



Making a positive difference
for energy consumers

To electricity distribution
companies and other interested
parties

Direct Dial: 0141 331 6034
Email: Grant.McEachran@ofgem.gov.uk

Date: 1 February 2016

Notice of our decision to approve the Common Network Asset Indices Methodology and to direct a timescale for rebasing of the Network Asset Secondary Deliverables

We have decided to approve the Common Network Asset Indices Methodology ('Common Methodology') that was submitted to us on 15 December 2015, pursuant to Standard Licence Condition ('SLC') 51.8 of the Electricity Distribution Licence (the 'Licence'). This letter explains our reasons for this decision.

We have also decided to permit a period of time greater than 26 weeks for licensees to rebase their methodologies and report revised information pursuant to SLC 51.8 and Special Condition CRC 5D.17 of the Licence.

The attached Direction/Consent takes effect from 1 February 2016, and the DNOs are required to modify and report revised information for the Price Control Period to the Authority by 30 December 2016.

1. Background

As part of the RIIO-ED1 price control review, DNOs provided forecasts of their asset health and criticality positions "with intervention" and "without intervention". We used these to create secondary deliverable targets, or deltas, setting out the required improvement in asset health, criticality and monetised risk.

SLC 51 of the Licence requires the DNOs to have a Common Methodology for asset health, criticality and monetised risk. Pursuant to SLC 51, the DNOs had to work together to develop and submit the Common Methodology by 1 July 2015. After our review and consultation¹, we issued a direction to modify the Common Methodology on the 21 August 2015².

We received the DNOs' modified Common Methodology on the 15 December 2015 and assessed it based on the predefined criteria set out in SLC 51.6.

¹https://www.ofgem.gov.uk/sites/default/files/docs/2015/08/notice_to_modify_the_common_network_asset_indices_methodology_under_slc_51.pdf

²https://www.ofgem.gov.uk/sites/default/files/docs/2015/10/decision_and_direction_to_modify_the_common_network_asset_indices_methodology_under_slc51.pdf

2. Common Methodology requirements

SLC 51.11 contains the key objectives for the Common Methodology. It should enable:

- (a) the comparative analysis of network asset performance between DNOs over time;
- (b) the assessment of the licensee's performance against the Network Asset Secondary Deliverables; and
- (c) the communication of information affecting the Network Asset Secondary Deliverables between the DNO, Ofgem and, as appropriate, other interested parties in a transparent manner.

The Common Methodology should enable the evaluation of risk "trade-offs" between asset categories and the delivery of a risk profile within a single asset category that is different to the target profile, to clearly define the level of under- or over-delivery achieved. The Common Methodology should also facilitate the increase in the scope of assets covered by the framework to eventually include all asset categories in the asset register.

We developed an explanation of the criteria by which to assess the Common Methodology, which we presented to the DNOs through the Common Framework Working Group in December 2014. Our explanation of the criteria was as follows:

Asset health assessment – the Common Methodology:

- is capable of providing a degree of consistency in results to make meaningful comparisons across DNOs possible,
- uses objective and relevant inputs and provides a linkage to Probability of Failure (POF)/Failure rates, and;
- enables continuous improvement and refinement through calibration against observable data (where appropriate).

Asset criticality assessment – the Common Methodology:

- combines safety, environment, network performance and financial consequences into a single, monetised assessment of consequence of failure,
- is capable of providing consistent results,
- uses objective and relevant inputs,
- takes into account the interdependence of network assets,
- is capable of providing sufficient consistency to make meaningful comparisons across DNOs possible, and;
- enables continuous improvement and refinement through calibration against observable data (where appropriate).

Monetised risk calculation – the Common Methodology:

- calculates values proportional to expected values,
- is subject to a "validation" test against anticipated risk across the network,
- has the ability to aggregate individual asset risk results to calculate the total network risk, and;
- enables continuous improvement and refinement through calibration against observable data (where appropriate).

3. Our decision

We have considered the modified Common Methodology in line with the various criteria outlined above and have decided to approve it pursuant to SLC 51.8; our approval is given effect via the attached Direction/Consent.

