

RIIO-ED2 Safety, Resilience, and Reliability Working Group (SRRWG) – 3rd March 2020

From: Ofgem

Date: 18th March

People invited: Relevant
stakeholders

Time: 10am to 14:45pm

Location: Teleconference

1. Present

- 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. ENA presentation on CNAIM/NARMS timelines for key decisions

- 3.1. WPD presented the consolidated view from DNOs on key decisions to go forward on CNAIM/NARMS. The presentation highlighted interdependencies, key decisions and milestones.
- 3.2. WPD outlined eleven key decisions and a number of considerations. DNOs further discussed how NARMS should be incorporated into the reporting structure and noted that different reporting formats that need to be consolidated. There was a debate

around how NARM targets would be defined and which asset categories would be required in RIIO-ED2, including any electives. Several DNOs discussed how NARMs would be used in the Price Control assessment.

3.3. ENWL noted that there was a danger of parallel NARM discussions occurring in different working groups and that thinking needs to be unified. ENWL suggested that while NARMs was not used as a means of justifying investment or volumes in RIIO-ED1, it would be possible to do so in RIIO-ED2. Ofgem mentioned that there had been some discussion around the use of NARMs, Cost Benefit Analysis (CBAs) and Engineering Justification Papers (EJPs) at a recent Cost Assessment Working Group (CAWG) and that a more targeted discussion was required on the overall role for NARMs.

3.4. DNOs stressed that additional guidance is needed on CNAIM/NARMs for ED2. SLC59 is the only guidance available and is specific to the current price control. Ofgem recognised that different mechanisms are introduced in the price control with limited governance arrangements, and acknowledged the complexity of this area where additional direction ahead of submitting business plans will be useful. This led to a wider discussion on around licence conditions specific to CNAIM/NARMs.

Action: Ofgem will check how the other sectors dealt with this licence condition/governance challenge.

3.5. One DNO commented that consistency was needed in reporting NARMs in the BPDTs – these templates need to be decided early to give DNOs time to populate the templates. Ofgem commented that the BPDT meetings will be starting soon and that their aim is to discuss some of the template packs to be consulted on in the Sector Specific Methodology Consultation (SSMC).

3.6. Lastly, ENWL noted that for decisions required in the SSMC, it would be useful for Ofgem to outline their preferred position instead of just presenting a number of options.

Action: Ofgem to include item at a future CAWG to discuss further how NARMs could be used to in justifying investment in Business Plans

4. ENA presentation on non-NARM assets for RIIO-ED2

4.1. Representatives from the ENA gave a presentation on the treatment of non-NARM assets in ED2. ENA listed the asset categories not covered in CNAIM v1.1, and presented three options to deal with the non-NARM assets:

4.1.1. The use of volume drivers.

4.1.2. The use of notional risk weighting.

4.1.3. The use of fault rate measures.

4.2. The ENA noted that it wished only to present options, and not provide any recommendations at this stage.

4.3. On option 1, the ENA stressed the need for DNO volume targets in order to use volume drivers. It also advocated that the benefits of assets needs to be taken into account in their valuation, as asset value had previously been proxied using unit costs only. ENA suggested the use of 'allowed units costs', creating a monetary target for the value of assets to be delivered which reflects the benefits of these assets to consumers.

4.4. ENA warned that this option needed to be thought about carefully, and that Ofgem would need to apply an appropriate deadband around the volume target. One of the main questions is around the consumer benefits to be captured with a volume driver. ENA pointed out that volume drivers do not directly reflect the need for expenditure.

4.5. ENA flagged that volume drivers would not allow for trade-offs between NARM and non-NARM assets. There is a risk that it would create perverse incentives for DNOs, as they could end up building assets that they would not have built otherwise. Working group members discussed this option further, and Ofgem suggested that the ENA could test Option 1 on ED1 data.

Action: ENA to test Option 1 with ED1 actual data.

4.6. The second option outlined was the use of notional risk weightings. This would provide a weighting that could be applied in an input led volume based mechanism for Non-

NARMs assets. One DNO commented that if further work were to be done in this space, Ofgem would need indicate that this was their preferred option.

4.7. SSE warned that this approach is reliant on DNOs holding specific asset information, asset information that DNOs do not currently have. As such, SSE did not think that Option 2 could be achieved for RIIO-ED2. ENWL commented that this option substitutes the unit cost column from Option 1, to reflect a broader measure of risk.

4.8. Option 3 proposed the use of fault risk measures. Fault rates provided an output measure intended to ensure that DNO's asset replacement activity maintained the reliability of the 'non-health Index' asset. WPD warned there were a few key issues with this approach, including:

4.8.1. Fault rates are a lagging measure and would not immediately flag under delivery or under investment for a particular asset type.

4.8.2. Fault rates are not a direct measure of expenditure on a single activity and more of an indication rather than a clear measure.

4.9. SSE asked why the measures were solely aimed at non-NARM asset replacement and whether this could be extended to all assets. If non-NARM measures were extended further, this would allow for fault rate and risk profile assessment for each asset type. ENWL also mentioned that issues found in refurbishment also apply for civil works and legal safety cost categories. Ofgem noted that there were a number of priorities set out for CNAIM/NARMs in ED2, extension of the output framework to Non-NARM assets being one of them. Over time, Ofgem would hope to have robust outputs associated with all material cost areas

5. ENWL presentation on revision of CNAIM values for ED2

5.1. ENWL gave a presentation on the revision of CNAIM values for ED2. ENWL flagged out one particular issue that was caused by the Health and Safety Executive (HSE) changing the way in which they assessed costs, leading to a greater-than-inflation jump in 'Death & Serious Injuries' CNAIM values.

