

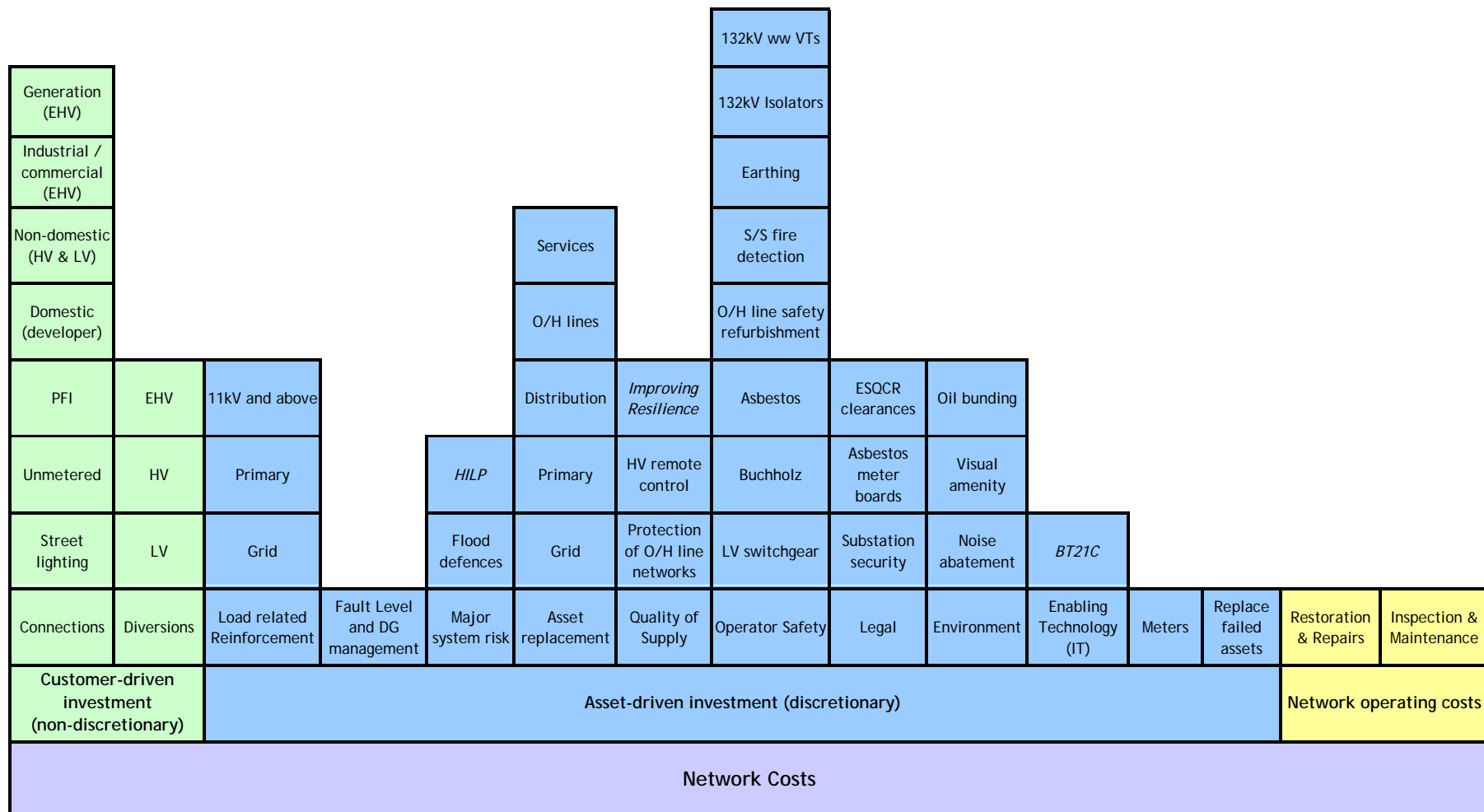
## FBPQ and building blocks

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# The building blocks of investment planning

Investment plans are built from a consideration of the motives driving investment and not from a requirement to ensure a nominally periodic turnover of asset classes



## Ofgem building block approach

The FBPO is comprehensive but is more reflective of how plans are actually assembled

<b>Network costs</b>	Load related	Demand
		Generation
		Diversions
		General reinforcement
		Reinforcement system measures
		Fault levels
		Future Proof
	Non load related	Condition based expenditure
		Condition based QoS
		Condition based volume
		Remaining useful life
		QoS (IIS)
		QoS (non IIS)
		Major sys risks
		Operational IT & telecoms
Legal & safety		
Environmental		
Operating costs	I&M	
	Fault costs	
	Tree cutting	
<b>Engineering indirects</b>	Engineering indirects	
<b>Costs</b>	Cost increase	
	Unit costs	