However, we recognise that a few minor issues, discussed in further detail below, persist in the Common Methodology, and will need to be amended. We also anticipate that, upon implementation of the Common Methodology for the first time, a number of additional issues may come to light, requiring modification of the Common Methodology. In light of this, we expect the licensees to use the modification procedure set out in SLC 51.23-27 to resolve these minor issues and update the Common Methodology; we recommend that all issues are identified for the purposes of this process by 1 August 2016 and are processed through a single modification at that time. We also have the ability to direct modification of the Common Methodology, following consultation with interested parties, pursuant to SLC 51.28.

Pursuant to SLC 51.2(b) and Special Condition CRC 5D.17, the licensees are required to modify their methodologies, and submit a rebased set of network Asset Secondary Deliverables, in accordance with the Common Methodology. The licence provides for this action to occur within 26 weeks from the date of approval of the Common Methodology, or within such greater amount of time as we allow. In the light of the minor issues outlined above, we have decided to extend this period of time until 30 December 2016. Our direction/consent in this respect is given effect via the attached Direction/Consent.

4. Reasons for our decision and further work

We, along with two industry experts, have reviewed the DNOs' submission of the Common Methodology and found it to be a professional submission with a detailed build-up of how each of the assets are assessed and scored. It is clear that the DNOs have worked together in developing the Common Methodology and have sought to develop a comprehensive approach. The DNOs have reached industry-wide agreement on known issues i.e. definition of failure, coastal lines, asset replacement costs etc.


Our review found that the DNOs have resolved the key issues we raised in our Direction on 23 October 2015 and we have concluded that the Common Methodology meets the criteria for compliance with SLC 51.6. We found two minor issues that still require additional work which are detailed below:

- **Example improvements** – The DNOs provided two sets of worked examples as part of the recent modification to the Common Methodology. The examples in Appendix E set out the calculations to determine the Probability of Failure (PoF), while those in Appendix 2 focus on the Criticality of Failure (CoF) and Monetised Risk of the assets. We feel that the examples add significant value to the document, as they provide the audience with outputs for selected assets. We consider that the examples could be further improved by ensuring that all of the equations used in the calculations are stated and each stage of the examples is shown. For example, it would be useful to see a table showing the actual PoF for the assets discussed in Appendix 2.
- **Referencing and decision documentation** – The DNOs have provided references throughout, including original research papers, but we feel that there is still scope for further improvement. Our expectation is to have all of the data tables referenced, either to the data source or, in the case where the figures were agreed by the working group, by a statement that the decision was taken by the working group. We also expect any data sourced from Ofgem publications to be fully referenced.

Once these modifications, as well as any additional modifications that may be required, have been identified, the DNOs will be able to focus on the rebasing exercise in order to report revised information for the Price Control Period by 30 December 2016. The reason for extending the deadline for reporting revised information for the Network Asset Workbook to 30 December 2016 is due to the work that is required to implement the Common Methodology and carry out the rebasing for the Network Asset Secondary Deliverables, as well as the additional regulatory reporting requirements that apply for the first year of RII0-ED1. We consider that this revised deadline should allow the DNOs to implement the Common Methodology before carrying out the rebasing process, and should allow the rebasing to be completed effectively.

The revised deadline will also allow us to review the Information Gathering Plan, which each DNO will provide by the 25 April 2016 pursuant to SLC 51.12. The extension of time will allow us to approve or direct modifications in a timely manner so that the DNOs are able to gather the appropriate data necessary to implement the Common Methodology.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Paul Branston', is written over a light grey rectangular background.

Paul Branston
Associate Partner

Appendix 1

To: All holders of an electricity distribution licence

Direction under Standard Licence Condition 51 and Consent under Special Condition CRC 5D of the Electricity Distribution Licence

