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for energy consumers

All interested parties and
stakeholders

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Date: 21 March 2018

Decision on amendments to reliability (loss of supply) targets for RIIO-GD1

Summary

We have decided to amend the targets for the number and duration of planned and unplanned interruptions for gas distribution networks (GDNs).¹

We previously identified defects in some of the GDNs' loss of supply targets in our mid-period review (MPR) parallel work decision.² For example, some of the targets omitted certain types of interruptions or contained other errors and were, therefore, likely to be unachievable. Leaving these targets as they were would not encourage the right behaviour for GDNs or reveal useful information that would assist us in setting the next price control. The targets are not part of any financial incentive or licence obligation but are still important as a reputational incentive to drive service improvement.

This letter explains the rationale for the new targets, summarises the responses to our consultation, outlines the process we have followed and sets out the revised targets for RIIO-GD1.

Background

At the start of the current gas distribution price control (RIIO-GD1) we set targets for each GDN for the number and duration of planned and unplanned interruptions of gas supply to consumers. The aim of this output is to drive GDNs to reduce the impact of interruptions on consumers. The targets were set for the full eight years of RIIO-GD1, from 1 April 2013 to 31 March 2021. In addition to these targets, we expect companies to proactively engage with consumers to minimise the inconvenience caused by interruptions.

We decided as part of our MPR parallel work that it is in consumers' interest to revise the current RIIO-GD1 targets because we don't think they were set correctly in all cases, and because revising them now will ensure the GDNs have realistic and challenging targets to strive for. We also expect the revised targets to assist us in setting the next price control, by enabling us to better track actual performance against reasonable targets over time.

¹ In the price control this output is called Reliability (Loss of Supply). The original RIIO-GD1 targets are set out in Table 7.1 of [RIIO-GD1 Final Proposals Supporting Document – Outputs, incentives and innovation](#).

² <https://www.ofgem.gov.uk/publications-and-updates/mpr-parallel-work-decision>

We have worked with the GDNs over recent months to establish new targets. WWU told us that it does not want new targets. It is on track to meet its original targets. We believe these targets are suitably challenging and we are not proposing to change them. For the other GDNs, we consulted on revised targets in December after reviewing company proposals. Our methodology for reviewing those proposals is set out in the consultation.³ The general principle we have adopted is that targets should either be tougher than the previous price control, GDPCR, or tougher than RIIO-GD1 performance to date. We think that this is in the consumer interest by challenging companies to reduce the number and duration of interruptions.

Responses to our consultation

In December 2017, we consulted on proposed new targets for Cadent, NGN and SGN. We received four responses to the consultation, one from each of the GDNs.

A summary of the feedback received is as follows:

- The respondents acknowledged and supported the need to review the targets.
- Cadent asked for clarity on the rationale and methodology used to set the revised planned interruptions targets.⁴
- WWU, SGN and NGN all accepted the proposals. Cadent had concerns about the proposed unplanned interruptions targets for East of England and North London.
- NGN and WWU agreed that interruptions at Multiple Occupancy Buildings (MOBs eg high-rise apartment blocks), should be included for the remainder of RIIO-GD1. Cadent suggested that MOBs should be removed from RIIO-GD1 targets and that all targets associated with MOBs were suspended until it is better able to forecast workloads.
- Cadent provided data on actual unplanned interruptions at MOBs (number and duration) in the first six months of 2017-18 for East of England and North London. It highlighted the difficulty it faces in accurately forecasting future workloads due to the expected but uncertain increase in MOBs workload following the Grenfell Tower fire.

Cadent's targets

Since receiving the consultation responses, we have worked with Cadent to understand its concerns about including MOBs in unplanned interruptions targets. Cadent outlined the challenges it faces while operating in London such as delays and difficulties caused by higher numbers of listed buildings and conservation areas and the need to gain permissions from multiple building owners and other third parties. We note that SGN also operates in London (the Southern network) and it hasn't asserted that such challenges stops it from being able to forecast or effectively manage its interruptions at MOBs. We don't think that consumers in MOBs should be treated differently to other consumers and we expect all GDNs, whether operating in London or not, to be actively working to reduce the impact of interruptions on all consumers. Two consultation respondents supported this approach. We therefore maintain the position that MOBs should be included in loss of supply targets.

We acknowledge that a higher volume of MOBs could drive more, and longer, unplanned interruptions. Cadent provided us with actual numbers and durations of unplanned interruptions experienced in 2017-18 at MOBs on their East of England and North London networks. We don't think it's appropriate to roll forward 2017-18 volumes and durations on an annual basis for the rest of RIIO-GD1, as Cadent suggested, because this does not

³ <https://www.ofgem.gov.uk/publications-and-updates/consultation-updated-reliability-loss-supply-targets-riio-gd1>

⁴ We directed Cadent to the methodology as set out in our consultation.

incentivise performance improvement. Instead, we gave Cadent the opportunity to update its proposed targets for unplanned interruptions based on its actual 2017-18 data. We tested these proposals for reasonableness, as before, by comparing them to average annual performance in GDPCR and RIIO-GD1 to date. Following this, we have decided to accept Cadent's proposals for East of England (number and duration) and for North London (number) as they are more challenging than RIIO-GD1 performance to date. See Table 1.

