

Cadent

Your Gas Network

Appendix 09.29 Other Property

RIIO-2 Spend: XXXX



Investment Decision Pack Overview

This Asset Health Engineering Justification Framework outlines the scope, costs and benefits for our proposals. We have prepared an Engineering Justification Paper (EJP) for these assets.

Overview.

This investment case covers the investment needed to maintain our operational depots and offices across our four networks, excluding our three corporate offices at Ashbrook Court – Coventry, Hinckley Operations Centre – Hinckley, and Leicester Data Hall – Leicester.

We have 60 depots across our four networks. The asset stock by network is EoE 47%, Lon 11%, and NW and WM 21% each.

During RIIO-1 we have completed a comprehensive range of condition surveys to identify any deficiencies in asset condition and non-compliances with both the Health and Safety at Work Act (1974) and The Workplace (Health, Safety & Welfare) Regulations 1992, which put our employees and our subcontractors at risk and reduces overall staff welfare and wellbeing. The surveys also identified any condition issues which could put us in breach of our leasehold arrangements at the 60% of sites which are leased. We have developed a planned programme of building remediation to address these issues.

We will be 50% through our planned programme of depot remediation by the end of RIIO-1, and this work will continue throughout the first three years of RIIO-2.

We have not considered other programme intervention options, believing that programme of building remediation will deliver best efficiency and a fit-for-purpose set of depots for the future. A piecemeal approach would remove our ability to gain savings through long-term commercial agreements and contracts, reduce our ability to manage impacts on operational sites, and be complex and time-consuming to manage.

Overall, **the RIIO-2 capex plan is XXXX less than the equivalent spend from RIIO-1** (based on an average annual spend during RIIO-1 of XXXX).

Summary of preferred option	
RIIO-2 Expenditure	Redacted due to commercial sensitivity
Project NPV	

Material Changes Since October Submission

No material change

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2. Summary Table

Name of Project: Other Property			
Scheme Reference	Cadent investment line 33b		
Primary Investment Driver	Asset Health Compliance with Health & Safety at Work Act and The Workplace (Health, Safety & Welfare) Regulations 1992.		
Project Initiation Year	2021		
Project Close Out Year	2026		
Total Installed cost estimate (£)	XXXX in total for RIIO-2. Of which XXXX is related to 33 No. proactive depot remediation's in RIIO-2.		
Cost Estimate accuracy (%)	±5%		
Project Spend to date (£)	(XXXX on similar packages of work during RIIO-1)		
Current Project Stage Gate	Delivering of 31 depot remediation projects in RIIO-1. Design ongoing across planned RIIO-2 workload.		
Reporting Table Ref	3.05 Other Capex_Other Capex_Land, Buildings, Furniture and Fittings		
Outputs included in RIIO-1 Business Plan	None		
Spend apportionment	RIIO-1	RIIO-2	RIIO-3
	XXXX ¹	XXXX	XXXX

Table 1: Summary Table for Other Property Maintenance

¹ Note that this is a forecast out-turn cost to proactively deliver 31 specific depot upgrades in RIIO-1. A final preferred solution for a number of sites has not yet been finalised. Note that this expenditure was not part of a RIIO-1 defined output.

3. Project Status and Request Summary

This document covers the investment case to maintain all property asset stock in use across Cadent, excluding Hinckley Operational Centre, Ashbrook Court Coventry, and Leicester Data Hall (See Appendix 09.28). We have referred to this sub-section of our property portfolio as 'other property' hereafter.

Across our remaining property asset stock, we have a wide array of depots and minor offices to serve communities across all four networks.

During RIIO-1 we have undertaken several building-condition surveys and a specific study to review our property portfolio and assess non-compliances against the Workplace (health, safety and welfare) Regulations 1992 or specific risks under the Health and Safety at Work Act. To address these issues, we have created a programme of property remediation. This programme will be about 50% complete by the end of RIIO-1: we will already have delivered 31 depot refurbishments to address known deficiencies and poor asset health. The work described in this investment case is a continuation of this programme of work across the remaining sites, followed by an allowance for capex expenditure to deal with future emerging issues.

