

RP6 Network Investment RIGs Commentary Template



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1. Introduction

1.1 Overview

- 1.1.1 The commentary template provides the opportunity for the licensee to explain why costs have been incurred and the annual movement in cost levels. It will be used in conjunction with the data tables, to understand the structures and operations of the licensee, to inform future prices controls and monitor the licensee's performance against cost assumptions included in the final determination for RP6.
- 1.1.2 Guidance on the completion and submission of commentary is included in the Network Investment RIGs Guidance Notes
- 1.1.3 A full commentary addressing all material issues will help reduce the number of follow up questions and time spent by both the Utility Regulator (UR) and licensee staff.
- 1.1.4 This document has been created such that the licensee shall insert their comments in the sections identified below in yellow. No additional or freeform document need be created but instead we request the licensee insert an appropriate chapter heading and commentary box in the body of this document where it is necessary to provide additional commentary.
- 1.1.5 Backup documents referenced in the commentary should be attached as Annexes to the submission of this commentary. An electronic copy of any Annex shall be provided. The file name used for the electronic copy of any Annex should include a reference to the relevant section of the commentary and be structured so that the order of the file name is the order they appear in the commentary.

2. General Commentary

2.1.1 The licensee should provide general commentary on the following issues

The licensee should identify and provide an explanation of any material issues which, in the licensee's opinion, might prevent it from delivering the RP6 outputs in full.

As we have previously advised, our delivery was impacted by COVID 19 – both in terms of restrictions in availability of resource / material and also because we had focussed our efforts on essential customer services. We had anticipated increasing our outputs after the impact of COVID 19 to make up any shortfall arising.

However, with global supply chain issues which arose after the pandemic and further intensified by the war in Ukraine, we have had difficulties securing the scale of additional materials and in some cases contractor resource to ramp up our activities. These factors have been exacerbated by the significant increase in demand from the industry as DNOs right across the UK and Europe are embarking on much larger investment programmes to facilitate the anticipated growth in Low Carbon Technologies. This aggregated increase in demand is giving rise to significant increases in material lead-times for delivery. As a result, we think it is increasingly unlikely that we will be able to fully recover the shortfall in our delivery in the period to March 2025 (the extended RP6 period). Therefore, we are currently anticipating that there will be a level of carryover to complete our outputs in the 24 months following that date. We will continue to strive to do all that we can to achieve the outputs within the original timeframe and to minimise the level of carryover.

In order to optimise the resources available to us we have brought forward some outputs, such as HV and LV cable replacement from the extension year and RP7. At this stage we have therefore delivered a greater number of outputs than anticipated at this stage of the price control. It does however remain our intention to deliver the specified RP6 outputs in full except for areas in which the substitution mechanism has been used to re-prioritise work programmes.

We would also point out that the scarcity of material and resources arising is having a real impact on prices which is in addition to the general inflationary pressures being seen from rising fuel costs. We continue to push to deliver outputs as quickly as possible in spite of these increases. As a result of these cost pressures it is expected that the cost of delivering the remaining RP6 outputs will exceed the remaining allowances available. This overspend will not be visible by March 2025 but will be apparent once committed outputs are delivered.

3. Commentary tables per workbook

3.1 Introduction

3.1.1 For the Network Investment RIGs Reporting Workbook we set out the categories of commentary as follows:

3.2 The Cover worksheet

Please detail any suggested edits and rationale for these
<i>No comments required</i>
Additional commentary/documentation
<i>No comments required</i>

3.3 The Change Log worksheet

Please detail any suggested edits and rationale for these
<i>Additional categories have been added to the listing to reflect new innovation projects invested in in the year.</i>
Additional commentary/documentation
<i>No comments required</i>

3.4 Reporting Worksheet

Provide commentary, where applicable, for all RP6 programmes and sub-programmes per paragraph 2.5 of the RIGs Guidance Notes

<i>As noted in section 2.1.1 as a result of recent supply chain and resource availability issues it is expected that there will be a level of carryover beyond March 2025. We are actively working to minimise this and are making our best efforts to ensure that front end activities such as design, securing necessary legalities and land access are progressed to ensure work can be delivered once other issues are addressed.</i>

We continue to work with our suppliers and contractors to mitigate the supply chain and resource availability issues as best we can.

