

Decision

Decision on the NGET's Civil Related Works Re-opener

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This document sets out our¹ decision on an application by National Grid Electricity Transmission plc (NGET) under Special Condition 3.32.4 of its licence (Civil Related Works Re-opener) for a direction adjusting the value of the CWRt term as a result of NGET's identifying further evidence to support a needs case for Civil Related Works that were included in its Business Plan, but in relation to which no allowance has been provided to date.

We published consultation on our initial assessment of the re-opener on 14 December 2022. Consultations have now closed. We have published the non-confidential response to the consultation alongside this document.

¹ The terms 'we', 'us', 'our' refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

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Executive Summary

National Grid Electricity Transmission plc (NGET), who owns and operates the transmission network in England and Wales, is the holder of a licence granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 (the Licence). Special Condition 3.32 (SpC 3.32) Civil Related Works Re-opener (Civils Re-opener) of the Licence is a mechanism that provides NGET with an opportunity to request additional funding to that already provided in its RIIO-ET2 baseline allowances for Civil Related Works. In line with SpC 3.32 and the provisions set out in the associated RIIO-ET2 Re-opener Guidance and Application Requirements Document,² NGET submitted a needs case, optioneering and cost proposal relating to Civil Related Works for our consideration under the Civils Re-opener.

We published the consultation on 14 December 2022. This document sets out a summary of the consultation responses received and our views on them; any changes to our minded-to position since the consultation; our decisions in relation to the scope, needs case, optioneering and efficient costs; and next steps. Our decisions are summarised as below:

- 1) We have decided to issue a Statutory Consultation on widening the scope of the Civils Re-opener in line with our original policy intent by amending the definition of “Civil Related Works” in SpC 1.1.16 and enabling the allowance for Civil Related Works to be subject to a Use It Or Lose it Adjustment by amending the definition of “Use It Or Lose It Adjustment” in SpC 1.1.16 and SpC 3.32 (Civil Related Works Re-opener (CWRt)).
- 2) Consistent with SpC 3.32, we have decided to issue a direction (in relation to which representations may be made during a period of 28 days from the date of issue), conditional on the outcome of the above-mentioned Statutory Consultation. The effect of the direction is to:
 - a. approve the needs case and funding for the proposed interventions on substation sites with whole site condition monitoring, with a comprehensive survey of fixed wiring completed, and with urgent but unforeseen needs;
 - b. approve adjusted funding for essential remedial interventions proposed under NGET’s internal database (known as Plant Status); and

² [National Grid Electricity Transmission plc - Special Conditions Consolidated - Current Version.pdf \(ofgem.gov.uk\)](#); and [RIIO2 Re-opener Guidance And Application Requirements Version 2 | Ofgem](#)

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- c. use four Use-it-or-lose-it (UIOLI) funding mechanisms, one for each category of works, to provide necessary flexibility for NGET to carry out essential remedial interventions as necessary.

The funding request from NGET, the conditional adjustment and the proposed allowance are summarised below.

| Category of Works | NGET Request (£m) | Consultation | | Decision | |
|--|-------------------|-------------------------------|-----------------------|--------------------------------------|-----------------------|
| | | Adjustments to requested (£m) | Draft allowances (£m) | Adjustments to draft allowances (£m) | Final allowances (£m) |
| 1) Plant Status | | | | | |
| • Non-Outage interventions < £250k | 8.150 | -25.333 | 5.507 | - | 5.507 |
| • Outage Related Interventions < £250k | 8.051 | | | | |
| • £1m> Interventions >£250k | 7.548 | | | | |
| • Interventions > £1m | 7.091 | | | | |
| 2) Fixed Wiring | 3.097 | - | 3.097 | - | 3.097 |
| 3) Site Condition Monitoring | 11.665 | - | 11.665 | - | 11.665 |
| 4) Urgent Unforeseen Interventions | 4.080 | - | 4.080 | - | 4.080 |
| Total Works: | 49.697 | -25.333 | 24.349 | - | 24.349 |

1. Introduction

Background

1.1. The RIIO-ET2³ price control period (running from 1 April 2021 until 31 March 2026) includes a range of Uncertainty Mechanisms (UMs) that will allow us to assess further funding during RIIO-ET2 as the need, cost or timing of works becomes clearer.

1.2. Where possible, we have set automatic UMs, such as the Generation and Demand Connection Volume Drivers, which provide ETOs with immediate funding when they are required to undertake new customer connection works. In other areas, where the degree of uncertainty is too great to allow for an automatic mechanism, we set “re-openers” which will allow us to robustly assess ETOs’ proposals once information with sufficient accuracy is made available.