We have used the findings from the following three studies or surveys to inform a bottom-up estimate of remediation needed at each depot during RIIO-2:

- **Pick Everard study:** a pilot study to review compliance against general building condition and draft staff wellbeing standards.
- **Mace building condition survey (2018),** undertaken from September to November 2018 to review compliance against the Health and Safety at Work Act and the Workplace Regulations. This survey did not include all key features of building fabric, such as the roofs or building services within each property. In addition, not all depots were surveyed; therefore, it was acknowledged as only being a partial assessment of the necessary work.
- **Additional building condition surveys (2019):** Undertaken by a range of suppliers, including Pick Everard, CBRE and other framework suppliers. Ongoing from October 2019 to end January 2020, but now reviewing the roofs, building services and wellbeing standards across all property.

4. Problem Statement

Our current offices and depots are deteriorating and require ongoing maintenance to ensure they can support Cadent's business functions and operational staff. There is no direct impact on service from the deterioration of these assets, but the poor condition of our depots will impact the efficiency of our day-to-day operations and our staff welfare and safety. Cadent requires a reliable set of fit-for-purpose offices to provide a robust service to its customers and appropriate welfare to its staff.

Because of the surveys and studies undertaken in RIIO-1 (Section 3), we have identified a wide range of deficiencies across our depots and offices. An ongoing programme through RIIO-1 into RIIO-2 will look to remediate these issues; approximately 50% of our office depots will have had interventions by the end of RIIO-1.

The specific deficiencies against the **Workplace Regulations 1992** are comprised of:

- Insufficient toilet facilities for the office headcount.
- Inadequate washing and changing facilities for use by field-operatives after strenuous or dirty work
- Inadequate rest facilities; inadequate space, lack of facilities to warm or eat food, limited access to hot and cold drinks
- Poor heating, lighting and ventilation

The specific deficiencies against the **Health and Safety at Work Act** comprise:

- Poor design of office furniture and/or desk space for office staff – poor ergonomics with a risk of strain and fatigue of office staff
- Poor security – in particular, inappropriate security out of hours for operational staff
- Poor segregation of vehicles and pedestrians within external compounds
- Lack of designated pedestrian walkways across operational areas of the depot site
- Poor segregation of storage area and contractor compounds
- Poor security on main gates
- Lack of cranes and lifting equipment in stores (manual handling risk)
- Inappropriate facilities for storage of hazardous materials – located too close to office accommodation or tanks could be in poor condition or have insufficient storage bunds

Over 60% of our depots are leased, and our lease agreements put a legal obligation on us as the tenant to repair and insure these properties (covenants). We are currently in breach of these lease conditions. Non-compliance with repair may affect insurance risk and, for properties in general disrepair, landlords have legal remedies to address non-compliance: the implications for Cadent could have serious consequences for business disruption and costs.

We expect our regulatory framework to continue to drive change during RIIO-2 across our property portfolio. As the property industry continues to embrace the government and global environmental sustainability agenda, it would be prudent to anticipate an ongoing requirement for building specifications to change in ways we cannot fully predict at present. A recent major change during the RIIO-1 period has arisen because of the Grenfell tower fire, which has impacted fire regulations and resulted in the need to modify our property asset stock. In RIIO-2, we expect that the current minimum energy efficiency requirements for commercial buildings are likely to get stricter.

Our programme of building surveys has also identified a range of deficiencies associated with the building fabric (roof, structure, building services) within each depot, which are becoming unreliable or reaching end-of-life and require capital intervention.

The Mace survey ranked each deficiency by severity and urgency. The resulting graphs showing the volume of interventions for these 43 depots is shown below.

