

To electricity distribution
companies and other interested
parties

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Decision to approve Information Gathering Plans submitted by Distribution Network Operators

Following our public consultation, which ended on 21 December 2016¹, we have decided to approve the Information Gathering Plans (IGPs) that were submitted to us by each of the electricity distribution network operators (DNOs) pursuant to Standard Licence Condition ('SLC') 51.15 of the Electricity Distribution Licence (the 'Licence') on 25 April 2016. This letter explains our reasons for this decision.

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.

SLC 51 of the Electricity Distribution Licence ("Licence") requires the DNOs to have a common methodology for asset health, criticality and monetised risk. Pursuant to SLC 51, the DNOs worked together to develop the Common Network Asset Indices Methodology draft version V4 which we approved on 1 February 2016 based on the fulfilment of the predefined criteria set out in SLC 51.6².

¹ <https://www.ofgem.gov.uk/publications-and-updates/distribution-network-operator-information-gathering-plans-consultation>

² <https://www.ofgem.gov.uk/publications-and-updates/decision-dno-common-network-asset-indices-methodology>

During the subsequent implementation of the approved Common Network Asset Indices Methodology draft version V4, the DNOs made a number of amendments to correct errors or omissions. We considered the modified Common Network Asset Indices Methodology v1.0 to be in line with the predefined criteria set out in SLC 51.6 and approved it pursuant to SLC 51.27 on 21 October 2016³.

The DNOs initially submitted their IGPs on 25 April 2016. Following a review, we requested that the DNOs include additional information and after taking our feedback into consideration, the DNOs submitted their revised plans at the end of August 2016.

We consulted with our minded-to decision to approve the Information Gathering Plans on 24 October 2016, as it was our view that all of the DNOs have met the relevant licence requirements set out below and had adequately responded to all of our questions.

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. Consultation responses

We received two responses to our consultation. Both responses were from DNOs and are published alongside this letter.

Western Power Distribution (WPD) agreed with our minded-to position to approve the DNOs Information Gathering Plans. WPD also highlighted that the content of the IGPs would vary because we gave limited guidance prior to the submission but that our request for additional information has sought to address this issue.

UK Power Networks (UKPN) also agreed with our minded-to position to approve the DNOs' Information Gathering Plans. UKPN commented that the IGPs provide an unprecedented level of transparency into the collation and assurance of DNO asset management data. It did, however, express concerns that Ofgem was seeking to consult on and approve a statement of the underlying data processes behind DNOs' regulatory submissions. In its view this could be construed as regulatory approval of the asset management processes contained in the IGPs (including inspection and maintenance intervals) and could have the effect of limiting licensees' ability to amend processes or to innovate.

We have considered UKPN's concerns and we are satisfied that approval of the IGPs will not limit licensees' ability to amend processes or to innovate. The decision on the IGPs is solely based on the requirements in SLC51 Part E and does not rely in any way on an assessment of the adequacy of licensees' asset management practices. The IGP is only required to be updated when there is a material change to the information required in SLC 51.14 and therefore, while information on data collected and inspection and maintenance timescales are included in the IGP, changes in either of these would not require Authority approval.

³ <https://www.ofgem.gov.uk/publications-and-updates/decision-distribution-network-operators-common-network-asset-indices-methodology>

Approval of the IGPs will therefore not reduce the ability of DNOs to appropriately manage their assets or scope to innovate.

4. Our decision

We have considered the consultation responses above and have decided to approve the DNOs Information Gathering Plans pursuant to SLC 51.15.

Further to this the DNOs are not required to submit updated IGPs pursuant to the approval of the modified CNAIM v1.0 on 21 October 2016, as this modification has no impact on DNOs' IGPs in terms of the form or scope of the data collection necessary for the implementation of the methodology.

The DNOs all committed to reviewing their IGPs periodically. Where updates resulting from any such review do not include any material changes to aspects covered by the requirements of SLC 51.14, the DNOs are not required to submit their IGP to Ofgem for approval. However, if there are any material changes resulting from a periodical review or any future modifications to the CNAIM impacting the form or scope of IGPs, the DNOs are required to submit an updated version of the IGP for approval.

Yours faithfully,

Min Zhu
Associate Partner Networks Analysis