

Legal & Regulatory
1st Floor, Lakeside West
30 The Causeway
Staines
Middlesex
TW18 3BY

21st September 2015.

Anna Rossington
Head of RIIO Implementation
Ofgem
9 Millbank
London SW1P 3GE.

Dear Anna,

Notice of proposal to direct modifications to the Common Network Asset Indices Methodology under Part C of SLC 51

Thank you for the opportunity to respond to the notice regarding the Distribution Network Operators' (DNOs') Common Network Asset Indices Methodology. This is a non confidential response on behalf of the Centrica Group, excluding Centrica Storage.

We support the development of the Common Network Asset Indices Methodology. It should provide a more objective basis for the quantification of the impact of network expenditure and the comparative assessment of asset stewardship across the sector. This, in turn, should better facilitate comparisons of the DNOs' long-term performance and increase transparency amongst stakeholders of the extent to which DNOs deliver value for money.

However, we have concerns with any proposal to alter output deliverables so soon after the conclusion of the RIIO-ED1 price control review. Asset-related indices are integral to the *Revenue = Incentives + Innovation + Outputs* (RIIO) framework, so we believe:

- **Targets for the relevant secondary deliverables, upon which the RIIO-ED1 settlement is based, should not be rebased during the current price control and DNOs should report on a dual basis through RIIO ED1.**
- **The RIIO-ED1 price control should be used to make improvements to the methodology.**

Targets for the relevant secondary deliverables should not be rebased

Whilst we support the principle of a Common Network Asset Indices Methodology, any proposal to alter or rebase the targets for these secondary deliverables during RIIO-ED1 undermines the RIIO framework. As set out in the RIIO ED1 Strategy Decision, it is the submission of business plans which provides the key opportunity for DNOs to propose the outputs they believe are required for the price control:

...The submission of business plans is the key opportunity for DNOs to propose the outputs they believe are required for RIIO-ED1. Stakeholders should provide their views on the DNOs plans and our proposals for each DNO at the appropriate stages of the review.¹

The RIIO ED1 settlement intrinsically links revenue allowances to the outputs which the DNOs, having consulted with stakeholders, are required to deliver over the current price control. We believe material changes to the targets for these asset-related indices would necessitate a reassessment of revenue allowances, which could be perceived as the re-opening of decisions made during the price control review.

As such, we believe the targets for these asset-related secondary deliverables should continue to be assessed against the specific DNO methodology on which revenue allowances for RIIO ED1 have been based. However, we believe there is merit in each licensee running the common methodology in parallel with its specific methodology while it is being developed. This would provide the industry and stakeholders with an opportunity to understand and gain experience of the changes in the approaches to asset management. This would also provide the DNOs with an opportunity to make further improvements to the methodology, as we explain below.

Improvement of the methodology

We support requirements to improve the common methodology because we believe these asset-related indices are integral to the price control framework. Further, we welcome exploration of how these indices could be more widely used for input and output benchmarking because this may better facilitate comparative assessments of performance. It is for these reasons we believe the common methodology must be thoroughly calibrated, tested and validated prior to implementation.

The scope of further work proposed in Annex 1 of the Draft Direction appears broadly sensible. However, we are concerned that the application of the methodology to just samples of asset populations may not allow licensees to identify some areas in which it could be improved or fully take account of all types of assets, network configurations and operating arrangements. We recommend exploring whether licensees could be required to use the entire distribution network asset base to calibrate, test and validate the methodology (or how assurance over the use of samples can be provided if this is not feasible).

We hope you find our comments helpful. Please do not hesitate to contact me if you have any questions.

Yours sincerely,

Andy Manning
Head of Network Regulation, Forecasting and Settlements

¹ Strategy decision for the RIIO-ED1 electricity distribution price control Uncertainty mechanisms para 5.19 https://www.ofgem.gov.uk/sites/default/files/docs/2013/02/riioed1decuncertaintymechanisms_0.pdf