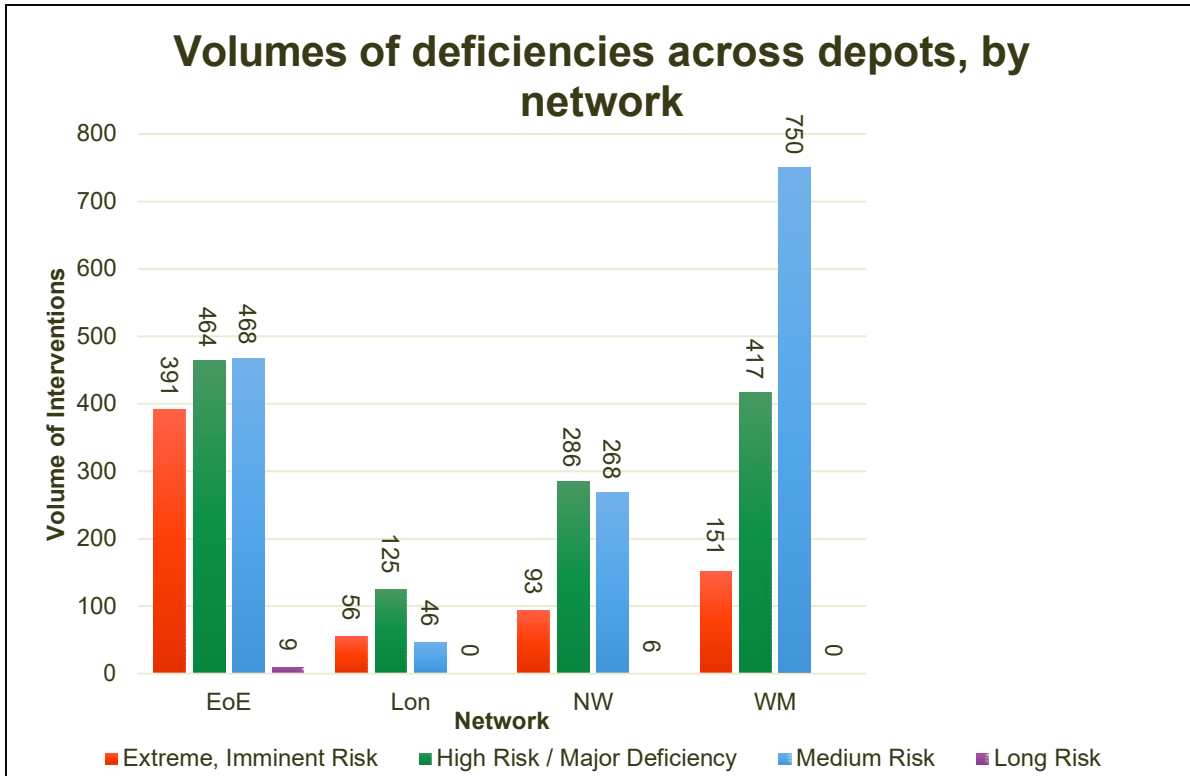


Figure 1: Number of deficiencies noted from depot surveys in Nov 2018, by severity.

The above graph has been based on the Mace building survey undertaken in 2018.

This Mace survey surveyed 50% of the asset stock that will be retained in RIIO-2. This is based on our proposal to retain 43 of the current depots in RIIO-2 (we will not renew the lease at 17 sites but rather move to new sites which better meet operational needs), and 21 of these sites were surveyed in 2018.

The intervention volumes from these surveys have been increased to reflect the likely intervention volumes for the entire asset stock of 43 retained depots.

The Mace survey covered 57% of EoE, 67% of Lon, 55% of NW and 25% of WM respectively.

The intervention volumes have been increased according to the above percentages for each network. (e.g. EoE has been increased by 43%, Lon by 33%). This extrapolation completes the build estimates presented in Appendix 2.

Photographs of some of the deficiencies identified at various depots are included below.



Figure 2: Problems with Roofing

Figure 3: Structural deficiencies

Investment drivers

The overall investment drivers are therefore to provide adequate office and depot space to comply with:

- **Health and Safety at Work Act 1974 (HASAWA)**
- The Workplace (**Health, Safety and Welfare**) Regulations 1992

Key challenges

These building upgrades will also need to be managed while maintaining day-to-day operation of each operational depot office.

Key milestone dates

The 33 planned depot projects will be delivered across the first three years of RIIO-2, to provide fit-for-purpose working environments for our people. We fully expect that between now and the completion of this work new issues will arise, and as such additional spend will be incurred in the last two years of RIIO-1. There are no defined projects in the last two years, we have made an allowance for reactive capex.

