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Notice of our decision to approve modifications to the Common Network Asset Indices Methodology

We have decided to approve the modifications made to the Common Network Asset Indices Methodology ('Common Methodology') that the distribution network operators (DNOs) consulted upon pursuant to Standard Licence Condition ('SLC') 51.24 of the Electricity Distribution Licence (the 'Licence') on 26 August 2016. This letter explains our reasons for this decision.

Under SLC51.26, the licensees may notify the Authority that the implementation of any modifications may require a change to the licensees' Network Asset Indices Methodology, or Network Asset Workbook, or a restatement of data previously reported. The licensees have confirmed that they do not propose to submit any notice to the Authority under SLC51.26 and their intention is to rebase their methodologies and to report revised information for the Price Control Period to the Authority by 30 December 2016, in accordance with our direction on 1 February 2016¹.

1. Background

As part of the RII0-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, setting out the required improvements 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 consultation², we issued a direction to modify the Common Methodology on the 21 August 2015³.

¹https://www.ofgem.gov.uk/sites/default/files/docs/2015/10/decision_and_direction_to_modify_the_common_network_asset_indices_methodology_under_slc51.pdf

²https://www.ofgem.gov.uk/sites/default/files/docs/2015/08/notice_to_modify_the_common_network_asset_indices_methodology_under_slc_51.pdf

³https://www.ofgem.gov.uk/sites/default/files/docs/2015/10/decision_and_direction_to_modify_the_common_network_asset_indices_methodology_under_slc51.pdf

We received the DNOs modified Common Methodology version draft V4 on the 15 December 2015 and approved it based on the fulfilment of the predefined criteria set out in SLC 51.6 on 1 February 2016⁴.

During the implementation of the approved Common Methodology draft version V4, the DNOs made a number of minor amendments to correct for errors or omissions. As part of the requirements of Part I of SLC51, the DNOs consulted on these proposed changes on the Energy Networks Association website from 26 August 2016 to 23 September 2016⁵. No responses were received to this consultation and the DNOs have submitted their report under SLC51.25 on 4 October 2016. The report is published alongside this approval letter.

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:

- 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:

- 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;

⁴<https://www.ofgem.gov.uk/publications-and-updates/decision-dno-common-network-asset-indices-methodology>

⁵<http://www.energynetworks.org/news/publications/consultations-and-responses/>

- enables continuous improvement and refinement through calibration against observable data (where appropriate).

Monetised Risk calculation:

- 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 51.27. The current version of the Common Methodology is published alongside this approval letter.

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 licensees have confirmed that they intend to continue to work to the 30 December 2016 deadline set out in the 1 February 2016 direction.

Yours faithfully,

Min Zhu
Associate Partner Networks Analysis