1.3. NGET requested funds in its RIIO-ET2 Business Plan for a range of civil works at its substations. Civil Related Works are interventions on existing substation civil structures and are carried out when the assets reach a condition warranting intervention. Civil structures include roof, building, asset structures, new roads and replacements, vehicular and pedestrian trench crossings in substations and environmental interventions (related to drainage and oil containment issues on substations).

1.4. However, as per our RIIO-ET2 Final Determinations (FDs)⁴, we only awarded partial funding for these works as NGET had not conducted appropriate asset condition assessments. We established the Civils Re-opener, as per Special Condition (SpC) 3.32,⁵ to allow NGET to request additional funding during the RIIO-ET2 price control period for a range of Civil Related Works in their substations, if they could evidence appropriate asset condition assessment.

1.5. In its Civils Re-opener submission in August 2022, NGET provided a needs case, preferred option and cost for four categories of works as below. NGET considered that these works satisfied the requirements of SpC 3.32.

- 1) Plant Status Interventions
- 2) Fixed Wiring

³ RIIO stands for “Revenue = Incentives + Innovation + Outputs”.

⁴

https://www.ofgem.gov.uk/sites/default/files/docs/2021/02/final_determination_nget_annex_revised.pdf (Chapter 3)

⁵

<https://epr.ofgem.gov.uk//Content/Documents/National%20Grid%20Electricity%20Transmission%20plc%20-%20Special%20Conditions%20Consolidated%20-%20Current%20Version.pdf>

- 3) Site Condition Monitoring
- 4) Urgent but unforeseen interventions

Context and related publications

1.6. This document is intended to be read alongside:

- 1) Consultation on NGET Bespoke Civil Works Re-opener⁶
- 2) NGET’s Civils Re-opener application document⁷
- 3) RIIO-ET2 Re-opener Guidance and Application Requirements Document⁸
- 4) NGET Special Licence Conditions (SpCs 1.1 and 3.32).⁹

Our decision-making process

Re-opener submission process

1.7. NGET submitted its application under SpC 3.32 (Civil Related Works Re-opener) following identification of further evidence that it needs to carry out additional Civil Related Works on top of what it has already been funded to carry out through baseline allowances. For further information on the Civils Re-opener mechanism see Chapter 4 of FDs Annex.¹⁰

1.8. NGET’s submission provided information it felt justified the needs case for various proposed interventions, its preferred option for meeting the needs case, and detailed costs for the proposed interventions.

⁶ <https://www.ofgem.gov.uk/publications/consultation-national-electricity-transmission-nget-bespoke-civil-related-works-re-opener>

⁷ <https://www.nationalgrid.com/electricity-transmission/document/145766/download>

⁸ <https://www.ofgem.gov.uk/sites/default/files/2022-02/Re-opener%20Guidance%20And%20Application%20Requirements%20Document%20Version%202.pdf>

⁹

<https://epr.ofgem.gov.uk/Content/Documents/National%20Grid%20Electricity%20Transmission%20plc%20-%20Special%20Conditions%20Consolidated%20-%20Current%20Version.pdf>

¹⁰

https://www.ofgem.gov.uk/sites/default/files/docs/2021/02/final_determinations_et_annex_revise_d.pdf

Responses to the Civils Re-opener consultation

1.9. We received only one response to the consultation from NGET. Our decisions reflect our careful consideration of the response as well as relevant information received from NGET in response to our requests for further clarification.

1.10. A summary of our minded-to view on scope, needs case, optioneering and cost efficiency is provided in Chapter 2 of this document.

Decision-making stages

1.11. The decision-making stages for the Civils Re-opener are detailed below:

| Date | Stage description |
|-------------|--|
| 14/12/2022 | Stage 1: Consultation open |
| 16/01/2023 | Stage 2: Consultation closes (awaiting decision), Deadline for responses |
| 22/03/2023 | Stage 3: Responses reviewed and published |
| 28/04/2023 | Stage 4: Consultation decision/policy statement |

General feedback

1.12. We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this Decision. We’d also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments

Please send any general feedback comments to stakeholders@ofgem.gov.uk.

2. Scope, needs case, optioneering and efficient costs

Background

2.1. NGET’s Civils Re-opener application is driven primarily by asset condition. A significant portion of NGET’s infrastructure on substation sites was installed in the 1960s and 1970s and has now deteriorated to a state whereby it requires repair, refurbishment or replacement.