Although we have front loaded the expected work, the specific programme of sites and years of delivery has not yet been finalised.

Understanding project success

Success will result in the delivery of a cost-effective set of offices and depots that comply with key health, safety and welfare regulations and which will support Cadent to achieve its objective of providing a safe and reliable service to its customers.

4.1. Related Projects

There are no projects within other investment cases that have conflicting outcomes or spend.

The implementation of this work in RIIO-1 provides a good basis for understanding its continuation into RIIO-2.

4.2. Project Boundaries

This programme of work will carry out any required capital maintenance to any aspect of the building or site compound within Cadent's office depots (60).

As mentioned previously, this investment case specifically excludes Hinckley Operational Centre, Ashbrook Court Coventry, and Leicester Data Hall. These are covered in Appendix 9.28: Corporate Property.

5. Project Definition

5.1. Supply and Demand Scenario Discussion and Selection

This investment case is not impacted by the supply-demand scenario. Our office locations and sizes, and the related maintenance to keep them fit-for-purpose and safe, is impacted by the location of our gas pipelines and operational sites; this is not materially impacted by the gas demand at any given time.

5.2. Project Scope Summary

The property asset stock considered within this investment case is summarised below:

Network	Depot/office numbers	Total Square meters	% of total sq. meterage.	Number of Office Workers per network
EoE	27	282,267	47%	587
Lon	7	67,082	11%	177
NW	15	127,309	21%	260
WM	11	123,915	21%	135
Total	60	600,573		1,159

Table 2: Property asset stock (as of 2019)

This programme of work will look to provide appropriate fit-for-purpose office depots that comply with the Workplace Regulations 1992 and the Health and Safety at Work Act.

The following list provides a high-level summary of the scope of work required at our office depots across all four networks:

- Maintenance to office depot superstructure and or building services, due to known deterioration
- Upgrading welfare facilities (toilets and rest facilities)
- Improving segregation between office locations and operational equipment, workshops and vehicle movements or car parking.
- Improving security, including security gates and out-of-hour provisions, to prevent unauthorised access, vandalism or theft

As stated earlier, within RIIO-2 we plan to remediate around 50% of our depots, which is a continuation of the programme started in RIIO-1. By the end of RIIO-2, all depots will have had some level of remediation to address known health and safety, building maintenance or staff-welfare-related issues.

6. Options Considered

We have not considered multiple options for this investment case, nor have we completed a CBA to assess this option against a 'minimum' baseline case.

We must maintain our offices to fully comply with both the Health and Safety at Work Act and the Workplace (health, safety and welfare) regulations 1992. The scope of work set out within this investment case is therefore the minimum level of maintenance to fully comply with these requirements and provide a fit-for-purpose set of depots to support our operational and office-based staff.

As we begin to develop our detailed plans for each sub-standard depot, we will investigate the lowest whole-life cost option that fulfils our needs; this will involve consideration of the location and ensure the property can be made fit-for-purpose and has adequate space for its required headcount and use. In some circumstances, due to the timings of lease expiry, the least-cost option could involve a relocation because the current location is in poor condition and no longer the best fit for Cadent's current requirements. The capex allowances included below take account of a reasonable industry standard cost for a blend of interventions across all depot sites.

The only option set out below is therefore to remediate our office depots throughout RIIO-2. We have not assessed a reactive option because we have a legal requirement to comply.

6.1. Option 1: Maintenance of office depots

From our surveys and desktop studies, we have identified the need for a wide range of remediation across all of our depots: approximately 50% will be remediated in each RIIO-1/2 period. The specific studies, undertaken by Mace and Pick Everard, have been used to derive an estimated unit cost per site, to remediate known deficiencies and carry out essential maintenance.

The following table summarises the number of sites that require remediation within each of our networks. The estimated costs per site were combined to output the total estimated costs per Network. More detailed site specific breakdown of costs and scope is included in Appendix 1.

