) of input prices increasing more than general inflation over the two-year delivery period 2022/23 to 2023/24. On the basis of the information provided to date, we are not convinced that the additional funding as requested by NGET is sufficiently justified. Our initial view is that the analysis underpinning this cost category is incomplete and lacking detail.

5.18. We need better analysis of the potential RPE impact over the duration of the project to finalise our view on this aspect. Specifically, we consider that NGET should compare forecasts of consumer price index including housing (CPIH) and the relevant construction index for the period and then apply the difference to the relevant project activities/items that will be exposed to the changes in the construction index. In addition, the estimated cost impact should be provided on a P50 basis to ensure there is fair cost-sharing with consumers.

Response

Please see the attached workbook for reference, it provides evidence and justification for the use of RPE's within National Grid's submission as requested in paragraph 5.18.

The 'Summary' tab walks through 3 scenarios based on varying levels of assumptions to the prices of Steel and Concrete. As per the original submission (total £4,055.8k), of the £3,379.80k contractor costs (which includes preliminary costs), 54% are linked with the purchase of steel and 10% are linked with the purchase of concrete. There have been significant increases in the costs of these commodities in recent times leading to increased uncertainty over supplier prices, and typically suppliers linking prices to an appropriate commodity index. The average price of steel and concrete since 18/19 has risen by 51% and 13% respectively, in this time CPIH has risen by 13% hence RPE's are required for the difference between these rises i.e., steel 38%.

It is stated in footnote 10 of Ofgem's response that allowances are automatically uplifted by CPIH every year as part of the annual iteration of the price control financial model. We therefore only need to assess the impact of the contractor costs over and above CPIH. We only calculate exposure on the elements of the contractor costs that relate to steel and concrete i.e., 56% and 10% of the total contractor costs. We then calculate the total potential contractor costs by first uplifting by CPIH and then adding on the extra exposure over and above CPIH. See 'Cover Sheet' tab for a step-by-step calculation.

The outcome of our assessment is highlighted in the table below.

| Scenario | Allowances (£k, Outturn) | Potential Contractor Costs (£k, Outturn) | RPE Exposure (£k, Outturn) | RPE Exposure (£k, 18/19 prices) | Exposure as a % of contractor costs submitted - £3,379.80 (18/19) |
|--|--------------------------|--|----------------------------|---------------------------------|---|
| Commodity Prices continue to rise at current rates | 4,226.42 | 5,912.60 | 1,686.18 | 1,468.04 | 38% |
| Commodity prices rise in line with CPIH | 4,226.42 | 4,712.02 | 485.60 | 424.84 | 12.6% |

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|--|----------|----------|--------|--------|------|
| Commodity prices remain fixed | 4,226.42 | 4,537.32 | 310.90 | 272.27 | 8.1% |
| Commodity prices fall by 3% y-o-y | 4,226.42 | 4,396.97 | 170.55 | 149.87 | 3.9% |

It is also of note that some of the preliminary costs also may be subject to RPE exposure as they include site set up costs and civils, thus further highlighting the need of the RPE allowances.

These scenarios show a significant range of exposure to RPE increases (3.9%-38%) by setting ex-ante allowances either consumers or network operators will be exposed to the risk of commodity price movements, which remain entirely outside of their control. Our proposal is to replicate a mechanism similar to the RPE mechanism included for all baseline allowances. This mechanism would be based on the steel and concrete components of the submission and be linked to the published indices – ‘70/12 Fabricated Structural Steel’ (BCIS) and ‘BCIS Concrete Framed Construction Cost Index’ and the final funding for this aspect of the investment would be based on a true-up assessment at the end of the T2 period, based on actual commodity price increases.

Appendix 2 – List of Indirects as defined in the RIIO-T2 regulatory instructions and guidance:

Glossary

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| Operational IT and Telecoms | IT equipment which is used exclusively in the real time management of network assets, but which does not form part of those network assets |
| Project Management | <p>Project Management from authorisation through preparation, construction and energisation to completion.</p> <p>Includes:</p> <ul style="list-style-type: none"> • Overall responsibility for major project delivery. • Determining resource requirements. • Planning and requisitioning materials & equipment. • Liaising with procurement for non-standard materials as required. • Work and resource programming. • Risk assessments of the overall project content. • Preparation of work instructions. • Issue of work to own staff and contractors. • On-site supervision and technical guidance. • Quality checks on work undertaken. • Organising network access and co-ordination of outages. • Organising and supervising (where appropriate) the undertaking of commission tests. • Issuing completion certificates. • Arranging energisation of assets. • Cost control. <p>Excludes:</p> <ul style="list-style-type: none"> • Any IT or property costs associated with Project Management. • Any employees managing other indirect activities. • Any design work relating to new connections new or replacement assets |
| Network Design and Engineering | <p>All processes and tasks involved in the:</p> <ul style="list-style-type: none"> • Strategic planning of the network at all voltages. • Detailed engineering design of new connections, extensions and changes to the network at all voltages. <p>Includes:</p> <ul style="list-style-type: none"> • Strategic planning of the network – Relates to the tasks associated with the network in totality rather than individual projects. Includes: <ul style="list-style-type: none"> ○ Maintenance of network design data models. ○ Development of long term development statements. ○ Capital planning for business plans and budgets. ○ Network wide demand forecasting. ○ Network Modelling associated with determination of Use of System charges. ○ Strategic planning of the network in respect of new connections, load related network reinforcement and all aspects of the “non-load new and replacement asset installation” activity. |

