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21st December 2021

Wales & West Utilities response to Ofgem's Consultation on RIIO-2 Regulatory Reporting Requirements Relating to Network Asset Risk Metric (NARM)

Dear Thomas

Wales & West Utilities (WWU) appreciate the opportunity to feedback on the NARMS RRP tables and guidance. We think it is critical that Ofgem and the distribution networks work together on this to reach an outcome that is optimum for consumers and recognises the huge change that is happening as we move towards green energy.

Our feedback focuses on areas where we do not agree with the consulted approach. If we do not mention specific tables then we support their inclusion in their current form.

Please find below, our response to the consultation. Please don't hesitate to make contact for any areas of clarification.

Kind Regards

Ian

Ian Dunstan
Asset Strategy Manager
07785725267

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NOM's (Now NARMs) was introduced during RIIO-GD1, and the original aims were:-

- Communicating the benefit of their investment to consumers
- Improving asset management decisions through shared learning and evolution of risk assessment approaches and supporting data

Our review of the proposed RRP and associated NARMs workbook focuses on the ability to deliver against these aims.

In summary

Communicating the benefit of their investment to consumers

- Our concern is the NARM's experts in the networks are struggling with the level of data that is being requested and what NARMs is now trying to achieve, it will be impossible to convey NARMs to the consumer in a meaningful way. It seems to have moved to mostly about spend and little about network risk.

Improving asset management decisions through shared learning and evolution of risk assessment approaches and supporting data

- NARMs is becoming so complex that it disincentivises improvements to the methodology and its application. The data requirements following any improvements make it incredibly difficult to justify the effort needed. NARMs has now become so workload intensive that it is preventing people focusing on moving Asset Management forward

Networks are tied up in data manipulation requiring huge assumptions that are difficult to make consistent across networks. There are 29 worksheets requiring input in the GD2 NARMS RRP compared to a single worksheet in GD1

- GD1 required population of circa 100 cells of data and enabled an understanding of the impact of investment of risk by asset group
- GD2 proposal requires population of circa 25,050 cells – an increase of 250% effort
- The level of assumption and data manipulation required results in the submissions being extremely complex to assure and not comparable across network companies.

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This is disproportional to what is being measured –

- NARMs measures <10% of company annual totex spend
- A large proportion of this work is required under other regulations like PSSR, PSR, DSEAR etc. so there is minimal opportunity to vary from the requirements
- The target is a single number, so it is difficult to see the need for significant data to assess delivery

WWU have concerns that the volume of data and level of manipulation required will result in

- Inability to assure submissions to an acceptable level of confidence due to the complexities introduced
- A data overload that will blur rather than enhance analysis and assessment of NARMs
- Significant resource increase which was not funded in RIIO-GD2

All Networks have invested in world leading systems that support asset management risk assessment and optimising investment programmes to achieve pre-defined outcomes as informed by stakeholders. These systems supported the Regulatory Reporting Pack requirements in GD1 but cannot support these new proposed tables. To populate the proposed table requires a lot of manipulation of data outside of core systems which comes with risk of human error.

We are concerned these tables are already being introduced late into the new price control (at the end of the first year) so reporting requirements may need further investment or changes which are currently unfunded. We also did not include additional resources in our business plan for GD2 to facilitate this significant regulatory burden for very little consumer benefit. We would like Ofgem to justify the significant increases in data management and manipulation at a cost to consumers for only 10% of our annual totex investment.

The consultation states Ofgem have attempted to link the Cost & Outputs tables to NARMS. In reality the proposal puts the emphasis on the networks to make the link.

Given Ofgem's focus on NARMs costs, we would like the proposed RRP to make a clearer link between NARMs and Cost and Outputs reporting. We think

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it would be beneficial to all for Ofgem to try and align the tables because currently we are creating a parallel RRP cost schedule for NARMs.

As allowances are set by Ofgem, WWU believe it would be appropriate for Ofgem to make these links rather than transfer responsibility to the Networks to calculate the allowances that have been given. The concern here is consistency between distribution networks and the transfer of work from Ofgem to the networks – which again is not funded in GD2.

The proposal requires us to report details on interventions that have been removed from NARM by Ofgem. If Ofgem don't think they need to be measured by NARM, then why are they reported under NARM? We need to understand justification for this reporting.

Finally, we are interested reviewing the stakeholder engagement and feedback which has driven Ofgem to propose a significant increase in the regulatory burden for consumers.

Specific table feedback

If we don't list a table then we support its inclusion and have no further comment, but still do not support this significant increase in data required.

N0.5 Data Constants – this is all documented in the NARMs methodology. Not sure why this needs repeating this here if it changes, we will update the methodology

N1.1 – Ofgem have mandated that the NARMs assessment is carried out with all investment modelled in the final year of GD2. These tables require a year-on-year forecast that will not be aligned with the risk removed with the modelling applying it all to the final year. Given this won't align to target we are questioning the value of this.

N2.2- bandings are set for the control so this table will not change year on year. No issue with this but wanted to make sure it was clear.

N2.3 – 2.6 The PoF-banded tables should be used with extreme caution as it equates all failure types as being equal. Our preference would be not to report PoF in this way.

N2.6 – We should return the risk components to being reported unbanded e.g. environmental risk, system risk etc. we're not sure why this needs to be banded. The split of risk in these categories does not appear to have ever been used in assessment so we think making it more complex adds little value

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N3 – We do not believe this is necessary annually. This has the impact of disincentivising improvements. The Networks and Ofgem can work on methodologies to assess change and calculate dead bands without an annual submission. This can then be assessed at GD2 close-out. The requirement to report changes by health and risk bands is also incredibly difficult. The GDNs have previously demonstrated how this simply does not work for GD with many thousands of interventions per annum. We have not seen this data used in any way and do not understand the value in trying to express changes in this way.

In addition to the above comments, we believe a compromise on volumes of data vs value would be to remove the N3 tables from the reporting and deal with this as a close out issue. The Networks could work with Ofgem through the control to agree on how to analyse non-intervention changes.

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