Network	Site	Total No. of Sites	Total Costs
EoE	Bedford - Ford End Road	19	Redacted due to commercial sensitivity
	Bishops Stortford - Southmill Road [Tsa]		
	Boston - Fydell Street		
	Burton On Trent - Wetmore Road		
	Chesterfield - Britannia Road		
	Great Yarmouth - Southtown Road		
	Grimsby - Catherine Street		
	Hitchin - Cadwell Lane		
	Huntingdon - Windover Road		
Lon	Bracknell - Bog Lane	3	Redacted due to commercial sensitivity
	Fulham - Imperial Road		
NW	Barrow in Furness - Ashburner Way	5	Redacted due to commercial sensitivity
	Blackburn - Great Harwood - Heys Street		
	Kendal - Parkside Road		
WM	Coventry - Smith Street	6	Redacted due to commercial sensitivity
	Hereford - Perseverance Road		
	Kingswinford - Pensnett Trading Estate		
Total		33	

Table 3: Sites for remediation for RIIO-2

The WM has a lower level of known remedial investment than the other networks, as such to better reflect likely expenditure requirements we have increased investment over the first three years.

In the last few years of RIIO-2, after all the offices have been remediated, there will still be a lower level of emerging issues that will require some capex expenditure.

Our average annual spend during RIIO-1 will be XXXX pa (see Appendix 2 for analysis of RRP). Given higher investment in the early years of RIIO-2 we have estimated that around a third of the RIIO-1 average figure will be needed in years 4 and 5. This expenditure has been apportioned across our networks based on their percentage of asset stock, quoted in Table 2 (square footage quoted).

The resulting capex profile is set out below:

	2021/22	2022/23	2023/24	2024/25	2025/26	Total
EoE						
Lon						
NW						
WM						
Total						

Table 4: Capex profile for RIIO-2: Other property maintenance

6.2. Options Cost Estimate Details

We have derived a site by site estimate of required remediation at each of the 33 depot sites within scope for RIIO-2. These estimates comprise work to keep the building structure, fixtures and fittings in a safe, fit for purpose condition, which also complies with our building-lease conditions.

Works comprise remediation to roofs, floors, doors, walls and superstructure, painting, and other elements of the building fabric. They also include remediation to car parks, security fencing, barriers, storage yards and other storage areas within the depot site.

A further range of work is required to resolve deficiencies specifically with non-compliance with Welfare Regulations and Health & Safety at Work act, these deal with the lack of adequate toilet or washing facilities, inadequate storage areas, poor segregation between storage areas and pedestrian areas, poor lifting equipment and other similar issues.

A cost breakdown for each site is provided in Appendix 2, showing the component work by site.

Cost estimation followed a robust and consistent methodology and was a combination of actual delivery costs and further desk-top modelling based on site survey. Cost accuracy is $\pm 5\%$.

The unit cost rates used were then market-tested and shown to be within industry range given the varied nature of the portfolio.

6.3. Options Summary

Multiple options have not been considered for 'other Property'; the following table therefore summarises Option 1.

Option 1: Planned remediation	
Description	To proactively remediate 33 depots during RIIO-2. (50% of remediation delivered in RIIO-1, the remaining 50% delivered in RIIO-2)
Project Start Date	2021/22
Project commissioning date	2023/24 (end of remediation programme)
Project design life	Various, depending on the intervention examples shown below: <ul style="list-style-type: none"> • Repair of external civil (i.e. fences, hardstanding) – 5 to 20 yrs • Kitchens / welfare facilities: 5 to 10 yrs • Building repairs – 5 to 15 yrs • M&E / Building services: 10 to 15 yrs
Operating costs	Redacted due to commercial sensitivity
Total installed cost	Redacted due to commercial sensitivity
Cost estimate accuracy	+ or – 5%

Table 5: Option 1 Summary Table

7. Business Case Outline and Discussion

7.1. Key Business Case Drivers Description

This programme of work covers the required maintenance to our ‘other property’ and includes work required to fully comply with requirements under the Health and Safety at work act and The Workplace Regulations 1992.

7.2. Supply and Demand Scenario Sensitivities

This investment case is not impacted by any changes to the supply-demand scenario.