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| | <ul style="list-style-type: none"> • General and Fault Level Reinforcement – Relates to the tasks associated with the project specific network design and engineering of General and Fault Level Reinforcement projects. • Demand Connections – Relates to the tasks associated with the project specific network design and engineering of Demand Connections projects and enquiries. • Other Network Investment – Relates to the tasks associated with the project specific network design and engineering of all other aspects of Network Investment projects. <p>The tasks associated with General and Fault Level Reinforcement projects, Demand Connections projects & enquiries & enquiries and all other aspects of Network Investment projects including:</p> <ul style="list-style-type: none"> • Load forecasting. • Network modelling. • Network and engineering design of the network to accommodate new connections, specific changes in either demand or distributed generation and all aspects of the “non-load new and replacement asset installation” activity. • Provision of connection charge quotations. • Approval of network designs undertaken by other parties, such as independent connection providers and related parties. • The surveying of a specific overhead line in order to identify the detailed work required to address an identified problem/issue. • The determination of land profiles to select the routes and pole sizes for new or replacement lines. • The surveying associated with new and existing operational sites in order to identify detailed work requirements. • Network performance monitoring and evaluation of impact of salient policies. • Planning new projects up to the point of authorisation. <p>Network Design and Engineering excludes:</p> <ul style="list-style-type: none"> • The surveying, patrolling or inspection of system assets to collect condition information. • Any IT or property costs associated with network design & engineering. |
| System Mapping | <p>The activity of mapping of the network and operational premises of the network to geographical locations.</p> <p>Includes:</p> <ul style="list-style-type: none"> • Updating the geographical system maps with asset and locational information following the installation, removal or repositioning of system assets. • The updating of Geographic Systems (GIS) records following Ordnance Survey mapping rebasing upgrades. • Responding to the New Roads and Street Works Act NRSWA notices sent to the Company by other parties. • Ordnance survey licence fees. <p>Excludes:</p> <ul style="list-style-type: none"> • Clerical support and admin associated with New Roads and Street Works Act (NRSWA). • updating the network control diagram |

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| | <ul style="list-style-type: none"> onsite collection of asset and locational information where this task is undertaken with the installation of the asset which is part of the associated direct activity: IT & Property costs associated with System Mapping activity |
| Engineering Management and Clerical Support | <p><u>Engineering Management & Clerical Support</u> The office-based activities of engineering and clerical support staff (ie depot clerical staff, managers, work planners, etc) managing or assisting employees undertaking direct activities and Wayleave Administration.</p> <p>Includes:</p> <ul style="list-style-type: none"> Strategic Network Plan Development and implementation: <ul style="list-style-type: none"> Managing the delivery organisational structure to achieve the long and short term company goals. Agreeing resource requirements (own employees, contractors, finances and outcome targets). Managing the allocation and distribution of delivery resources to achieve plans. Managing key corporate policies and standards for investment/ service delivery. Leading the management team for service delivery. Monitoring the achievement of plans. Overseeing the management of teams with responsibility for service delivery. Identification and implementation of improvement initiatives: <ul style="list-style-type: none"> Redesign of business processes Customer service improvements Work Planning, Budgeting, Allocation and Control: <ul style="list-style-type: none"> Monitoring delivery of major works Monitoring fault activity. Monitoring budgets of Inspections and maintenance, faults and major works. Setting and agreeing performance targets, monitoring actual performance. Reporting and analysis of Key Performance Indicators (“KPIs”). Line management of staff undertaking direct activity work: <ul style="list-style-type: none"> Standards of performance, disciplinary and sickness absence procedures. Monitoring absence, back-to-work-interviews and welfare visits. Establishing day to day work plans. Managing the allocation tasks to achieve the delivery of operational and capital plans. Scheduling and monitoring the achievement of work jobs. Managing budget. Ensuring work activity adheres to company technical and health & safety requirements. Mobile generation Management: <ul style="list-style-type: none"> Managing the use of mobile generation. Managing and scheduling the maintenance of mobile generation. Operational Performance Management: |

