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Dear Kiran,

Network Asset Secondary Deliverables Rebasing Consultation

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group, excluding Centrica Storage.

We remain concerned about the rebasing of risk reduction targets after the conclusion of the RIIO-ED1 price control review given these targets are a fundamental component of the settlement. We believe:

- **Targets for the Network Asset 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 period should be used to make improvements to the Common Network Asset Indices Methodology which can then be used for RIIO ED2.**

Targets for the Network Asset 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 rebasing of targets during RIIO-ED1 for assessing performance appears contrary to the RIIO framework. During the price control review, each DNO proposed outputs according to its individual approach to measuring network health. Agreed revenue allowances were linked to the risk reduction outputs, agreed by each DNO following consultation with its stakeholders, required to deliver over the current price control.

As discussed in the DNOs' submissions, the Common Network Asset Indices Methodology (CNAIM) is, in some instances, a significantly different approach to quantifying network risk compared to the individual methodologies used to generate existing agreed targets. For example, DNOs explain the CNAIM overstates risk for some asset types in some licence areas and, by extension, understates risk in others, relative to observed asset performance¹.

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DNO Common Network Asset Indices Methodology SLC 51 Part I Consultation – supplementary information:
<http://www.energynetworks.org/assets/files/news/consultation-responses/CNAIM%20Part%20I%20consultation%20February%202017%20Supplementary%20letter%20FINA%20L.pdf>

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Further, some targets proposed according to the CNAIM are materially different to the existing agreed targets. The assessment of performance on any basis other than that on which allowances were provided may not be in consumers' interests. There is a risk that rebasing will weaken the targets, whereas it is not clear what the benefit of rebasing is.

We have a number of further issues: concerns regarding data quality; some issues encountered by DNOs when preparing submissions; divergences from the *Network Asset Secondary Deliverables Rebasing Requirements and Assessment Methodology*; and divergences from the CNAIM. These reinforce our view that rebased targets should not be used to measure performance during RIIO-ED1. We would expect DNOs to adjust delivery programmes whenever better quality data become available. However, it is not necessary to rebase existing agreed targets to take account of better quality data. The existing RIIO-ED1 framework allows DNOs the flexibility to adjust delivery programmes by way of the Material Changes mechanism.

The number of workarounds used by the DNOs to prepare submissions and divergences from the CNAIM suggest it is premature to use rebased targets to measure performance during RIIO-ED1. It is unclear how additional scrutiny for particular asset categories in future performance assessments could alleviate our concerns if the rebased targets were approved and the associated licence modifications made. Further, we note submissions were prepared according to a methodology which has not yet been formally approved and for which the DNOs are currently seeking stakeholders' views on its appropriateness.

We continue to recommend performance during RIIO-ED1 should be assessed against the specific DNO methodology on which revenue allowances for RIIO-ED1 have been based.

The RIIO-ED1 price control should be used to make improvements to the CNAIM which can then be used for RIIO-ED2:

There seems to be insufficient experience of using the CNAIM to quantify network risk. As an example, the DNOs recently consulted on material changes to risk contributions for some asset types because of issues only identified when examining the proposed targets initially submitted. The proposed remedy for those asset types is reconsideration of the method of 'averaging' of the relevant parameters. Though the proposed remedy may resolve disproportionate concerns for those assets types, this issue suggests a need to consider whether a consistent approach to averaging is required across all asset types.

Each licensee should run the CNAIM in parallel with its specific methodology during the current price control in order to provide the industry and stakeholders with an opportunity to understand and gain experience of the changes in the approaches to asset management. The CNAIM should be thoroughly calibrated, tested and validated prior to implementation in RIIO-ED2 for the purposes of assessing performance.

An additional benefit of using the RIIO-ED1 price control period to make improvements to the CNAIM, but not for the purposes of performance assessment, is that it will encourage the

DNOs to bring forward improvements without any concern about the potential impact of further rebasing of RIIO-ED1 targets. This period should also be used to bring those asset types not currently accounted for in the CNAIM within its scope.

We hope you find these comments helpful. Please contact me if you have any questions.

Yours sincerely,

Andy Manning
Director - Network Regulation, Forecasting and Settlements