

Investment in the Electricity Network Business Plan Guidance Notes



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1. Introduction

1.1 Overview

- 1.1.1 The overarching guidance for the RP6 Business Plan templates notes that the RP6 Business Plan should contain a section on Investment in the Network which addresses the following areas:
1. Overall description of investment
 2. RP5 out-turn report
 3. Approach to asset maintenance
- 1.1.2 Data relating to investment will be included in the following submission workbooks:
1. in the Network Investment business plan templates which are structured by “allowance” as per RP5 and allows investment in individual projects and programmes of work to be identified by year;
 2. in the transmission and distribution Cost & Volumes business plan templates which, amongst other information, allows activity rates and unity costs to be identified; and
 3. in the C1 matrices which summarises all costs expected to be incurred in the Business Plan period.
- 1.1.3 Each separate business plan template is accompanied by detailed commentary pro-forma which allows the company to provide general and specific commentary. The company should also provide an overall description of its investment programme. As well as describing how elements of the investment programme have been assessed, this overall description should set the company’s overall strategy, its overall approach to asset maintenance. The company should reference the overall description of the investment programme in the detailed commentary templates where appropriate rather than repeating information already provided. This document sets out the Utility Regulator’s guidance for the completion of an overall description of investment.

2. Strategic Context

- 2.1.1 NIE Networks should set out the strategic context within which it has developed its business plan for RP6 and set out how it has dealt with the issues and uncertainties which cannot be resolved or managed at this stage.
- 2.1.2 In particular, the company should set out how it has addressed the wide ranging issues associated with the drive to a low carbon future. These include:
1. The introduction and uptake of low carbon technologies.

2. Growth in distributed generation including wind and photo-voltaic cells.
 3. The introduction of technologies, processes and charging mechanisms which might encourage consumers to manage their demand resulting in more uniform aggregated demand profiles.
 4. Strategic network reinforcement or market mechanisms to promote efficient energy markets, secure supplies or manage demand.
 5. The development of technologies to enhance the management of the network including improved monitoring and control.
 6. The impact of government policy and any associated incentives.
- 2.1.3 The company should take account of both the potential to increase energy flows on the network and reduce energy flows on the network.
- 2.1.4 The company should set out the issues it has considered and the scenarios it has assessed. It should describe how it has analysed the impact of various scenarios on the network and the associated cost of any investment necessary to enhance the network. The company should describe what provision it has made in the RP6 business plan to address these issues and how it arrived at the conclusion that this is the correct approach. The company should set out its view of the outputs and incentive mechanisms which should be included in the RP6 determination for this investment and any mechanisms it believes are necessary to address the associated uncertainty.

3. Making the Case for Investment

- 3.1.1 Having set out an overall strategic context, the company should set out the case for the investment it proposes in a clear and well structured way.
- 3.1.2 While it is for the company to decide on the structure of its submission, we note that the framework of allowances, developed in RP5 and incorporated in the Network Investment section of the Business Plan Template, provides a logical structure and grouping of investment familiar to both NIE Networks and the Utility Regulator. It would provide a useful structure for making the case for this investment.
- 3.1.3 In making the case for investment the company should consider and address the following points:
1. The case for investment should reference the relevant allowance(s) in the Network Investment BPT to which the case for investment refers and allow the Utility Regulator to reconcile the quantum of investment to the proposed allowances.
 2. The case for investment should set out the objective of the investment, clearly identifying the investment necessary to maintain existing services, investment to accommodate growth, investment to address specific legislative

requirements or policy objectives and investment to enhance levels of service (including investment proposed to meet specific consumer preferences).

3. In respect of legislation and policy, the company should be specific on what legislation and/or external policy requirement has driven investment and how this has been interpreted. In respect of enhanced service levels, the company should demonstrate how the proposed outcome, activity and investment has been supported through consumer engagement.
4. The objectives for investment should be set out in terms of outcomes and outputs. These outcomes and outputs should then be developed into output targets for the business plan which will underpin the company's commitment to its consumers in RP6. In doing so, the company should consider how the successful delivery of the plan can be measured in a way which will provide consumers with comfort that the investment they have funded has been delivered in a tangible and sustainable way. The company should provide all analysis and supporting data necessary to explain its assessment of the links between investment and outputs in a structured way which is referenced in the commentary.
5. The case for investment should identify the options considered to meet the stated objectives. The company should identify how it has developed the minimum scope of works for each option including the costs and consequences of a "do-nothing" option.
6. The case for investment should identify how the proposed scopes of work have been priced. The company should be able to demonstrate that the pricing systems are based on current costs and that any variation from current costs (in real terms) has been carefully explained. The company should take steps to prevent double counting between real movements in unit costs and any assessment of real price effects applied at an aggregated level. The description of the cost estimating systems should include a description of the major components of the cost estimates including material costs, contractor costs, NIE Networks costs and any risk or estimate to out-turn adjustment. The company should demonstrate that:
 - a. The various components of the cost estimating system are complete and mutually exclusive.
 - b. The total estimate is reasonable and consistent with NIE Networks current costs including benchmarking with historical out-turn costs of completed works.
 - c. Any component of the cost estimating system which relies on tender or out-turn costs from other regions has been adjusted to take account of regional price variation.
7. When describing how the various scopes of work have been priced, the company should reference and draw comparison with unit rates and asset

activity rates in the Cost & Volume BPT and provide a clear explanation if the unit costs or asset activity levels differ from recent historical levels.

