WWU-Cat.3 - Non-operational Information Technology Capex Re-opener Application

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1. Table of Contents – Document Mapping

2	•	Glossary of Terms	. 2
3		Introduction	. 3
4		Core Narrative	. 3
5		Needs Case	. 5
	5.1	Alignment with overall business strategy and commitments	. 5
	5.2	Demonstration of needs case/problem statement	. 5
6		Options Selection	. 7
	6.1	Description of options considered and selection process	. 7
	6.2	Preferred Option Details	LO
	6.3	Project delivery and monitoring plans	١3
7	. Sta	keholder engagement and whole system opportunities	۱5
8	. Cos	st Information	۱7
	8.1	Level of detail of cost information	18
9	. Pro	ject Breakdown and Delivery Management	24



2. Glossary of Terms

3. Introduction

This document provides a breakdown of the deliverables for which Wales & West Utilities (WWU) seeks additional allowances via the August/September 2023 Non-operational IT re-opener mechanism. All costs within this document are in 2018/19 prices to align to the GD2 Business Plan and Ofgem Determination.

Included in this re-opener application are costs for projects that we have either already undertaken or are committed to undertake to deliver Fixed Line and Mobile network changes necessary to enable us to respond to the National Telecoms industry-led change programmes:

PSTN Switch-Off by our gas control system network provider.

The structure of this document follows the guidance provided by Ofgem in its '*Re-opener Guidance and Application Requirements Document v3 and Appendix 2 (Non-operational IT (IT) Capex Re-opener Application Guidance),* publication date 17 February 2023, effective from 1 April 2023.

4. Core Narrative

The projects included in this re-opener application for additional allowances are works requiring funding to resolve genuine business impacts that were not fully foreseeable at the time of the RIIO-GD2 business plan submissions due to announcements by our suppliers during GD2 and need to be resolved to ensure we are able to continue to meet stakeholder expectations. These works are needed to change and upgrade the WWU network in areas impacted by National Communications Industry Changes. The key deliverable from these projects is

. There will be no change to current processes therefore no application is made for increased costs to implement or remedy processes or ongoing cost impacts.



Funding for changes needed to address the national PSTN Switch-Off was sought in our GD2 Business plan,

Our GD2 Business Plan submitted for GD2 allowances requested for PSTN project work in GD2 was work in 2018/19 prices. Now that detailed analysis has been conducted, project uncertainty has been reduced and additional impacts identified. Therefore this re-opener application seeks additional funding to address the impacts of the national PSTN Switch-Off that are in addition to the allowance awarded in the OFGEM GD2 Final Determination for funding PSTN replacement costs.



Because announced their decision to upgrade their modem infrastructure and discontinue their existing technology in May 2023, after we had submitted our business plan and after allowances were set for GD2, we were unable to include a request for funding for this project as part of that Business Plan. The funding of this mandatory work, necessary to keep the network running efficiently and effectively, is therefore in addition to the GD2 Final Determination allowance from Ofgem.

Projects to address the impacts

The remainder of this document covers the Needs Case, Optioneering and Costs for the projects in each of these categories.

National Telecoms Change	Project to address	Strategic Area	Re-opener Ref
PSTN Switch-Off			TEL01
PSTN Switch-Off			TEL02
			TEL03

Table 4.1 – Category 3 Projects

A summary of allowance sought is shown in table 4.2 (in 2018/19 prices).

Table 4.2 - Category 3 Allowances Sought



5. Needs Case

5.1 Alignment with overall business strategy and commitments

In Section D Chapter 14 of our GD2 business plan submission we shared the aims of our Environmental Action Plan (EAP) to reduce shrinkage by 10% by 2026.

In Section E Chapter 16 of our GD2 business plan submission we shared our ongoing aims to manage and maintain network pressures within target ranges to deliver environmental and safety benefits as lower pressure means fewer leaks.

Delivering these commitments are fully dependent on us maintaining our pressure control systems, for which data network connectivity is essential.

