



## *Northern Powergrid's response to the Network Asset Secondary Deliverables Rebasing Consultation*

### **KEY POINTS**

- We agree that the Network Asset Secondary Deliverables Rebasing Requirements and Assessment Methodology document provides a suitable basis for the submission of the NASD rebasing and subsequent assessment methodology.
- We believe that the equally as challenging tests are comprehensive and appropriate for the purposes for which they are being used.
- Whilst we believe that the tests should result in a target risk delta that is “equally as challenging”, there appears to be a slight lack of transparency with respect to Ofgem’s intent to apply additional scrutiny to some asset categories for four of the six DNOs.
- We would agree with Ofgem’s intention to approve each of the DNO submissions.

## 1. Overview

- 1) In response to the Authority's direction on 01 February 2016, the Distribution Network Operators (DNOs) submitted the Rebased Network Asset Secondary Deliverables (NASD) Target Risk Delta on 30 December 2016.
- 2) Following Ofgem review, it was identified that version 1.0 of the Common Network Asset Indices (CNAIM) had produced anomalous results for a small number of asset types which had a disproportionate impact on the overall risk targets being proposed in the Networks Asset Workbook (NAWs). As a consequence, DNOs worked together to review relevant CNAIM parameters, proposed amendments to CNAIM and re-submitted their rebased NAWs on 09 February 2017.
- 3) On 03 March 2017 Ofgem issued notice of its intention to approve the rebased Target Risk Deltas under CRC 5D of the Licence. As part of its consultation, Ofgem have requested views on the following three questions:
  - a. **Question 1:** Do you agree that the Network Asset Secondary Deliverables Rebasing Requirements and Assessment Methodology document provides a suitable basis for the submission of the NASD rebasing and subsequent assessment methodology?
  - b. **Question 2.** Do you believe that the equally as challenging tests are comprehensive, appropriate and will result in a target risk delta that is equally as challenging? Where you disagree please clearly set out your reasoning and suggest how it could be improved to fulfil that objective.
  - c. **Question 3.** Do you agree with our intention to approve each of the DNO submissions and our view on each of the assessment criteria explained in Chapter 2? Where you disagree please clearly set out your reasoning and if possible suggest an alternative solution.
- 4) This document serves as Northern Powergrid's response to the consultation.

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## 2. Responses to Ofgem's consultation questions

***Question 1: Do you agree that the Network Asset Secondary Deliverables Rebasing Requirements and Assessment Methodology document provides a suitable basis for the submission of the NASD rebasing and subsequent assessment methodology?***

- 1) Implementation of the CNAIM can be broken down into a two stage process:
    - a. **Restatement:** Restatement of data previously reported within the Networks Assets Workbook (NAW) in accordance with the requirements under the CNAIM.
    - b. **Rebasing:** The production of a revised set of Network Asset Secondary Deliverables (the Rebased Network Asset Secondary Deliverables) in accordance with the CNAIM, which are trued up to take account of actual data up to and including 31 March 2015 and which remain equally as challenging as those set out in the NAW that was applicable at 01 April 2015.
  - 2) The need for Rebasing arises from a number of key reporting and methodological differences between CNAIM and the methodology we used in the original NAW submissions, all of which affect the equally as challenging tests in some way. These differences include:
    - a. The **base position** from which forecasting takes place (the resubmission is based on up to four years of additional (more recent) data)
    - b. **Methodological changes** in general (such as the number and nature of underlying Condition Factors and the ways in which these are combined)
    - c. **Calibration** of Probability of Failure (PoF) and Consequence of Failure (CoF) (taking account of national failure rate and observed experiences)
    - d. **Health Index Banding** (the process of translating Asset Risk Indices into bands for the purposes of regulatory reporting)
  - 3) Whilst the Network Asset Secondary Deliverables Rebasing Requirements and Assessment Methodology (referred from hereon as the Rebasing Methodology) does not allow for these changes to be isolated between submissions, it does provide a sensible mechanism for quantifying the net impact of these changes with particular attention to the Target Risk Delta.
  - 4) It therefore offers a suitable basis on which to assess equally as challenging, the assessment of which was agreed should be linked to the quantifiable outputs of the individual test results.
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- 5) We therefore agree that the Network Asset Secondary Deliverables Rebasing Requirements and Assessment Methodology document provides a suitable basis for the submission of the NASD rebasing and subsequent assessment methodology.

***Question 2. Do you believe that the equally as challenging tests are comprehensive, appropriate and will result in a target risk delta that is equally as challenging? Where you disagree please clearly set out your reasoning and suggest how it could be improved to fulfil that objective.***

- 6) The equally as challenging tests provide a sensible basis for assessing the Network Assets Secondary Deliverables resubmission by linking the definition of equally as challenging to the outputs of the individual tests in a quantifiable way.
- 7) The Rebasing Methodology creates a systematic way of identifying where the original Target Risk Delta may be considered to be quantifiably easier to achieve than those in the original Network Assets Workbook (NAW).
- 8) We are satisfied that where individual test failures have occurred the Target Risk Delta may remain appropriate and equally as challenging for a variety of reasons. Northern Powergrid has a number of such occurrences affecting EHV overhead lines and HV transformers which we address in our rebasing narrative. We are therefore fully supportive of the approach to put the burden of proof onto the DNOs where any individual test failures have been encountered.
- 9) In terms of its implementation, we have one concern relating to Ofgem's application of "additional scrutiny".
- a. For four of the six DNOs with respect to individual test failures for specific asset categories, Ofgem has committed to providing "*additional scrutiny to this particular asset category in future performance assessments.*"
  - b. Since no principles have yet been established for future performance assessments, it would be helpful to understand what this additional scrutiny may consist of and its application within the overall performance assessment, particularly given that Ofgem is expecting DNOs to trade the risk across asset categories. We understand that this will be developed in collaboration with the DNOs as part of the Reliability Working Group, which we would support.
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- c. We understand that the intent of “additional scrutiny” would appear to relate to managing those areas of the Rebased Target Risk Delta where the justification of the failure is linked to named schemes, i.e. where a DNO could potentially out-perform its Target Risk Delta by carrying out an intervention on an alternative named scheme. However this intent was not fully transparent in the consultation and was not captured within the Rebasing Methodology itself.
  - d. We would also suggest that the same level of scrutiny should be applied to all asset categories equally, regardless of the type of planning assumption adopted, for exactly the same reasons outlined in (c). Any asset category where the Test 1 result was less than 100% could also benefit in exactly the same way, i.e. a different set of interventions to those assumed within the Rebasing submission offers the same potential to over (or under) deliver against the Target Risk Delta.
  - e. We believe it is important to document how Ofgem has identified and imposed such a requirement. We would also encourage an assessment of proportionality in how the additional scrutiny is to be applied. We would suggest that this could be resolved by establishing the principles and documenting said principles within the Rebasing Methodology.

***Question 3. Do you agree with our intention to approve each of the DNO submissions and our view on each of the assessment criteria explained in Chapter 2? Where you disagree please clearly set out your reasoning and if possible suggest an alternative solution.***

- 10) We would agree with Ofgem’s intention to approve each of the DNO submissions.