8. The company has indicated that it is likely to deliver capital efficiencies in RP5. The company should demonstrate how these capital efficiencies have been incorporated in the RP6 estimates before any future capital efficiencies are applied. This assessment should take account of the analysis and conclusions of the RP5 Out-turn Report.
9. The case for investment should set out how the company has undertaken least cost analysis to identify the best investment options. The company should describe how it has determined and used any non-financial costs included in its analysis, including information derived from consumer surveys. The company should identify where a different solution would have formed the least cost option if these non-financial costs were excluded from the analysis.
10. The company should identify any additional operational costs required to deliver the outcomes of the business plan, both the impact of any investment solutions and the impact of operational cost solutions where these represent the least whole life cost. The company should summarise how these costs have been included in the appropriate sections of the business plan.
11. The company should take account of synergies between investment between different projects and programmes of work when assessing the minimum cost required to deliver the RP6 outputs. This is of particular importance when the plan includes increased rates of investment or significant projects not included in previous plans. For example:
 - a. the impact that any increase in reinforcement or replacement of the network to improve consumer service might have on asset maintenance or load growth costs; or,
 - b. the impact which ESQCR investment might have on asset maintenance in the short to medium term.
12. Where a case for investment uses samples of projects to assess future investment, the company should set out how it has selected the sample of projects and demonstrate that the sample is reasonably representative of the overall programme of work. The company should demonstrate how the results for any sample has been extrapolated to the whole investment plan and estimate the statistical distribution of the business plan estimate.
13. The case for investment should describe how indirect costs have been allocated against the direct costs of the proposed works. The company should indicate to what extent closely associated direct costs are fixed or variable relative to the volume of work in the RP6 period.
14. The case for asset maintenance investment should set out the asset maintenance planning techniques used to assess future investment (see Section 4).

15. When making the case for investment, the company should provide its assessment of 3rd party timelines and risks on deliverability and expenditure profile. These might include issues such as environmental studies and permissions, planning permissions, land purchase and access arrangements, buildability, seasonal construction restrictions and social and political constraints. For major projects with significant 3rd party timelines and risks, the company should identify these timelines and risks, describe how the project has been profiled to take account of them and identify key milestones in project development up to start of construction.

4. RP5 Out-turn Report

- 4.1.1 In its Final Determination for RP5 dated 26 March 2014, paragraphs 5-134 to 5-143, the Competition Commissions set out an approach to deferred network investment from RP5 to RP6. As well as providing an estimate of future network investment requirements in RP6, the Competition Commission envisaged that the company provide an estimate of the value of network investment included in RP6 that does not need to be included as part of the calculation of RP6 price control because it has already been included as part of the network investment requirements and network investment strategy that it assumed for the purposes of setting the price control from 1 April 2012 to 30 September 2017.
- 4.1.2 To this end, the company should provide an overall assessment of the out-turn for RP5 investment and an estimate of investment in RP6 which was pre-funded in RP5.
- 4.1.3 The RP5 out-turn report should provide an overall comparison of investment and outputs against the final determination allowances. Provision is made in the Network Investment BPT and Cost & Volumes BPT to include granular information of the investment up to the end of the RP5 period. The RP5 out-turn report should include a description of how costs and outputs for the remaining period of RP5 have been estimated with more detailed commentary included in the detailed commentary sections.
- 4.1.4 The company should also set out how it has assessed and estimated the level of any RP6 investment pre-funded in the RP5 determination. In doing so, the company should pay particular attention to the explanation of any shortfall in planned volumes. We will consider shortfalls in planned volumes as potential pre-funded costs unless a robust case is made to the contrary.

5. Asset Maintenance Planning

- 5.1.1 We have issued our approach to asset maintenance as part of our BPT Information Requirements for RP6.

- 5.1.2 We expect the company to provide a clear assessment of future asset maintenance investment in its RP6 business plan. In our approach to asset maintenance we have set out a range of techniques which NIE Networks might consider adopting when developing the economic case for investment. It is for NIE networks to decide which techniques are appropriate in particular circumstances and which can be best supported by the data and processes it has in place.
- 5.1.3 It is important that the company has based its plans for investment on sound asset management processes. To demonstrate this, the company's business plan submission should include the following:
1. an assessment of its asset management capability against a recognised asset management methodology and identify any further work required to achieve excellence in asset management planning;
 2. an assessment of the data they currently use to prioritise current interventions to estimate future level of capital and operational investment in the medium to long term;
 3. a plan to improve its asset management capability which sets out how the company will address any weaknesses in its current methodologies and data necessary to improve asset maintenance planning, and the timescale over which this will be achieved; and,
 4. information to demonstrate how a range of top-down and bottom up techniques have been applied during the preparation of its business plan to assess the optimum level of asset interventions and investment over the RP6 period.
- 5.1.4 We would expect the company to take a long term view of the activities and investment necessary to maintain its assets which will result in broadly consistent levels of investment or well evidenced long term trends in investment. In this context, the level of asset maintenance investment during RP6 would be broadly similar to those during RP5. If this is not the case, the company should provide robust data and analysis to support proposed changes in the level of investment. The company should also take account of any proposed changes in the level of investment in RP6 in its assessment of RP5 out-turn investment.

Version Control

Version	Date	Description	Applicable Years
01.00	21/01/2016	Issued to NIE for comment	2013 - 2024
* up to and including			