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| | <ul style="list-style-type: none">○ Health and Safety checks on work and personnel○ Compliance checks on staff and contractors work carried out○ Site safety inspections○ Providing safety advice to cable contractors and others (to help prevent damage)○ Investigation, report and corrective action following an accident or environmental incident○ Authorisation of team members for operational and non operational duties○ Operational safety checks <ul style="list-style-type: none">● Providing safety advice to persons working in proximity to network assets. <ul style="list-style-type: none">● Streetworks admin: Customer Funded :<ul style="list-style-type: none">○ Processing of NRSWA notifications.○ Processing the payment of notification penalties (but not the cost of the penalties).○ Processing permit applications (but not the costs of the permits).○ Processing the payment of permit penalties (but not the cost of the penalties).○ Processing payment of inspection penalties (but not the costs of the penalties).○ Liaising with local authorities.○ Liaising with contractors and direct labour force to undertake remedial works following inspections (but not the cost of the remedial works).○ Processing of congestion charges payments (but not the cost of the payments).○ Processing of lane rentals payments (but not the cost of the payments).○ Processing of overstay fines (but not the cost of the fines).○ Updating the Street Gazetteer. <ul style="list-style-type: none">● Wayleave Payments:<ul style="list-style-type: none">○ Annual payments made in advance to the owner and/or occupier to cover the financial impact of having equipment on their land. <ul style="list-style-type: none">● Wayleaves and Easements/Servitudes: Admin Costs:<ul style="list-style-type: none">○ Obtaining, managing and administering Wayleave, substation rents, easements and servitudes.○ Negotiating new Wayleaves.○ Managing Wayleave terminations.○ Administration of existing Wayleaves including the preparation of payments.○ Negotiation conversions from Wayleave arrangements to permanent easement/ Servitudes, substation rents and Wayleave payments. <ul style="list-style-type: none">● Clerical Support:<ul style="list-style-type: none">○ Updating plant and overhead line support asset inventory databases following asset commissioning and decommissioning.○ Updating plant and overhead line support asset condition data following inspection and maintenance. |
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| | <ul style="list-style-type: none">○ Dealing with verbal and written enquires for new connections, or faults.○ Programming of minor works.○ Issuing of work instructions.○ Preparation of quotations for minor works.○ Sending quotations to customers.○ Customer liaison.○ Liaising with contractors.○ Preparing plans, schematics, notices, materials schedules and work instructions.○ Preparing shutdown notices.○ Environmental notifications.○ Clerical support for staff answering verbal and written enquiries regarding faults, liaising with contractors and other stakeholders. <p>Excludes:</p> <ul style="list-style-type: none">● Any Employees managing indirect activities (eg logistics manager) (include under the relevant indirect activity heading).● Design work relating to new connections new or replacement assets.● Responding to NRSWA notices sent to the Company by other parties (include under Systems Mapping).● Maintenance of mobile generation plant (include under Vehicles and Transport).● Any employees engaged in maintaining the financial asset register.● Idle, down and sick time of direct field staff (include with their normal direct time in the appropriate direct activity).● IT or property costs associated with Engineering Management & Clerical Support.● Apprentices undertaking classroom training (include under Operational training and workforce renewal)● Time of employees attending training (include as labour costs under the relevant activity).● Training courses and training centre costs for staff relating to working on system assets (include under operational training and workforce renewal).● Engineering and health and safety training, courses for staff involved in indirect activities (include under operational training and workforce renewal).● Updating of underground cable and overhead line asset data bases (include under System Mapping).● Updating financial asset register (Finance & regulation).● Compliance checks on staff and contractors' work carried out.● Site safety inspections.● Investigation, report and corrective action following an accident or environmental incident.● Authorisation of team members for operational and non-operational duties.● Operational field safety checks.● Time of employees attending training (include as labour cost under the relevant activity of that employee).● Purchase of equipment (include under non-operational capex).● Training, courses and training centre costs for staff relating to working on system assets (include under operational training and workforce renewal). |
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| <p>Network Policy (incl. R&D)</p> | <p>All processes and tasks involved in the development and review of environmental, technical and engineering policies, and including research and development.</p> <p>Includes:</p> <ul style="list-style-type: none"> • Evaluating the impact of changes in relevant legislation. • Development, regular review and updating of asset risk management policies, such as: <ul style="list-style-type: none"> ○ asset maintenance policy ○ asset inspection policy ○ technical standards and specifications team ○ plant, equipment and component specifications ○ vegetation management policy ○ asset replacement policy ○ network design and protection policy. • Analysis and interpretation of asset condition data. • Development, regular review and updating of environmental policy. • Research and development (including Fees paid to research and development organisations). <p>Excludes:</p> <ul style="list-style-type: none"> • Any of the IT or Property costs associated with Network Policy. • Excludes IFI related research and development. |
| <p>Health Safety and Environment</p> | <p>The activity of promoting and maintaining health and safety of employees, contractors, customers and the public.</p> <p>Includes:</p> <ul style="list-style-type: none"> • Developing the company's overall health and safety policy. • Establishing procedures to comply with best practice for health and safety. • Maintenance of records to show compliance with Factory and Health and Safety at Work Acts. • Providing advice on security matters both for property and personnel and provision of advice on fire prevention. <p>Excludes:</p> <ul style="list-style-type: none"> • Health & Safety checks on work and personnel such as: <ul style="list-style-type: none"> ○ compliance checks on staff and contractors' work carried out ○ site safety inspections ○ investigation, report and corrective action following an accident or environmental incident ○ authorisation of team members for operational and non-operational duties ○ operational field safety checks ○ time of employees attending training (include as labour cost under the relevant activity of that employee) ○ purchase of equipment (include under non-op capex) ○ training, courses and training centre costs for staff relating to working on system assets (include under operational training) ○ engineering and health and safety training, courses for staff involved in indirect activities (include under operational training). |