Guidance Notes 2.5.3 para 1. *For almost all of the investment categories detailed within the Network Investment RIGs, direct costs are collected in SAP within Internal Orders which have been created for specific jobs and mapped to the appropriate investment category for reporting purposes. The only investment categories for which this approach is not adopted are D605 and T603 Network Access and Commissioning.*

As a portion of this activity is delivered by staff whose time is assigned to cost centres rather than internal orders there is an ongoing requirement to re-apportion some of their costs into this activity. This re-apportionment is performed on an analysis of timesheet records or an employee management assessment and is consistent with other RIGs submissions. Investment categories D605 and T603 also include the costs associated with unproductive labour due to the Covid 19 pandemic in 2020.

Guidance Notes 2.5.3 para 2. *NIE Networks records certain output data on locally maintained spreadsheets/databases as well as on corporate asset registers.*

Guidance Notes 2.5.3 para 3. *Unit cost variance analysis for all programmes included in summary tables included as Annex 1 to the UR Network RIGs reporting workbook (see guidance notes 2.4.7).*

Guidance Notes 2.5.3 para 4. *The Programme Management function within NIE Networks is dedicated to monitoring and reporting on the costs incurred and outputs delivered against the direct capex RP6 Network Investment Plan. Monthly reporting generated by this group forms the basis of direct capex reporting at all levels in the organisation with a formal RP6 direct capex update provided to the NIE Networks Executive team on a quarterly basis.*

During April and May 2021, the delivery of the RP6 capital programme was subject to an independent assurance audit carried out by Deloitte. Due to the strategic importance of the RP6 capital programme and the time elapsed in RP6, all areas of the programme were subject to review. The scope of the audit included:

- Appropriateness of overall governance structure in place for managing the programme*
- Adequacy of planning arrangements in place to minimise programme risks*
- Monitoring and reporting of programme outputs and costs*

The report did not identify any significant or important findings.

During the 18 months ended 31 March 2019, the management of and reporting arrangements for the Secondary Asset Replacement programme (all D15 investment categories) was subject to an independent assurance audit conducted by Deloitte. This area was selected as it represents both a significant value and volume of the overall RP6 Network Investment Plan. The scope of the audit included:

- *Appropriateness of overall governance structure in place for managing the programme*
- *Adequacy of planning arrangements in place to minimise programme risks*
- *Monitoring and reporting of programme outputs and costs*

No significant or important findings were identified as part of this review.

Specifically, regarding the preparation of this RIGs submission, costs and volumes have been imported from source systems with an internal Data Assurance review documented in relation to this data. In addition, a detailed variance analysis has been undertaken in comparison with associated RP6 allowances. Furthermore, the information presented in this submission has been cross checked with and where appropriate has been reconciled with other RIGs submissions (CV RIGs and Financial Data RIGs). The documentation has been subject to a series of independent management reviews.

In consideration of the above, NIE Networks is satisfied with the adequacy of the data assurance measures applied to this submission.

The information shown in the Network Investment RIGs is stated on an IAS 19 basis to align with how allowances have been set.

Guidance Notes 2.5.4. *Refer to Section 2.1.1.*

Guidance Notes 2.5.5. *NIE Networks is satisfied with the adequacy of the RIGs guidance documents including the clarity on cost definitions.*

Guidance Notes 2.5.6. *Through a process of engagement with the UR, NIE Networks agreed the form and content of the Network Investment RIGs. On that basis, NIE Networks believes the data content remains appropriate at this time.*

Guidance Notes 2.5.7. *For the vast majority of investment categories, direct capex costs used to populate the Network Investment RIGs are taken directly from SAP finance. As highlighted in Section 2.5.3 para 1 investment categories D605 and T603 represent the exceptions to this rule. Similarly, with regard to output volumes, these are sourced from a range of corporate asset registers and databases. There are no manual interventions applied to this data in populating the RIGs templates.*

Guidance Notes 2.5.8. *No formula changes have been applied by NIE Networks to the templates issued by UR.*

Guidance Notes 2.5.9 & 2.5.10. *As noted previously, a unit cost variance analysis has been provided for all programmes and has been included as Annex 1 to the UR Network RIGs reporting workbook.*

Guidance Notes 2.5.11. *For the period covered by this submission a number of major D5 projects were at various stages of pre-construction including:*

- *North South Interconnector project*
- *Airport Road 110kV substation*

In addition, a number of major D5 projects were at various stages of construction including:

- *Ballylumford Switchboard asset replacement*
- *Ballylumford Eden*
- *Omagh to Dromore; and*
- *The installation of additional Transmission Shunt Reactors*