# Opportunities and risks

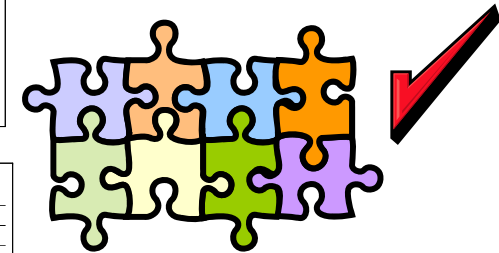
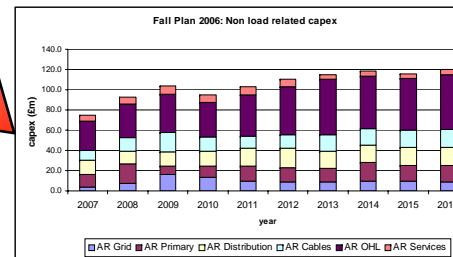
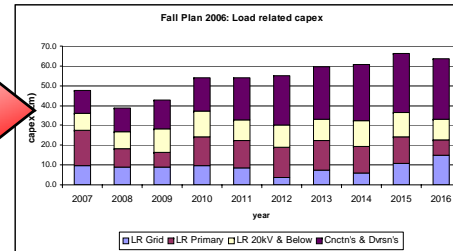
## Opportunities

Better informed discussion between DNO and Ofgem

Demonstration of the choices each DNO has taken with respect to risks

Allows Ofgem to challenge DNO's plan at the disaggregated level

Network costs	Load related	Demand
		Generation
		Diversions
		General reinforcement
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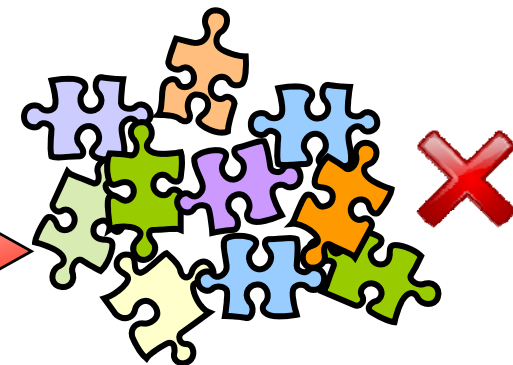
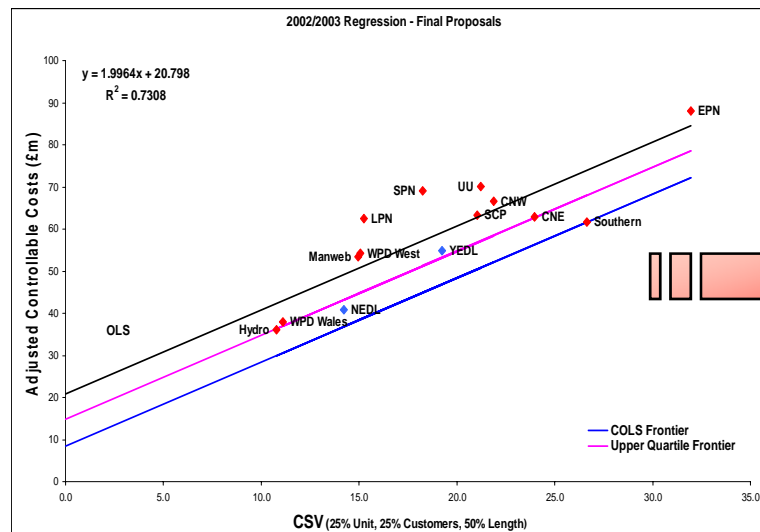


## Risks

Potential for 'cherry-picking'