2.2. In 2021/22, NGET carried out site surveys to assess the condition of the assets on its internal database (known as Plant Status), a comprehensive site survey of the fixed wiring at 92 sites, and a whole site assessment at 20 high priority sites. In its Civils Re-opener submission, NGET proposed works under four categories as described in paragraph 1.5 above.

Summary of our consultation proposals

Scope of the reopener

2.3. Licence conditions SpC 1.1 and 3.32¹¹ and the relevant paragraphs 3.96 and 3.97 in the FDs¹² stipulated that the scope of this re-opener is limited to interventions on existing assets and, except in the case of roads, does not extend to replacement of assets. Our policy intent for this re-opener, however, has always been to cover interventions on existing assets, including repair, refurbishment or replacement of assets where appropriate.

2.4. Our minded-to position was to widen the scope of this re-opener by amending the licence definition of Civil Related Works in SpC 1.1.16 to include repair, refurbishment or replacement of assets where appropriate.

Needs case

2.5. Our minded-to view was to award only adjusted funding for category one (as per paragraph 1.5 above) to cover the essential remedial works during the RIIO-2 period. Although we lacked full confidence in the needs case for those interventions under category one, we recognised that some portions of the infrastructure on NGET’s

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<https://epr.ofgem.gov.uk//Content/Documents/National%20Grid%20Electricity%20Transmission%20plc%20-%20Special%20Conditions%20Consolidated%20-%20Current%20Version.pdf>

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https://www.ofgem.gov.uk/sites/default/files/docs/2021/02/final_determination_nget_a_nnex_revised.pdf

substation sites may be deteriorating to a state whereby they require intervention to reduce the risk of failure. NGET’s condition assessments scored a proportion of its assets at 80 or above out of 100, meaning that there was an indication of “substantial deterioration or very poor” condition. We therefore proposed to award funding only for the assets with a condition score of 80 and above.

2.6. Our minded-to view was that there was sufficient justification for the Civil Related Works proposed under categories two to four (as per paragraph 1.5 above), that is:

- at the 20 high priority sites at which whole site assessments were completed,
- at the 92 sites at which a comprehensive survey of fixed wiring was undertaken,
- and the assets that require urgent unforeseen interventions.

Optioneering

2.7. Our minded-to view was that NGET had considered an appropriate range of possible options to address the needs case and we agreed with NGET’s methodology to use condition data on a case-by-case basis for selecting the preferred option.

Efficient costs

2.8. Our minded-to view was that the costs submitted for the interventions that could demonstrate a needs case were efficient. We therefore proposed additional allowances as follows:

- 18% of the requested funding for Plant Status (category one) to reflect the proportion of assets requiring essential remedial work. We proposed to provide the funding as a single Use-It-Or-Lose-It (UIOLI) allowance so as to maximise NGET’s flexibility to utilise the funding where it is most needed.
- 100% of the requested funding for categories two to four. We proposed to provide the funding as three separate UIOLI allowances (one for each of the three categories).

Consultation responses

2.9. We received only one response from NGET to the consultation. This has been published alongside this document.

Scope of the Re-opener and the Needs Case

2.10. NGET agreed with our minded-to positions on the scope of this re-opener, on our proposed amendment of SpC 1.1.16, and on proposed approval of the needs case for fixed wiring and unforeseen urgent interventions (categories two and four).

2.11. NGET disagreed with our views on the needs case for category one, as in its view there is no fundamental difference between the way in which the interventions proposed

under category one and those proposed under category three have been assessed and scored. They have simply been identified through two separate processes. NGET therefore suggests that we should have arrived at the same conclusions for both categories.

2.12. In NGET’s view:

- While there were a number of Plant Status entries which were identified prior to the RIIO-ET2 period, all of the condition information has been consistently captured and scored to ensure interventions are appropriately prioritised. It believes that the level of information provided in relation to Plant Status entries fully meets the requirements of this re-opener and is substantially enhanced in comparison to what it provided as part of the RIIO-ET2 business plan submission.
- Making a cut at a condition score of 80 did not recognise some of the complexities in the scoring and the variability in asset deterioration rates.

2.13. Further, NGET provided a draft view on site strategies which it did not have at the time of submission of this re-opener and requested that we re-consider our minded-to position on the needs case for works under category one and award additional funding accordingly.

Optioneering

2.14. NGET agreed with our minded-to position on the options to meet the needs case and the methodology for selection of their preferred option.

Efficient costs

2.15. NGET agreed with our views that the cost estimates were efficient as well as our proposals to provide the funding through UIOLI mechanisms. However, NGET did not agree with the extent to which we are minded-to adjust the funding for category one.