1. Each of the companies to whom this Direction is addressed (the Licensee) holds an electricity distribution licence (Licence) under section 6(1)(c) of the Electricity Act 1989 (the Act).
2. Under Part C of standard licence condition 51 (SLC 51), in conjunction with our Direction dated 23 October 2015, the Licensees were required to submit a Common Network Asset Indices Methodology to the Gas and Electricity Markets Authority (the Authority) by 15 December 2015 for approval.
3. As set out in SLC 51.6 the Common Network Asset Indices Methodology must
 - (a) facilitate the achievement of the Network Asset Indices Methodology Objectives set out in Part D of the condition;
 - (b) enable the objective evaluation of performance against the Network Asset Secondary Deliverables;
 - (c) be implemented by the licensee through appropriate amendment of its own Network Asset Indices Methodology in accordance with the provisions of Part A of the condition; and
 - (d) be capable of being modified from time to time in accordance with the provisions of Part I of the condition.
4. As set out in SLC 51.11, the Common Network Asset Indices Methodology should enable:
 - (a) the comparative analysis of network asset performance between DNOs over time;
 - (b) the assessment of licensee DNO's performance against the Network Asset Secondary Deliverables; and
 - (c) the communication of information affecting the Network Asset Secondary Deliverables between the DNO, Ofgem and, as appropriate, other interested parties in a transparent manner.
5. The Licensees submitted a modified Common Network Asset Indices Methodology in accordance with the obligations outlined in paragraph 2 above. The Authority assessed the methodology for compliance with the requirements of SLC 51.6.
6. Having carried out its assessment the Authority is satisfied that the submitted Common Network Asset Indices Methodology complies with the provisions of SLC 51.6.
7. The Authority recognises that additional amendments may need to be made to the Common Network Asset Indices Methodology. In light thereof, the Authority intends to allow the Licensees a period of time greater than 26 weeks to modify their Network Asset Indices Methodology and report revised information for the Price Control Period pursuant to SLC 51.2(b). To the same effect, the Authority intends to consent to a period of time greater than 26 weeks for development of a revised set of Network Asset Secondary Deliverables pursuant to Special Condition CRC 5D.17 of the Licence.

NOW THEREFORE

8. The Authority hereby directs approval of the Common Network Asset Indices Methodology submitted on 15 December 2015, pursuant to SLC 51.8 of the Licence.
9. The Authority hereby directs that the time period within which the Licensee must comply with the obligation set out in SLC 51.2(b) (namely to modify its Network Asset Indices Methodology and report revised information for the Price Control Period) be extended such that it ends on 30 December 2016.
10. The Authority hereby consents to an extension of the time period specified in Special Condition CRC 5D.17, by which the Licensee must develop and submit for approval to the Authority a revised set of Network Asset Secondary Deliverables, such that the time period ends on 30 December 2016.
11. This Direction and Consent will take effect on and from 1 February 2016.
12. This Direction and Consent, and the attached letter dated 1 February 2016, constitute notice pursuant to s. 49A of the Electricity Act 1989 (Reasons for decisions).

Paul Branston - Associate Partner

A handwritten signature in black ink, appearing to read 'Paul Branston', with a stylized, looping flourish above the name.

**Authorised on behalf of the
Gas and Electricity Markets Authority**

1 February 2016

Appendix 2: Licensees to which Network Asset Indices Methodology requirements apply

Electricity Distribution

Company Group	Licensee	Company number	Licence Type
Electricity North West Limited	Electricity North West Limited	2366949	Electricity Distribution
Northern Powergrid	Northern Powergrid (Northeast) Limited	2906593	Electricity Distribution
	Northern Powergrid (Yorkshire) Plc	4112320	Electricity Distribution
SSE plc	Scottish Hydro Electric Power Distribution Plc	SC213460	Electricity Distribution
	Southern Electric Power Distribution Plc	4094290	Electricity Distribution
Scottish Power Ltd	SP Distribution Plc	SC189125	Electricity Distribution
	SP Manweb Plc	2366937	Electricity Distribution
UK Power Networks	Eastern Power Networks Plc	2366906	Electricity Distribution
	London Power Networks Plc	3929195	Electricity Distribution
	South Eastern Power Networks Plc	3043097	Electricity Distribution
Western Power Distribution	Western Power Distribution (East Midlands) Plc	2366923	Electricity Distribution
	Western Power Distribution (South Wales) Plc	2366985	Electricity Distribution
	Western Power Distribution (South West) Plc	2366894	Electricity Distribution
	Western Power Distribution (West Midlands) Plc	3600574	Electricity Distribution