We do not accept Cadent's proposal for the duration of unplanned interruptions in its North London network. Cadent proposed a target of 671 million minutes, which is 57% higher than the previous forecast, as included in our consultation. Cadent's rationale is that it has seen a significant increase in the length of unplanned interruptions experienced at MOBs in the first six months in 2017-18. However, this proposal is significantly higher than RIIO-GD1 performance to date and is much less challenging than its GDPCR performance. It is also more than three times higher than SGN Southern, covering South London, even when we adjusted SGN's target by the volume of MOBs in North London.⁵ Although these adjustments account for MOB volumes only and not for unquantifiable differences between the two networks (eg network density), we consider that the substantial difference between the two targets is suitably significant to require justification. Cadent has not provided sufficient evidence to explain the difference; therefore, we do not accept Cadent's proposal of 671 million minutes. We will set the target for the duration of unplanned interruptions in North London to that which we consulted on, 428 million minutes. This is higher than it was previously but is more challenging than RIIO-GD1 performance to date.

Last year the average duration of unplanned interruptions experienced at MOBs in North London was around eight times higher than for any other network. We think Cadent can do more to reduce the duration of unplanned interruptions at MOBs and we want to see the average duration reduce. We expect Cadent to improve its performance in this area and strive to beat this target.

Revised targets

Tables 1 and 2 set out the revised targets which are now in place for the duration of RIIO-GD1. Table 1 explains the changes between our consultation proposals and our decision. Table 2 clarifies the final RIIO-GD1 reliability (loss of supply) targets for all GDNs (including WWU, where no changes to targets are being made).

In some cases the new targets are higher than they were previously, which is consistent with what we expected at the time of our MPR parallel work decision. This is because we don't think that all of the existing targets are realistic and therefore aren't encouraging the right behaviour. In most cases the targets for unplanned interruptions are more challenging than RIIO-GD1 performance to date, but in some cases they are not. Where targets are less challenging than RIIO-GD1 performance to date, they are still more challenging than the GDPCR performance. We think this is reasonable because, in these cases, we have seen a step change in performance between the last price control and this one.

Table 1 sets out the changes we have made to targets following the consultation. The table includes initial RIIO-GD1 targets, the target we proposed in our consultation, our final decision on the RIIO-GD1 target and two values for reasonableness testing. The first is the average number of reliability (loss of supply) events over the previous price control, GDPCR, adjusted for an eight-year period. The second is the average number of these events so far in RIIO-GD1 adjusted for an eight-year period.⁶

⁵ For comparison, we adjusted SGN's target for Southern for the volume of MOBs in North London by inflating SGN's eight year forecast by the following calculation: (difference in MOBs volumes between Cadent North London and SGN Southern x average duration of unplanned interruptions at MOBs for SGN Southern in 2017 x 8 years)

⁶ Duration targets measured in million minutes. GDPCR and RIIO-GD1 run rate averages calculated using the annual average applied over 8 years. Actual large events have been excluded from RIIO-GD1 data. An average of large events has been excluded for GDPCR.

Table 1: Changes since consultation RIIO-GD1 targets for reliability (loss of supply)⁷

GDN		Metric	Initial RIIO-GD1 target	Consultation proposed RIIO-GD1 target	Final decision on RIIO-GD1 target	GDPCR average	GD1 run rate
Cadent	EoE	No. unplanned	106,922	98,513	99,608	83,976	112,612
		Duration unplanned	50	73	108	37	142
	Lon	No. unplanned	88,605	95,615	100,083	99,629	103,457
		Duration unplanned	111	428	428	90	457

Table 2 shows all final targets. The new RIIO-GD1 targets now replace the existing RIIO-GD1 targets and cover the whole RIIO-GD1 period with the publication of this document.

Table 2: RIIO-GD1 targets for reliability (loss of supply)⁸

GDN		Metric	Previous RIIO-GD1 target	RIIO-GD1 target
Cadent	EoE	No. planned	657,504	585,934
		Duration planned	307	213
		No. unplanned	106,922	99,608
		Duration unplanned	50	108
	Lon.	No. planned	409,561	472,436
		Duration planned	256	191
		No. unplanned	88,605	100,083
		Duration unplanned	111	428
	NW	No. planned	551,735	476,237
		Duration planned	286	170
		No. unplanned	101,591	91,566
		Duration unplanned	78	63
	WM	No. planned	401,054	377,826
		Duration planned	200	153
		No. unplanned	70,575	60,506
		Duration unplanned	48	47

⁷ See footnote 6

⁸ See footnote 6

GDN		Metric	Previous RIIO-GD1 target	RIIO-GD1 target
NGN		No. planned	407,690	517,170
		Duration planned	218	170
		No. unplanned	67,040	103,677
		Duration unplanned	63	47
SGN	Sc.	No. planned	282,335	237,823
		Duration planned	98	91
		No. unplanned	17,217	48,164
		Duration unplanned	121	51
	So.	No. planned	686,526	708,000
		Duration planned	245	278
		No. unplanned	69,417	162,256
		Duration unplanned	181	177
WWU		No. planned	451,235	451,235
		Duration planned	92	92
		No. unplanned	90,169	90,169
		Duration unplanned	45	45

We have published all responses on our website (www.ofgem.gov.uk).

Yours sincerely,



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