7.3. Business Case Summary

The following table summarises the single option included for maintenance to our property asset-stock. We have not completed a CBA for this investment case because the work is comprised of mandatory investment to comply with key health and safety legislation.

	Option 1: Planned maintenance to ‘other property’
Supply and Demand Scenario Description	Not impacted by the supply-demand scenario
Project commissioning date	33 depots to be proactively refurbished by end 2023/24.
Total Capex in RIIO-2	XXXX
Cost estimate accuracy (%)	±5%
Project operating lifespan	Various
Project NPV	Not applicable

Table 6: Business Case Summary Table

8. Preferred Option Scope and Project Plan

8.1. Preferred Option for the Request

The preferred option is Option 1: planned building maintenance in the first three years across 33 depots, with an allowance for a lower level of capex spend in years 4 and 5 to deal with emerging issues.

8.2. Project Spend Profile

	2021/22	2022/23	2023/24	2024/25	2025/26	Total
EoE						
Lon						
NW						
WM						
Total						

Table 7: RIIO-2 Cost profile (£m)

The costs are in 2018/19 Price Base.

8.3. Efficient Cost

Our RIIO-2 forecasts, as well as adjusting for workload and work mix factors, also include ongoing efficiencies flowing from our transformation activities, including those from updating and renewing our contracting strategies. Our initiatives are outlined in Appendix 9.20 Resolving our benchmark performance gap. For Capex activities, this seeks a 2.9% improvement by 2025/26 on the cost-efficiency level achieved at the end of RIIO-1.

In addition to the overall efficiencies quoted above, we are confident that the costs proposed in this investment case are efficient for the following reasons:

- The costs provided in this investment case have been developed by experienced consultants and contractors with expertise in property-related maintenance.
- We are taking a holistic, planned approach to intervening at each depot, as a planned programme of work, which will be significantly more efficient than a piece-meal, fix-on-failure approach.
- The costs we have estimated assume that we will undertake a competitive tendering process to deliver the programme, and thus achieve efficiencies from synergies across the programme.
- Our asset stock is planned to increase slightly to 64² depots by the end of RIIO-2. We have, however, kept our total capex spend below RIIO-1 average annual capex expenditure of XXXX per year (if our RIIO-2 expenditure remains consistent to RIIO-1 spend, then our RIIO-2 costs for 'other property' would be equivalent to XXXX).

For Property Other our confidence is defined as being within Construction stage with a range of +/-5%

² This figure is an increase to RIO-1. It includes relocations of 17 sites at the end of their lease periods.

8.4. Project Plan

We aim to deliver 33 planned depot-refurbishments during the first 3 years of RIIO-2. A more detailed delivery programme is not currently defined.

8.5. Key Business Risks and Opportunities

Delivery of property refurbishment is a business-as-usual activity.

Reference	Risk Description	Impact	Likelihood	Mitigation /Control
09.29 - 001	Supply & Demand deliverability risk of Resource availability within the Gas industry	Potential cost increases in labour / commodity markets as demand is greater than supply	Low	Intelligent procurement and market testing. Apprenticeship and Training programmes to fill skills gaps
09.29 - 002	Stretching efficiency targets may not be deliverable (unit costs increase)	Outturn costs are not met increasing overall programme costs.	Low	Established market place - ability to manage the known commodity market
09.29 - 003	Unforeseen outages and failures restrict access for planned work	Programme and delivery slippage due to delay of planned outages and or site access	Low	Proactive asset management with ongoing condition surveys and response plans to prevent failures
09.29 - 004	Unseasonal weather in 'shoulder months', Autumn and Spring reduce site access/outage windows	Increased demands affecting access to sites and planned outages delay and cost increases	Low	Controlled forecasting and maintenance of flexibility to react to unforeseen events. Detailed design solutions to minimise outages and reduce exposure.
09.29 - 006	Legislative change - There is a risk that legislative change will impact the delivery of our work.	Potential increase in the amount of consultation and information exchange required and require us to align our plans with the safety management processes operated by 3rd Party landowner / asset owners. The potential impact is more engagement and slower delivery	Med	We have established management teams to address these issues. We have also identified UMs for key areas.
09.29 - 007	Increased Environmental and Sustainability design requirements	Increased costs and programme delay impact	Low	Constant review of legislative changes and assessment of impacts on current / future designs

Table 8: Risk Register

8.6. Outputs Included in RIIO-1 Plans

There were no planned regulatory outputs in the RIIO-1 plan associated with 'Other property'.

