

## RIIO-GD2 Repex Stakeholder Engagement Group – Meeting 5

From: Ofgem

Date: 11<sup>th</sup> March 2020

Location: 10 South  
Collonade, London

Time: 13:30 – 16:30

### 1. Present

Ofgem representatives;

Callum Mayfield (Chair)

Thomas Mackenzie

Graham Dickson

Duncan Innes

Michael Barlow

Stakeholder representatives;

Cadent

NGN

SGN

WWU

ENA

HSE

### 2. Tier 1 mains PCD

2.1. Ofgem summarized the initial thinking on the proposed Tier 1 PCD structure. There was a discussion around how over/under delivery would be handled, with one stakeholder seeking clarity on whether over-delivery against the Tier 1 PCD could substitute other work in the NARM. Ofgem clarified that work is ongoing on the NARM that will be brought forward for discussion in due course.

- 2.2. There was a discussion around how to handle dynamic growth, given the difficulty in forecasting due to external drivers. There was a consensus amongst stakeholders that due to the small volumes involved it could be readily accommodated. Ofgem noted that assessment was ongoing, and it would consider how best to approach dynamic growth in RIIO-GD2.
- 2.3. Ofgem explained the proposed 'Diameter Band Adjustment Mechanism' and walked through a worked example of how the lay:abandon relationship would work. There was a discussion amongst stakeholders around the potential loss of incentive for innovative solutions, which can result in higher abandonment, and the potential interaction between mains and services costs. There was an action on stakeholders to run some examples through the proposed model and provide Ofgem with context and a sense of materiality. Ofgem noted that further work on model calibration could be undertaken.
- 2.4. Ofgem summarised the proposal to include a deadband on total allowances within the PCD. One stakeholder suggested that a tolerance could be put in place around the target, which may help to make financial reporting less complex.

### **3. Services discussion**

- 3.1. Ofgem summarised the three options which were consulted on for the services output, giving the initial preference for a PCD with a funded deadband. There was a discussion around whether the output should apply to metallic services only, with several stakeholders expressing support for the output applying to all service interventions, noting that costs are incurred for both PE & non-PE and the split between relays and transfers is not easily forecastable in advance.

- 3.2. There was a discussion around the merits of using a PCD. Some stakeholders suggested they would prefer services to be incentivized through the NARM. It was noted that using a PCD aligned incentive structures between mains and services for Tier 1 activities. One stakeholder suggested that there would need to be a relatively wide deadband due to variability, and questioned if the deadband would be specific to each GDN or industry wide.
- 3.3. There was an action on stakeholders to propose a reasonable percentage for the deadband in the services PCD. There was a brief discussion on the symmetry of the deadband, with differing views.

## **Bespokes**

- 3.4. Ofgem gave a brief overview of relevant bespoke proposals. One stakeholder commented that an accelerated Tier 1 programme by one GDN could have knock on effects in terms of availability of labour and materials.

## **HSE reopener**

- 3.5. Ofgem gave a summary of the current drafting of the HSE reopener, particularly around the scope of the condition. One stakeholder suggested not to limit the start of discussions to the first three years of the price control, even if it meant any changes were dealt with as part of close out.
- 3.6. There was a discussion around the net zero/heat policy reopener and its link with the HSE Repex reopener. One stakeholder asked whether a change to net zero policy could trigger the HSE reopener. Ofgem noted that changes to net zero policy could potentially change the relevant HSE policy, which would then flow through to the HSE Repex reopener.

There was some discussion regarding the REPt term, with stakeholders noting that this was not necessarily a fixed number due to recalculation following work completed.