Unit costs analysis will be plagued by definitional issues

Individual DNO assumptions may not align

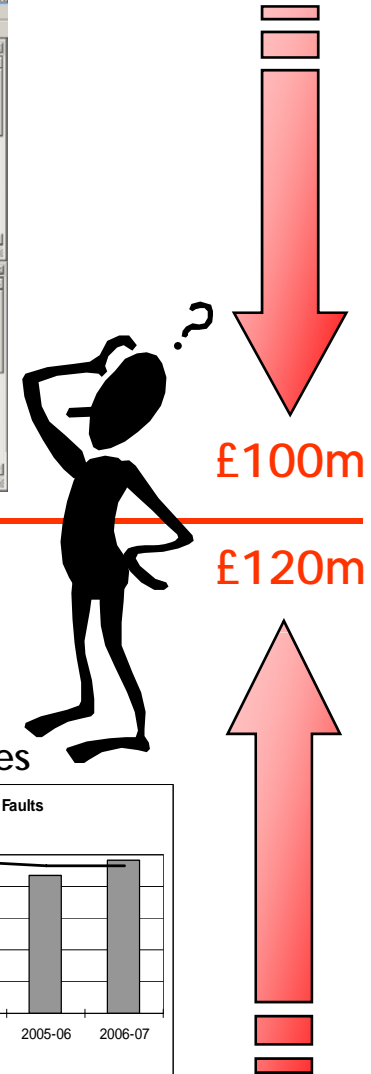
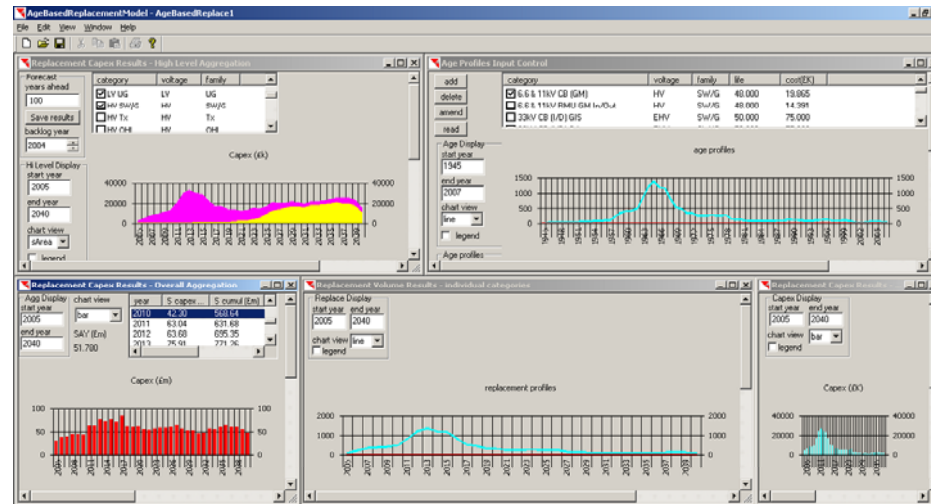


Regression analysis unlikely to yield legitimate results at the disaggregated building block level

# Integration with conventional modelling

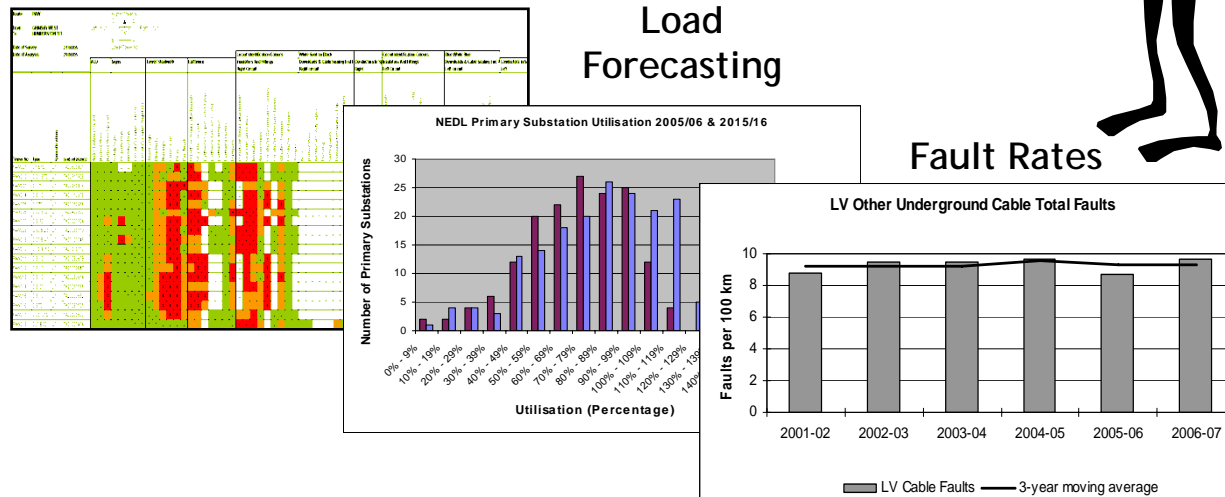
## Asset Replacement Modelling

Ofgem can use the building block approach to benchmark each company against its own planning assumptions and to test the efficiency of its resultant plan



## Health Indices

However, we need to be mindful of the potential conflicting results that will arise in comparison to strategic asset replacement model outputs



## Closing remarks

- We are supportive of the 'building block' approach that Ofgem have proposed and believe it is a step forward

Do	<ul style="list-style-type: none"><li>• Utilise the building block approach to understand individual DNO assumptions and resultant plan</li><li>• Benchmark the DNO against its own assumptions</li><li>• Ensure 'definitions' are appropriately documented</li><li>• Recognise the requirement for judgement in forecasting</li></ul>
Don't	<ul style="list-style-type: none"><li>• Use analytical benchmark comparisons across DNOs</li><li>• 'Cherry-pick' what might appear to be best practice</li><li>• Accept outputs of 'crude' forecasting models</li></ul>

- 'Joined-up' thinking is paramount