We will, however, have delivered remediation across approximately 50% of our depots, by the end of RIIO-1 to address critical deficiencies.

9. Regulatory Treatment

This investment will not be processed through the NARMs reporting tool.

Cost variance for low materiality projects such as this will be managed through the Totex Incentive Mechanism (TIM).

This investment is accounted for in the Business Plan Data Table 3.05 Other Capex within the Other Capex: Projects < XXXX Aggregated Sub Table under the Buildings, Furniture & Fittings line.

Appendix 1: Site-specific estimates for planned refurbishment

The following table provides a cost breakdown of the works required to comply with both the Health and Safety at Work Act and the Workplace (health, safety and welfare) regulations 1992. It is a combination of data from specific site surveys and desktop studies based on site characteristics.

Network	Site	Building maintenance	Building maintenance (Roofs & building services)	HSWA / Welfare regulations compliance	Contingency– 10% of subtotal ³	Total Capex per site
EoE	Bedford - Ford End Road					
	Bishops Stortford - Southmill Road [Tsa]					
	Boston - Fydell Street					
	Burton on Trent - Wetmore Road					
	Chesterfield - Britannia Road					
	Great Yarmouth - Southtown Road					
	Grimsby - Catherine Street					
	Hitchin - Cadwell Lane					
	Huntingdon - Windover Road					
	Kettering - Meadow Road					
	Luton					
	Northampton - St Peters Way					
	Norwich Depot					
	Nottingham - Cavendish Street					
	Peterborough					
	Rotherham - Station Road					
	Scunthorpe - Dawes Lane					
Sheffield - Effingham Street						
Wisbech - Chase Street						
EoE Subtotal						

Redacted due to commercial sensitivity

³ 10% has been applied to the subtotal per site; required IS upgrades have not currently been included. This allowance also covers risk and general contingency based on the current level design design completed to date.

Network	Site	Building maintenance	Building maintenance (Roofs & building services)	HSWA / Welfare regulations compliance	Contingency– 10% of subtotal ³	Total Capex per site
Lon	Bracknell - Bog Lane					
	Fulham - Imperial Road					
	Slough depot					
Lon Subtotal						
NW	Barrow in Furness - Ashburner Way					
	Blackburn - Great Harwood - Heys Street					
	Kendal - Parkside Road					
	Manchester Hollinwood - Mersey Road North					
	Rochdale - Dane Street					
NW Subtotal						
WM	Coventry - Smith Street					
	Hereford - Perseverance Road					
	Kingswinford - Pensnett Trading Estate					
	Malvern - Lower Howsell Road					
	Redditch - Weights Lane					
	Telford - Halesfield 9					
WM Subtotal						
TOTAL						

Appendix 2: RIIO-1 expenditure for depot maintenance

We have reviewed the costs captured against our RRP data tables for Land and Buildings, Furniture and Fittings. (Table 4.7 Other Capex).

The detailed expenditure (since Cadent's separation from National Grid) was reviewed and any central costs associated with Hinckley, Ashbrook Court or Leicester Data Hall was removed. The resulting capex expenditure at 'business-level' per year for depot asset stock is set out below.

	RIIO-1 (£m)							
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Costs within RRP data table (nominal)								
Costs within RRP data table (18/19 price base)			Redacted due to commercial sensitivity					
Capex expenditure during RIIO-1 for 'Other Property'⁴			Redacted due to commercial sensitivity					

Table 9: RIIO-1 expenditure for 'Other Property'

The above capex spend profile gives an average yearly spend of XXXX over the 8 years of RIIO-1 in an 2018/19 price base.

⁴ Adjusted by removing capex expenditure relating to HOC, ABC and Leicester Data Hall – this expenditure is covered in a separate investment case.