Our decision

2.16. Having considered NGET’s response and additional information provided, our decision is to issue a direction (in relation to which representations may be made during a period of 28 days from the date of issue), conditional on the outcome of our Statutory Consultation on enlargement of the scope of the Civils Re-opener and on enabling the allowance for Civil Related Works to be subject to a Use It Or Lose it Adjustment.

2.17. We maintain our views on widening the scope of the Civils Re-opener and, given that no opposite views were received, the needs case for the works under categories two to four as described in paragraphs 2.4 and 2.6 respectively.

2.18. We also maintain our views on the difference in condition data submitted by NGET for the works proposed under categories one and three. We consider the information provided under Plant Status is only on a limited proportion of assets within a site, whereas whole site monitoring provides comprehensive condition data to support the required interventions on both high and low risk assets to upkeep the asset health and hence the reliability of the networks.

2.19. We have carefully considered the additional information provided by NGET. Although NGET provided a draft view on site strategies, it did not satisfactorily account for other relevant factors and other works on the sites, such as safety related concerns, replacements or connections. The information provided is not sufficient to enable us to conclude that the proposed interventions are justified or that they are cost effective in long term. We are therefore unable to move from minded-to position in regard to funding for categories one and three.

2.20. We recognised that some interventions currently with a score of 60 could degrade to a score of 80 more quickly than others, as mentioned by NGET in paragraph 2.12. However, as we have awarded adequate funding under category four to cover unforeseen intervention and have decided to use UIOLI funding mechanism for all categories of works, we consider the funding mechanism provides the required flexibility to enable NGET to deploy the funding on interventions that are essential during the RIIO-ET2 period.

2.21. In RIIO-ET2 FDs we stated our expectation that in order to make a robust needs case under the reopener mechanisms a licensee would need to provide a full set of updated asset condition data.¹³ With the exception of the civil assets at 20 sites, NGET has not provided updated full condition data. Despite NGET’s failure to provide this data, in our view it is in the best interest of consumers to provide funding in this case, as it is clear that some level of investment is required given that there were indications of “substantial deterioration or very poor” conditions in a proportion of its assets. The use of UIOLI allowances provides consumers with protection, as any unspent allowances will be returned to them. We will closely scrutinise the spending of these allowances through annual monitoring and at RIIO-ET2 closeout to ensure that they are utilised appropriately. We expect that any future reopener submissions will include appropriate updated condition data and we will consider the rejection of any applications without this data.

¹³

https://www.ofgem.gov.uk/sites/default/files/docs/2021/02/final_determination_nget_a_nnex_revised.pdf (paragraph 3.97)

Summary of allowance

2.22. The table below summarises NGET’s funding request, our minded-to position, adjustments and our conditional allowances against each of the categories of works proposed under the Civils Re-opener.

Table 1: Re-opener allowances

| Category of Works | NGET Request (£m) | Consultation | | Decision | |
|--|-------------------|-------------------------------|-----------------------|--------------------------------------|-----------------------|
| | | Adjustments to requested (£m) | Draft allowances (£m) | Adjustments to draft allowances (£m) | Final allowances (£m) |
| 1) Plant Status | | | | | |
| • Non-Outage interventions < £250k | 8.150 | -25.333 | 5.507 | - | 5.507 |
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| • Interventions > £1m | 7.091 | | | | |
| 2) Fixed Wiring | 3.097 | - | 3.097 | - | 3.097 |
| 3) Site Condition Monitoring | 11.665 | - | 11.665 | - | 11.665 |
| 4) Urgent Unforeseen Interventions | 4.080 | - | 4.080 | - | 4.080 |
| Total Works: | 49.697 | -25.333 | 24.349 | - | 24.349 |

3. Next Steps

3.1. We confirm our decision to issue a conditional direction in relation to funding for the four categories of works under this re-opener. That direction is conditional upon the outcome of our Statutory Consultation on the enlargement of the scope of the Civils Reopener and will take effect if and when the licence modification proposed in our Statutory Consultation takes effect. This decision document contains details of the associated amendments to the definition of Civil Related Works and the conditional direction adjusting the value of the CWRt term which will take effect if and when the proposed licence modification takes effect.¹⁴

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<https://epr.ofgem.gov.uk//Content/Documents/National%20Grid%20Electricity%20Transmission%20plc%20-%20Special%20Conditions%20Consolidated%20-%20Current%20Version.pdf> (SpC’s 1.1.16 and 3.32)