

RIIO-GD2 Repex Stakeholder Engagement Group – Meeting 2

From: Ofgem

Date: 18th October
2018

Location: Premier Inn,
Glasgow

Time: 10:00 – 15:00

1. Present

Ofgem representatives;

Pete Wightman

Callum Mayfield

Jonathan Farrier

Stakeholder representatives;

Cadent

NGN

SGN

WWU

IGEM

ENA

HSE

Centrica

2. Introduction (Ofgem)

2.1. Ofgem introduced the agenda for the meeting, and provided a recap of the actions from the previous Repex stakeholder engagement group meeting. Stakeholders confirmed that they were not aware of any additional actions from the last meeting.

2.2. Due to a potential calculation error, it was suggested that one of the presentation slides from the previous meeting that showed lay-to-abandon performance in RIIO-GD1 be removed.

3. HSE and RIIO-GD2 (HSE)

- 3.1. There was a discussion around the importance of considering the risk of other asset categories besides iron mains, even though these other assets are not directly covered by the Iron Mains Replacement Programme (IMRP). It was highlighted that services are not directly covered by the IMRP either.
- 3.2. One stakeholder highlighted the growing issue of commercial-to-domestic conversions occurring in many urban areas, which was driving an increase in Tier-1 workload and changing risk profiles.
- 3.3. Clarity was sought on the timeline of any anticipated changes to the HSE's IMRP in order to ensure alignment between the IMRP and RIIO-GD2. It was noted that the GDNs were working collaboratively among themselves and with the HSE to signal any potential changes early on in the IMRP planning process. An indicative HSE timeline of between three to six months can be expected from the time a change to the IMRP is initiated to when it is finalised.
- 3.4. It was agreed that Ofgem representation at any future HSE IMRP engagement sessions could be arranged, but that details would need to be considered nearer the time.
- 3.5. The group discussed the impact that late structural changes to the IMRP had in the lead up to RIIO-GD1, most prominently the introduction of the 80/20 rule and the 3-tier approach. Consensus among GDNs was that these late modifications changed the basis for their already-submitted RIIO-GD1 business plan forecasts for Repex workload.
- 3.6. There was a discussion on the magnitude of the remaining IMRP asset population, which for most networks was understood to comprise of approximately 75% tier-1, with the remainder being all other Repex categories.

4. Outputs and Incentives Overview - Repex (Ofgem)

- 4.1. It was highlighted that price control deliverables need to align with, or at least consider, NOMs (NARMs) to ensure effective and consistent decision making.
- 4.2. One stakeholder suggested that in a changing environment, it was in consumers' best interest for the industry to be thinking of outcome delivery in addition to output delivery. The group discussed the importance of allowing GDNs sufficient flexibility to enable them to focus on outcome delivery.
- 4.3. One stakeholder highlighted that more Output Delivery Incentives (ODI) and fewer Price Control Deliverables (PCD) would allow GDNs more flexibility to make effective asset replacement trade-offs.
- 4.4. One stakeholder noted the importance of addressing who owns which risks, and whether it be the GDN or the consumer.
- 4.5. There was a group discussion on the challenge of labour resourcing, and whether this could potentially form the basis of a PCD. One stakeholder noted that any output against labour resourcing could potentially create a disincentive to drive efficiencies in this area. One stakeholder highlighted the particular challenge of workforce management going forward, and that a deliverable around this could support business resilience and industry attractiveness.
- 4.6. One stakeholder noted that Gas in Building events (GIBs) would make for an ineffective PCD due to these being largely outside of GDNs' control. They also highlighted that whilst overall network risk has reduced significantly during the IMRP, GIB rates have not reduced to the same extent. Another stakeholder agreed that putting prescriptive targets around GIBs and fractures was not practical as there were multiple factors driving these events.
- 4.7. One stakeholder highlighted the need for caution when mapping deliverables from RIIO-GD1 to RIIO-GD2 to ensure that no deliverables are missed.

4.8. One stakeholder suggested that with the Repex programme running until 2032, we should consider it in the context of future price controls too, particularly the possibility of reprofiling workload to allow for a soft ending to the programme.