5.2. ENWL highlighted some immediate issues for CNAIM in ED2. First, ENWL indicated that CIs and CMLs were not known for ED2 yet, which will be an issue for business plan submission. Secondly, they pointed out that it was not yet known how the unit costs

and costs of interventions would be derived in ED2. Thirdly, ENWL noted that the Green Book may be changed by the Treasury, and it was not yet clear how the change would be reflected in CNAIM values.

5.3. Three options were suggested by ENWL, as solutions to these issues:

5.3.1. Use the ED1 CNAIM values, with no changes.

5.3.2. Use the ED1 CNAIM values, inflated with a consumer price index.

5.3.3. Reset the CNAIM values for ED2, recalculating them using NARM values.

5.4. ENWL stated that the methodology in option 2 would not be consistent with the rest of the ED2 package. ENWL asked Ofgem what NARM values would be used if option 3 were to go forward. Ofgem replied that this would require work across multiple working groups, particularly the QoS workstream. ENWL reiterated the need for more clarity on NARM values.

5.5. ENWL flagged that values used in the CBA templates needed to match those in the CNAIM v2, for consistency. The VoLL value could be hard coded in both CNAIM v2 and CBA templates. However, the unit costs, which will come out of the assessment process, will only be known in 2022. ENWL suggested a hybrid approach, where unit costs are either kept constant or indexed, until final figures are decided. This raised more general questions around what costs values were to be used for CNAIM v2 until final unit costs were confirmed.

5.6. DNOs discussed the different options. WPD expressed a preference for option 2, as the ED1 process to set up the CNAIM values had been difficult. ENWL indicated that option 3 could be used to set ED3 CNAIM values, where only the unit costs would need to be defined.

5.7. ENWL noted that a mixed approach could be taken. ENWL pointed out that using inflated ED1 values was appropriate for a number of factors, and that third party sources, such as HSE, Defra, etc., had recalculated some of their input values used in

CNAIM v1.1. ENWL advised Ofgem to verify these values, as these costs will feed into the CBA templates for ED2.

6. SSEN presentation on Ofgem site visits and data audits

- 6.1. SSEN started by providing background information on DNO site visits and data audits. Last year, DNOs received letters from Ofgem about their data management practices following their site visits. SSEN had a follow up meeting with Ofgem's Engineering Hub at the back of this engagement.
- 6.2. SSEN flagged that DNOs needed clarity on whether Ofgem would apply a consistent approach to their audit/assurance checks across DNOs, as each DNO has individual standards and settings for Network Outputs Measures. Ofgem replied that it thought audits had a role to play in ED2, though recognised that many parameters such as the scope and frequency of these audits had yet to be determined.
- 6.3. The working group members then discussed data completeness. Data gathering commitments were made by DNOs at the start of ED1, through their Information Gathering Plans (IGPs). DNOs had an understanding that Ofgem was not expecting 100% of data points of all assets to be collected. Uncertainty remains for DNOs on what an 'acceptable' level of data completeness is and on how to quantify this completeness.
- 6.4. ENWL and Ofgem discussed the future use of IGPs. ENWL had found it a useful document for guidance on data gathering, and pointed out that some assets that will be covered by the NARMs in ED2 had potentially not been part of this IGP process before. Future IGPs could improve the situation by targeting assets for which there are new data requirements. Ofgem agreed that future discussions on this topic would be useful.

7. Group discussion on how it all fits together and next steps

- 7.1. Ofgem asked stakeholders for their views on incentive mechanisms linked to NARMs and CNAIM. DNOs stated the need for clarity over how NARMs would be used in ED2, as well as how any 'claw back' would take place for under delivery against targets. It was pointed out that the use of NARMs will be different in ED compared to other sectors.

7.2. ENWL discussed the 'absolute' versus 'delta' targets for NARMs. For ED2, delta targets would be used for setting targets and aiming to assess DNOs' program delivery against their targets. ENWL flagged that the wording on the slides did not explicitly refer to this 'wider program' use of NARMs. When determining under or over delivery against NARM targets, it could be that an investment decision could under-deliver its narrow project target, but still lead to improvements across the network.

7.3. WPD stated that there was a need to better understand the drivers of the NARM delta if delta targets were to go ahead in ED2. It also enquired about whether cost neutrality would be ensured in the case of over-delivery.

Action: Ofgem expressed the need for a discussion on the draft sector specific methodology consultation with its stakeholders, and will look at timelines to organise this. The aim of this discussion would be to review what has been discussed so far, and identify gaps.

8. Group discussion on outcomes from ENA presentation to Ofgem on Whole Life Risk proposals

8.1. Ofgem provided feedback and its perspective on the previous ENA presentation on Whole Life Risk.

9. Actions, Next Steps, AOB

9.1. ENWL and WPD pointed out that DNOs would benefit from a steer from Ofgem on the options that have been presented on the various topics so far.

Action: Ofgem to consider need for further meetings on this workstream and provide update to stakeholders.

9.2. ENWL highlighted that one aspect that is important to make progress on is the structure of the reporting framework.

9.3. Ofgem informed the WG of its next steps, and stated that it was working towards drafting the SSMC, and will aim to present to stakeholders for discussion.

9.4. WPD flagged an error with the asset replacement reporting changes in the RIGs. A row of the reporting tables relating to subsea cables were supposed to be shaded out for

SSEH only, but had been shaded out for all DNOs. Ofgem noted the issue and informed WPD that the error will be flagged internally.