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| Operational Training | <p>Includes operational training and graduate trainees and apprentices.</p> <p>Includes training Workforce Renewal new recruit, Operational Upskilling and Operational Refresher Training.</p> <p>Operational Upskilling - covers all training (whether classroom based or on-the-job) where employee's skill level is increased in order to undertake activities requiring a higher skill level or to undertake activities requiring a different skill set (eg multi-skilling or redeployment) or the undertake activities via more efficient / effective processes. (Does not cover, eg, routine operational refreshers, and safety briefings, non-operational training courses eg MS Excel, training for CPD purposes once qualified eg accountant).</p> <p>Apprentices are engaged under approved apprentice's schemes. Trainees are employed under a formal training programme.</p> <p>Includes:</p> <ul style="list-style-type: none"> • Classroom training. • On the job training. • Trainer and course material/running costs (classroom training). • Training admin. • Recruitment and external advertising costs for trainees/apprentices. • Salaries of apprentices and trainees in full time continuous training up to the point they become fully engaged in operational activities. • Costs of staff that organise and provide operational training and maintain employees training records. <p>Excludes:</p> <ul style="list-style-type: none"> • HSE costs (include under Health, Safety & Environment). • IT & Property management costs associated with Ops Training and Training Centres (include under IT & Property costs respectively). |
| Stores and Logistics | <p>The activity of managing and operating stores.</p> <p>Includes:</p> <ul style="list-style-type: none"> • Delivery costs of materials or stock to stores. • Labour and transport costs for the delivery of materials or stock from a centralised store to a satellite store/final location (and vice versa), taking into account the stock management policies. • Monitoring stock levels. • Quality testing of materials held in stores. <p>Excludes:</p> <ul style="list-style-type: none"> • Costs of oil or other insulation medium (report under the activity for which it is used, eg maintenance, faults). • Any of the IT systems associated with stores/logistics (include under IT & Telecoms). • Any property management and maintenance costs of depots/stores locations (include under property management). • Vehicles and Transport - the activity of managing, operating and maintaining the commercial fleet and mobile plant (include under Vehicles and Transport). |

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| Vehicles and Transport | <p>The activity of managing, operating and maintaining the commercial fleet and mobile plant utilised by the Network or any other related party for the purposes of providing services to the Network.</p> <p>Includes:</p> <ul style="list-style-type: none"> • Lease costs associated with the vehicle fleet and mobile plant. • Maintenance costs of the vehicle fleet and mobile plant, including mobile generation. • Cost of accident repairs to business' own vehicles whether covered by insurance or not and the cost recovery where recovered by insurance. • Fuel costs of the vehicle fleet and mobile plant. <p>Excludes:</p> <ul style="list-style-type: none"> • Direct field staff time spent on utilising the vehicles for a direct cost activity (include under direct cost activity). • IT & Property costs associated with vehicle management. • Purchases of vehicles, mobile plant and equipment (include under non-op capex). • Cost of providing company cars to employees which are benefits in kind (include as labour cost under the relevant activity of that employee). |
| Market Facilitation | <p>This covers the following activities:</p> <ul style="list-style-type: none"> • Network code governance and development. • Proposing and managing industry code modifications. • Generation and demand forecasting. • Information provision to the industry. • Calculation and implementation of Transmission charges. |
| Network Planning | <p>This covers the following activities:</p> <ul style="list-style-type: none"> • Asset assurance and management of the asset registers. • Business expert input into IT system development. • Performance monitoring and improvement. • Co-ordination and completion of benchmarking activities. • Control Centre - Operational management and control of the network <ul style="list-style-type: none"> ○ Outage planning and management ○ Real time control and monitoring ○ Dispatch ○ Major incidents and emergency planning |