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Dear Thomas

Response to statutory consultation on RIIO-GD2 Regulatory Reporting Requirements Relating to Network Asset Risk Metric (NARM).

This letter represents our formal response to the statutory consultation on the Regulatory Instructions and Guidance (RIGs) and Regulatory Reporting Packs (RRP) for the RIIO-GD2 price control. Our response is not confidential and may be published by Ofgem.

Proposed modifications to the NARM RIGs and NARM RRP data templates

Whilst we recognise and understand Ofgem's need to collect data on how we are performing on delivering the network risk output we believe there are three areas that require further consideration before finalising the proposals. We have outlined these in turn below.

1. Ensuring proportionality of data and NARM Spend.

The level of data being requested is not proportionate for Gas Distribution given the small quantum of spend subject to the NARM mechanism in RIIO2. The proportion of spend is estimated to be around 9 times smaller than during RIIO-GD1 for Gas Distribution predominately due to the removal of the Tier 1 Iron Mains Replacement Programme. Our understanding is that the level of spend for other sectors is considerably higher than Gas Distribution and hence there may be a different need for detail. Given the reduction in the quantum covered by NARMS from RIIO-1 and the low value relative to other sectors, the proposal does not appear to be proportionate for Gas Distribution.

2. Understanding the consumer benefit

Carrying out significantly complex calculations to produce monetised risk values in the formats Ofgem are requiring drives significant costs into network companies. These costs are not currently funded and even if they were, we are unclear if they would represent value for money for gas consumers. The costs relate to production of thousands of data points, storage of the data points for every year for audit purposes, assurance activities, population of assurance paperwork etc. We have estimated it will



take our Asset Modelling team of 5 the equivalent of 3 months to produce and assure the proposed NARM RRP. Over the course of the 5-year price control this amounts to 15 months work and when the costs of data storage are included the total cost of completing the NARM RRP is in excess of £350,000. Given that gas consumers are already faced with huge amounts of complexity with NARMS it is important to understand what benefits this cost delivers for our customers.

3. How the proposals align with wider NARMS reporting

By undertaking this consultation outside of the common governance arrangements for cost and volume RRP RIGs it's very unclear how the main cost and volume tables link to the NARM RRP. It is critical that we establish clear guidelines for NARMS so as to avoid a repeat of the uncertainty that has been inherent in the NOMS process for RIIO1. The current proposals create another bridge that introduces complexity, and we are unable to see any benefit in building this into the process.

Our proposal

To address these areas of concern we propose the data being requested should align with the NARM performance measure only. This means that the annual data submission should be an annual version of the spreadsheet that will be used for NARMS Close Out.

In the current proposals Ofgem are suggesting they collect data on both overall asset health irrespective of whether the works are in the NARM or not and data for RIIO-3. Whilst we support the development of NARMS into RIIO3 in trying to collect these additional data points through the RRP process the proposed workbook becomes incredibly and unnecessarily complex. We think that Ofgem's objectives can be achieved in a more efficient manner by:

1. Ensuring the data collected as part of the RRP for NARM is only the data required for monitoring performance against the NARM output. This would greatly reduce the volume of data required and enable the NARM RRP to be incorporated into the main cost and volume RRP. In bringing the NARM RRP into the common governance arrangements for cost and volumes RRP complexity will be greatly reduced and transparency significantly increased.
2. Requiring GDNs to maintain, but not report on an annual basis, the data relating to asset health and that which is envisaged to be required to set future price controls. This would have the following benefits:
 - allow networks to engage with Ofgem on how we might best develop the framework for RIIO3 and therefore identify the format of the data requirements,
 - avoids burdening the RRP with a host of 'what if' data that goes against the principles we have been working to on RRP data,
 - reduces the disproportionate costs of *annual* reporting and assurance.

Should you require any further information regarding this response, please contact Josh Bagdatlioglu at joshkun.bagdatlioglu@cadentgas.com.

Yours sincerely,

[By Email]

Richard Court
Director of Regulatory Strategy