

## **RIO-ED2 Safety, Resilience, and Reliability Working Group (SRRWG) – 12<sup>th</sup> February 2020**

From: Ofgem

Date: 12<sup>th</sup> February

Location: 1.08 Ofgem  
London

People invited: Relevant  
stakeholders

Time: 10am to 15:15pm

Teleconference facilities will  
be made available

### **1. Introductions, overview and Terms of Reference**

1.1. Ofgem

1.2. UK Power Networks (UKPN)

1.3. Western Power Distribution (WPD)

1.4. Northern Powergrid (NPG)

1.5. Scottish Power Energy Networks (SPEN)

1.6. Electricity North West (ENWL)

1.7. Scottish and Southern Energy Networks (SSEN)

### **2. Welcome and introductions**

2.1. Ofgem provided overview of agenda for the session.

### **3. WPD presentation on principles for NARMs in ED2 against the current licence requirements for CNAIM**

- 3.1. WPD presented their view on licence drafting considerations ahead of ED2 NARMs. One of the first points of discussion was whether the ED2 licence drafting should be an evolution of the ED1 licence, or whether it should be based on the work that is currently being undertaken by the other three sectors (electricity transmission, gas transmission, and gas distribution). A number of DNOs noted a preference for the former, highlighting where the different sectors were at in terms of progress in this area, and the significant progress that has been made in ED1.
- 3.2. WPD discussed the current ED1 process, highlighting different components of the framework, such as the interaction between DNOs Network Asset Indices Methodology (NAIM), the Common Network Asset Indices Methodology (CNAIM), the Information Gathering Plan (IGP), and the Network Asset Secondary Deliverables (NASDs) comprising the Network Assets Workbook (NAW) and the Monetised Risk Workbook. DNOs commented that the terminology used thus far for ED2 was confusing and that it wasn't clear what the equivalent ED1 terminology was.
- 3.3. In understanding the ED2 output, DNOs also commented on the confusion as to how NARMs would be treated within the RIIO outputs framework. One of the key questions raised was whether electricity distribution would follow the approach of gas distribution, which shows NARMs as Price Control Deliverables (PCDs) / Output Delivery Incentives (ODIs). DNOs stressed the importance of the timely development of a clear methodology.
- 3.4. The current and future obligations around the IGP were discussed, with DNOs pointing to an interaction with any incentive on data quality, or whether IGPs could be considered as a PCD in ED2.
- 3.5. The NAIM was discussed, with DNOs noting that there was no formal requirement to submit to Ofgem in ED1, and whether or not this should be a requirement in ED2. The DNOs commented that the NAIM details the DNOs own methodology for provision of inputs to CNAIM, using the DNOs own data and processes, and would be important to understand in the context of any incentive on data quality.

- 3.6. WPD continued the discussion by considering the role of NARMs in the price control, highlighting the links to forecast asset replacement/refurbishment volumes, the cost assessment process, and the NARMs deliverable target.

**Action: DNOs to produce a timeline of key upcoming decisions for NARMs, up to and including ED1 close out and the setting of ED2.**

- 3.7. WPD then discussed the use of NARMs in CBAs, commenting that if one of the NARMs objectives in the licence is that NARMs should be used in CBAs, does it need to recognise that the Risk Index is not the only method of quantifying monetised risk benefits.

- 3.8. Several DNOs continued, that in order to justify expenditure, the NARMs matrices could be used for some lower value, high volume assets such as LV Poles. For assets where this may not be sufficient, justification could come from a combination of NARMs matrices and CBA. And finally, where this approach is not sufficient, a form of engineering justification paper may be required to justify investment decisions.

**Action: Ofgem to consider the areas identified, that may need to be addressed, to facilitate further development of NARMs and ED2 licence conditions around NARMs**

## **4. Ofgem update on asset audits works**

- 4.1. Ofgem provided an update on the proposals surrounding the Asset Data Audit works, that had been discussed at previous working groups.
- 4.2. The proposal included an indicative timeline for NARM/CNAIM development for ED2, and highlighted the importance of the appropriate and logical phasing of the various ongoing workstreams. The proposal advocated delaying any scope development works etc. for the Asset Data Audits until after CNAIM v2.0 was finalised and at least the initial Good Practice Guides had been published.
- 4.3. DNOs were supportive of the proposals, highlighting concerns around the scope of the proposed Asset Data Audits, and questioning the issues that the audits were trying to resolve. The DNOs also questioned whether the first version of the Good Practice

Guide, which is currently under development, would still be required to be completed by summer 2020ED1 Performance to date

**Action: Ofgem to provide clarity on the development of the Good Practice Guides in updated letter**

## **5. ENWL overview of development of CNAIM v2.0**

5.1. ENWL provided an update on the development of CNAIM v2.0 discussing the adoption of Whole Life Risk, expansion to asset groups not currently in the methodology, commonality of reporting, production of guidance document.

5.2. ENWL highlighted that a total of 32 discrete improvements have been identified through the ENA technical working group for inclusion in CNAIM v2.0 and that there are a number of areas that will form the basis of further review for implementation in RIIO-ED3.

## **6. SSEN presentation on proposals for dealing with Non-NARM assets in ED2 and ED3**

6.1. SSEN presented proposals setting out a number of areas for consideration in the development of CNAIM as a possible roadmap to the future needs of asset risk assessment. This was outlined in a five step multilayered modelling approach which included the incorporation of various CNAIM Lite models, and the consideration of 'risk trading' between different levels.

## **7. Discussion item on reporting of delivery against target volumes**

7.1. Ofgem highlighted items that had previously been raised and discussed around this issue:

7.1.1. Where actual volumes are different from the targets in the business plan, then explanation should be provided;

7.1.2. Are licensees sufficiently capturing alternative investments and asset trades; and

7.1.3. What tools can be incorporated in the RIGs packs to improve reporting on these areas.

7.2. DNOs commented on the materiality of this issue in the context of explaining where actual values were different from the targets in the business plans.

## **8. AOB**

8.1. Next meeting on SRRWG – NARMS/CNAIM is 18<sup>th</sup> March