

RIIO-GD2 Repex Stakeholder Engagemeng Group – Meeting 3

From: Ofgem

Date: 8th November
2018

Time: 13:30 – 16:30

Location: Church House
Westminster, London

1. Present

Ofgem representatives;

Pete Wightman

Callum Mayfield

Jonathan Farrier

Stakeholder representatives;

Cadent

NGN

SGN

WWU

ENA

ESP Utilities Group

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. There was a discussion around the general objectives of the repex package, with one stakeholder querying whether these same objectives would apply to any repex CBAs. It was noted that this would be clarified in the CBA guidance documentation.
- 2.3. There was a discussion around the parallels between the general objectives of the repex package and those of NARMs.

- 2.4. In terms of business plan submissions, one stakeholder considered that it would be beneficial for networks to present a holistic picture of their repex workload through to the end of the IMRP, given that the IMRP spans multiple price controls.
- 2.5. One stakeholder queried whether there would be a separate repex cost assessment working group, or whether it would be covered within the Gas Distribution Cost Assessment Working Group. It was acknowledged that separate cost assessment working groups or engagement sessions may be beneficial, but this warranted further consideration.

3. Repex-Related Outputs within the RIIO-GD2 Framework (Ofgem)

- 3.1. One stakeholder queried whether any of the outputs for discussion today may be classified as Licence Conditions (LC) or Output Delivery Incentives (ODI), and if so, noted that they would like to debate this further. In response, it was noted that the outputs being discussed today were limited to Price Control Deliverables (PCD).
- 3.2. One stakeholder expressed a view that Network Asset Resilience Measures (NARM) was a reporting tool rather than a CBA tool, and noted concern at its potential use in mechanistic CBA.
- 3.3. There was a discussion around the interactions between the repex programme and NARMS.

4. Purpose of Session (Ofgem)

- 4.1. One stakeholder queried whether Ofgem was keeping an open position on the structure of repex outputs for the December consultation. It was clarified that Ofgem intended to keep an open position for consultation.

5. Terminology (Ofgem)

- 5.1. One stakeholder queried why condition-based replacement was classified as a Mandatory activity, given that it's based on CBA. Others supported the view that this should be classified as an asset management activity.

- 5.2. One stakeholder suggested that the top-level summary of repex activities include safety.
- 5.3. One stakeholder noted that steel service replacement was also a mandatory activity, but on a find-and-replace basis.
- 5.4. One stakeholder suggested that steel <2" should be classified as a mandatory activity rather than an asset management activity.
- 5.5. One stakeholder highlighted that the HSE is encouraging the use of service hotspot analysis, and that there may be costs associated with this included in GD2 business plan submissions.
- 5.6. The group was in favour of the proposal to review and redefine repex terminology for GD2, and suggested that the GDNs review and feedback their recommendations on the most appropriate classification of activities.

6. Strawman Options (Ofgem)

- 6.1. One stakeholder queried how rigid baselines would work in practice, and used domestic service interventions as an example of an activity that may justifiably breach baselines. They queried whether such justified over-delivery would be penalised in GD2.
- 6.2. One stakeholder suggested that risers should be included in this discussion, and noted that whilst the HSE is interested in risers it is unlikely that they will impose fixed targets around them in GD2.
- 6.3. One stakeholder queried whether there would be a separate working group for Multiple Occupancy Buildings (MOB), and expressed a view that there should be. In response, it was noted that there was not currently expected to be a dedicated working group for MOBs.
- 6.4. One stakeholder highlighted that the HSE's 80/20 rule for tier-1 repex tended to result in a significant portion of the tier-1 repex workload gravitating towards the

same general locations as the top 20%. This was largely driven by efficient programme design.

- 6.5. Several stakeholders agreed with the suggestion that risk-removed should be removed as a repex output in GD2, as this was already the focus of the HSE.
- 6.6. There was support from several stakeholders that fractures, failures and Gas In Buildings (GIBs) should not be included as repex outputs in GD2. One stakeholder noted that GDNs currently report on these metrics to the HSE annually, and the HSE publishes these figures. One stakeholder expressed a view that these events fell within the HSEs remit, and therefore basing GD2 outputs on them would be doubling-up.

Option 1: Ensuring Workload Delivery

- 6.7. One stakeholder noted that whilst GDNs based their forecasts of service intervention techniques (relay or transfer) on historic data, these were susceptible to vary.
- 6.8. One stakeholder expressed a view that setting fixed targets for service interventions may drive bad behaviour, in that GDNs that are under-delivering on services may start targeting bulk service renewal works as a means of catching up.
- 6.9. One stakeholder highlighted the potential need for additional funding to address service hotspots. They suggested that such funding may be based on a volume driver. They also noted that service interventions are typically much cheaper when they are part of a mains replacement job.
- 6.10. One stakeholder expressed concern at the rigidity of this option. They noted that the current mechanism for tier-1 works allowed for growth, which they considered to be an important characteristic of the GD2 mechanism.
- 6.11. One stakeholder noted that they were considering the viability of profiling the remainder of their mains replacement works to avoid or minimise a cliff-edge in 2032. They noted that they were considering this from all angles, including asset

stranding, but highlighted a number of residual benefits that would result from bringing mains replacement works forward.

- 6.12. One stakeholder discussed the potential requirement to embed flexibility into the GD2 mechanism to enable the use of hydrogen in the gas networks. Another stakeholder highlighted that government policy in this area was likely to take form in the mid-20s. Another stakeholder expressed a view that an investment deemed inefficient today may become efficient in the future, with hydrogen being a potential example of this.
- 6.13. The timeline for GDNs agreeing workload targets with the HSE was queried, as these would be required for GD2 assessment. One stakeholder expected tier-1 workload forecasts to be available for CEG review in the first half of 2019. Another stakeholder expected workload targets to be available for BP submission.

Option 2: Semi-Flexible Asset Management

- 6.14. One stakeholder expressed a view that prescriptive allowances may stifle innovation.
- 6.15. One stakeholder queried the magnitude of the flexibility threshold, since this would drive the degree of flexibility available. Another stakeholder noted that actual delivery deviated from forecasts for various reasons, and therefore workload flexibility was important.

Option 3: Flexible Asset Management

- 6.16. All stakeholders expressed preference for increased flexibility. However, one stakeholder also acknowledged the importance of forecasting accuracy.
- 6.17. One stakeholder noted that GDNs may approach workload options differently given that they each have different CEGs.
- 6.18. One stakeholder queried whether all targets would be based on the full five-year GD2 timeline. This was confirmed as being the intention.

Options Comparison

- 6.19. One stakeholder highlighted that the impact of workload flexibility on billing volatility is becoming increasingly irrelevant as repex expenditure moves to being entirely slow money.

7. Next steps / AOB

- 7.1. One stakeholder requested that Ofgem map out the structure of future repex Stakeholder Engagement Group sessions as early as possible.