PSTN Upgrades -



5.2 Demonstration of needs case/problem statement



National Telecoms Industry Changes

TEL01 - PSTN Upgrade Project:

Need: The allowance for PSTN-related changes requested in our GD2 business plan was based on an estimate built during GD1. Once project funding was made available in GD2 uncertainty was reduced by conducting detailed project analysis. Following this analysis the number of impacted sites identified has increased for the total planned cost of the programme at the value requested in the GD2 business plan due to project efficiencies. Since the Final Determination of GD2 allowance was for lower than our submitted business case value this re-opener application addresses the shortfall in funding. Expenditure will ensure we are able to **Consumers and Assets:** Our gas supply network operates 365 days a year, 24 hours a day

Consumers and Assets: Our gas supply network operates 365 days a year, 24 hours a day to deliver gas safely and reliably to consumers' homes and businesses. This requires gas to be maintained in

	•		
Risk being addressed:			
Rationale: Additional exp	enditure will ensure we ar	e able to	

TEL02 – PSTN: Non- Need:	Sites
hardware or system across all are diverse. Solutions will be de Risk being addressed:	The sites differ in type, there is not a single type of sites as there is with TEL01 so the solutions for these sites esigned on a site-by-site basis.
Rationale: The replacement s	solutions for PSTN line Switch-off had not been announced
during GD1 30 the impacts o	sites could not identified.

TEL03 -
with an alternative communications solution
Need: Our existing announced in May 2023 that this service
and infrastructure will be retired at the end of 2024. Our gas control system relies upor
these communications to and from
Consumers and Assets: Investing in new will ensure WWU has a future
proof solution. The expected lifespan of these units is 5-10 years.
Risk being addressed:
Rationale: The decision to upgrade this network technology was announced during GD2 and
therefore not known at the time of the original submission of our GD2 business plan.

6. Options Selection

6.1 Description of options considered and selection process.

National Telecoms Industry Changes





		-	





and therefore reducing costs associated with Network Shrinkage. This has been witnessed and evidenced as a learning point from the 'PSTN Replacement Project'.

6.2 Preferred Option Details

National Telecoms Industry Changes

TEL01 - PSTN

Scope

A POC was run to trial the installation and operation of the digital solution to replace the current PSTN solution.

Project Approach

Delivery Resource

- 1. A WWU Project Manager is managing the project delivery and schedule.
- 2. The Site surveys and installations are being carried out by WWU resources.

Delivery Approach

1. The schedule for rolling out the upgrades/installations to our sites is planned between 2022 and 2025.



TEL02 - PSTN Non	Sites





therefore solutions will be designed on a site-by-site basis in line with our IT communications strategy.

to the project.

, is engaged to provide network support



Table 6.2.2 lists the supplied sites and the proposed solution for each.



The terms/abbreviations used are expanded in the Glossary (Section 2).

The rollout of replacement services is not universal across the region, and upgrades must be planned to align with the availability of suitable replacement products and services.





6.3 Project delivery and monitoring plans



Our projects to respond to mandated National Telecoms Industry Changes are being delivered via internal IT and engineering resource. The projects are being tracked and governed through our Business Performance Development Committee. Members include our CEO, Executive Team and the relevant asset, IT, Finance, and delivery senior managers.

At summary level the profile of planned site upgrades across the three projects to respond to mandated National Telecoms Industry Changes is shown in table 6.3.1, while the milestone schedule is shown in table 6.3.2.

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Table 6.3.1 – Planned Site Upgrades

Table 6.3.2 - TEL01 - PSTN Upgrade Project Schedule



TEL02 - PSTN Sites Project Schedule:

Project start date: October 2023 Project completion date: March 2025

The project has		
	and	therefore
solutions will be designed on a site-by-site basis		
TEL03 -		

Table 6.3.3 – Upgrade Project Work Breakdown - sites per year:				

7. Stakeholder engagement and whole system opportunities

Our Emissions commitments and targets are laid out Section D, Chapter 14 of our RIIO-GD2 Business Plan.

. The material impact on sustainability of this project is wholly carbon related. Pressure management within the network makes a significant contribution to the reduction of carbon emission through leakage. We have an Ofgem commitment to reduce shrinkage by 10% during GD2 and improved pressure management supports this target.

The design and delivery of these initiatives was determined via recurring engagements with Service, Security, and Operations to ensure the design will be secure by design, aligned to service requirements.



Output Category	Output Measure	Impact of investment on outputs	Stakeholders Engaged
Safety			Network Manager, Network Technicians, Asset Officer. PSTN line SME
Environment			Network Manager, Network Technicians, Asset Officer. PSTN line SME
Financial– Shrinkage			Asset Management

Table 7.2 - TEL02 - PSTN Non GasCore Sites

Output Category	Output Measure	Impact of investment on outputs	Stakeholders Engaged
Reliability /	Without replacing	This project will enable	IT Projects Board
Customer Satisfaction	PSTN WWU will find service provision from all sites adversely impacted.	WWU to maintain service provision from all impacted sites.	IT Service Team IT Architecture Team

Table 7.3 - TELO3 -

Output Category	Output Measure	Impact of investment on outputs	Stakeholders Engaged
Safety			
Environment			
Financial Shrinkage			

8. Cost Information

The projects included in this re-opener application for additional allowances are works requiring funding to resolve genuine business impacts that were not fully foreseeable at the time of the RIIO-GD2 business plan submissions and need to be resolved to ensure we are able to continue to meet stakeholder expectations. These works are needed to change and upgrade our network in areas impacted by National Communications Industry Changes. The values used throughout this section are in 2018/19 prices.