5. Mains Risk Removed (SGN)

5.1. One stakeholder noted that the HSE requirement centres around the 80/20 rule, which is not prescriptive in terms of how the GDNs remove/manage network risk and doesn't require the level of detail provided by the MRPS.

5.2. The GDNs noted that since the HSE is primarily concerned with risk removed, any RIIO-GD2 risk-based output would be largely redundant. They also highlighted that PSR13 ensures that networks manage the risk of all assets, even those outside of the Repex programme, with the prospect of HSE enforcement action should they fail in this responsibility. On this basis, it was reiterated that any risk-based output in RIIO-GD2 would duplicate this and be largely redundant.

5.3. There was general consensus among GDNs that risk-removed was a difficult and ineffective primary output because of its complexity to explain and its dynamic nature.

6. Planned Interruptions and Length Abandoned (NGN)

6.1. Two stakeholders highlighted that non-standard (asbestos, PVC, etc.) are not currently captured as a separate category in RIIO-GD1, rather they are covered by either CBA or inadequate integrity.

6.2. One stakeholder noted that most tier-2A workload will have been delivered by the end of RIIO-GD1, however there will be some additional tier-2A workload due to dynamic risk growth. This is likely to be exacerbated by an expected increase in steel workload.

6.3. There was a discussion around the value of GDNs submitting indicative workload forecasts as part of their BPDTs if these were not then used to establish fixed baseline allowances. Two stakeholders highlighted that indicative forecasts would allow for ex-

ante allowances, and therefore in-year cashflows, but would also provide some visibility of workload rather than none at all.

6.4. There was a group discussion on the viability of ex-post funding for non-mandatory workload. One stakeholder noted that consumers needed to be protected against significant overdelivery, and therefore either an ex-ante allowance should be set, or a cap and floor defined.

6.5. There was a group discussion around the concept and viability of having a fully flexible output, and others thought that outputs generally required upfront baselines.

6.6. There was a discussion around the deviations seen in RIIO-GD1 on the number of services transferred rather than relaid. One stakeholder highlighted the difficulty in accurately forecasting the type of service interventions due to the quality of service records.

7. NOMs / Monetised Risk (WWU)

7.1. One stakeholder noted that NOMs does not apply a significant weight to very high impact events that have a very low likelihood of occurrence, which was one reason why they considered NOMs to be a useful tool but should not be solely relied for mechanistic decision-making. However it was suggested that there is potential for elements of NOMs to be isolated and used as the basis for RIIO-GD2 outputs.

7.2. There was a group discussion around the areas of overlap between NOMs and the Mains Risk Prioritisation System (MRPS), and the group acknowledged that there were some overlapping elements between the two.

7.3. One stakeholder expressed concern over NOMs being used as a mechanistic tool, since it does not produce workload outputs.

8. Shrinkage (WWU)

- 8.1. One stakeholder expressed concern around fair and consistent shrinkage baselines being set in RIIO-GD2 given that some GDNs may be managing network pressures more effectively than others.
- 8.2. It was suggested that shrinkage baselines needed to account for the Repex programme to prevent double-counting.
- 8.3. A number of stakeholders considered it important that their shrinkage experts be present at any future forum in which shrinkage outputs are discussed.

9. GIBs (Cadent)

- 9.1. One stakeholder highlighted that GIBs may stem from assets that are not directly covered by the IMRP, making it difficult to fully link GIBs with the Repex programme. It was also highlighted that 90% of GIBs occur on mains having no history of GIBs, making them difficult to predict. One stakeholder noted that a trend analysis was being undertaken to reveal more information on this topic.
- 9.2. There was consensus among GDNs that GIBs should continue to be reported, but should not form the basis of a Repex output. Additionally, they highlighted that there are other factors driving GDNs to reduce GIBs such as the HSE, NOMs and the MRPS.
- 9.3. The GDNs reiterated that whilst Repex is the main driver for reducing GIBs, it is difficult to design into Repex projects due to the unpredictability of which mains will fail and lead to GIBs.

10. Next steps / AOB

- 10.1. None.