To electricity distribution companies and other interested parties.

Direct Dial: 020 7901 7060
Email: Min.Zhu@ofgem.gov.uk

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Consultation under Part E of SLC 51 of the Electricity Distribution Licence on our minded-to decision to approve Information Gathering Plans submitted by Distribution Network Operators

This letter is a consultation under Part E of Standard Licence Condition (SLC) 51 of the Electricity Distribution Licence on our minded-to decision to approve the Information Gathering Plans (IGPs) that were submitted to us by each of the electricity distribution network operators (DNOs). It sets out the reasons for the Authority's minded-to decision, and the period during which the licensees or any other interested parties may make representations.

1. Background

Our new RIIO (Revenue = Incentives + Innovation + Outputs) price control framework places a greater focus on outputs and associated Network Asset Secondary Deliverables. The secondary deliverables are the leading indicators which enable us to monitor the DNOs' long-term performance. The asset health, criticality and loading secondary deliverables quantify the impact of the companies' network expenditure and enable Ofgem, and stakeholders, to see what the DNOs have delivered.

The Health Index (HI) is a DNO-specific composite measure made up of asset age, condition, fault history and realistic probability of failure. Criticality is a measure of the consequence of asset failure. The Load Index (LI) is a DNO-specific measure of network comparative loading.

The HIs and LIs were introduced in the previous price control, DPCR5. We introduced criticality indices (CIs) in RIIO-ED1 and combined asset health and criticality into a composite measure of monetised risk. In DPCR5, and for the RIIO-ED1 business plans, the DNOs used their own definitions of these indices.

The RIIO-ED1 Electricity Distribution Licence requires the DNOs to have a Common Methodology for Asset Health, Criticality and Monetised Risk. Under SLC 51, the licensees were required to work together to develop and submit a Common Network Asset Indices Methodology by 1 July 2015. The requirement does not include LIs, as standardised reporting is already in place as part of the RIIO-ED1 Regulatory Instructions and Guidance (RIGs). We approved the Common Network Asset Indices Methodology that was submitted

to us on 15 December 2015. The approved methodology took effect from 1 February 2016[1], and requires the DNOs to modify and report revised information for the Price Control Period to the Authority by 30 December 2016.

2. Information Gathering Plan requirements

Part E of SLC 51 contains the key objectives for the Information Gathering Plan. The IGP should set out how the licensee will gather and record information required for implementation or revision of the Common Network Asset Indices Methodology by the DNOs.

The IGP must include the scope and form of the data that the licensee will collect, and the frequency with which data will be collected, such that the licensee is able to report on progress against its Network Asset Secondary Deliverables in accordance with the Common Network Asset Indices Methodology annually, in accordance with the RIGs.

The licensee must keep the IGP under review and where necessary modify it, subject to the Authority's consent, to ensure that it continues to enable the licensee to report accurately on the progress of its Network Asset Secondary Deliverables.

3. Reasons for our decision

The DNOs initially submitted their IGPs on 25 April 2016. Following a review, we requested that the DNOs include additional information. In particular, we requested the DNOs to:

1.   Formally specify how frequently they will review the IGP document.
2.   State what data collection processes are in place to ensure that high quality data will be provided in the annual submissions.
3.   Explain the decision making process associated with the development of procedures for collecting additional condition data or improving data collection methods. How will they ensure that the most effective solution is adopted? Will existing data collection processes be reviewed?
4.   Ensure that the IGP provides data on all of the headings in the table below. • CNAIM calculation step • Data required in CNAIM model • CNAIM document reference • Data collected • Data used to provide CNAIM input • Data type used • Format of data • Existing data collection policy • Frequency of data collection • Proposed future additional data collection • Comments
5.   For each asset category, state the number of data points that are and are not

currently being collected.
6.   Provide an explanation of the materiality associated with the data points not being collected, ie whether the data points that are being collected enable the CNAIM to provide an accurate and reliable Probability of Failure.
7.   For data not being collected, comment on whether they intend to collect this data or not and include any initial comments, eg "not required as another data point is sufficient", or, "yet to be determined". Where the decision is not to collect the data, this will need to be justified via a short narrative.
8. Describe how the collection of additional asset data for each category will be phased, eg "60% complete by xx/xxxx", "85% complete by xx/xxxx" and "all complete by xx/xxxx". Further, advise which asset categories and /or data points they are prioritising to improve.
9. Ensure frequency of inspections and recording of condition data are provided for each of the asset categories. Where necessary, differentiate between key tests that drive the health score and other tests/maintenance that are not critical or naturally have a longer timescales. This will help us to understand the "refresh" rate for the condition data of each asset category.
10. Explain why the implementation timescales for the collection of new data points are appropriate.

After taking our feedback into consideration, the DNOs submitted their revised plans at the end of August 2016. These are published alongside this consultation.

It is our view that all of the DNOs have met the relevant licence requirements and have adequately responded to all of the questions above. We are now consulting with a view to approve the IGPs pursuant to SLC 51.15(a).

We are seeking views on our minded-to position to approve the DNOs' IGPs. As part of your response please confirm whether you agree with our position and provide your reasoning.

4. Next steps

Please send you responses, preferably by email, to Kiran.Turner@ofgem.gov.uk by 18 November 2016.

Unless marked confidential, all responses will be published by placing them on our website. Subject to the consultation responses, we intend to approve the IGPs and publish our decision no later than 16 December 2016.

Yours faithfully,

Min Zhu
Associate Partner Networks Analysis