Table	8.1 -	Category	3 Allowances	Souaht
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Table 8.2 - Calegory	<u>3 Re-opener Request Type</u>	
National Telecoms Change	Project to address	Request Type
PSTN Switch-Off	TEL01 - PSTN	Continuation Project – allowance given in GD2 determination was than requested and detailed analysis during GD2 has determined upgrades need increased funding.
PSTN Switch-Off	TEL02 – PSTN Non-	New request – not previously included in GD2 Business Plan submission. Costs identified during GD2 as a result of detailed analysis funded during GD2 - additional sites that will be impacted by PSTN switch- off so must be migrated to new network solutions within GD2 timeline.
	TEL03 -	New request - not previously included in GD2 Business Plan submission. Costs identified during GD2 as a result of provider decision to change network within GD2 timeline.

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Table 8.3 - National Telecoms Industry Changes Spend vs Allowance (2018/19 prices)

8.1 Level of detail of cost information

Efficiencies and Assumptions:

- 2. Storage and Distribution cost is expected to be handled within the current network management capabilities and as such is not expected to incur any additional cost. This will rely upon smaller deliveries of equipment occurring at regular intervals throughout the project rather than one large delivery. Deliveries will be to each depot and stored locally.
- 3. The requirement for removal of foliage to ensure clear access to extremity cabinets. Routine maintenance is already in place for overgrowth, site encroachment of foliage. Where additional removal of encroaching or overgrown trees are impeding access, our management team will source internal resources to remove what can be completed internally or discuss with Local Authorities or customers.

Notes:

The installation plan on which annual spend is based is high-level for future years. The annual breakdown of spend may vary slightly once site-by-site planning is complete. Work will continuously be reviewed to utilise the opportunity to deliver the work aligned to maintenance plans efficiently (i.e., site works for this project will be planned to coincide with scheduled site visits to ensure efficient delivery of this project).

Actual expenditure incurred has been deflated using the relevant years deflation rate. Forecast expenditure out to 25/26 has been costed in 23/24 prices (prices quoted or experienced in the year of this reopener submission), and therefore deflated using a 23/24 conversion factor.

The conversion factors used are set out in the table 8.1.1.

Year	Financial Year Average (RPI+CPIH)	Combined RPI+CPIH real to nominal prices conversion factor
2018/19		
2021/22		
2022/23		
2023/24		

Table 8.1.1 – Conversion Factors



 Table 8.1.2 - TEL01 Summary Spend by Year



Table 8.1.3 - TEL01 Spend by Year

	Year					
Description	21/22 - Actual	22/23 - Outturn	23/24 - Planned	24/25 - Planned	25/26 - Planned	Total

Table 8.1.4 - TEL01 Cost Breakdown



engaged to provide network support to the project using the rate card in the agreed contract.

 Table 8.1.5 - TEL02 Planned Spend by year

Table 8.1.6 - TEL02 Planned Cost Breakdown

TEL03 -



made for increased costs to implement or remedy processes or ongoing cost impacts.

The installation plan on which annual spend is based is a high-level plan. The actual numbers of DG/LPP sites upgraded each year may vary slightly once site-by-site planning is complete.

This project is needed because in

change within the GD2 timeline was unforeseen at the time of GD2 Business Plan submission therefore this project cost is additional to the Ofgem Final Determination for GD2.

Table 8.1.7 - TEL03 Planned Spend by year

Table 8.1.8 - TEL03 Planned Cost Breakdown totals per year





Table 8.1.9 - TEL03 Planned Cost Breakdown

9. Project Breakdown and Delivery Management

Delivery Management

Our project delivery follows the PRINCE2 methodology, with key project products issued for sign-off at each agreed stage gate. These project products include key project information, such as agreed Project Sponsors, and project metrics, such as milestone dates. The project products for each of the three projects outlined in this re-opener document are available on request, including Project Brief, Business Case, Project Plan, and Risk, Issues, Assumptions and Dependencies (RAID).

Project Area	Output	Delivery dates	Adjusted Allowance					
			21/22	22/23	23/24	24/25	25/26	Total
			(£m)	(£m)	(£m)	(£m)	(£m)	(£m)
TEL01								
PSTN Designed Upgrade								
					-		•	•
					_			

Table 9.1 - Project Monitoring - Proposed PCDs:



