

# Safety, Resilience, and Reliability Working Group

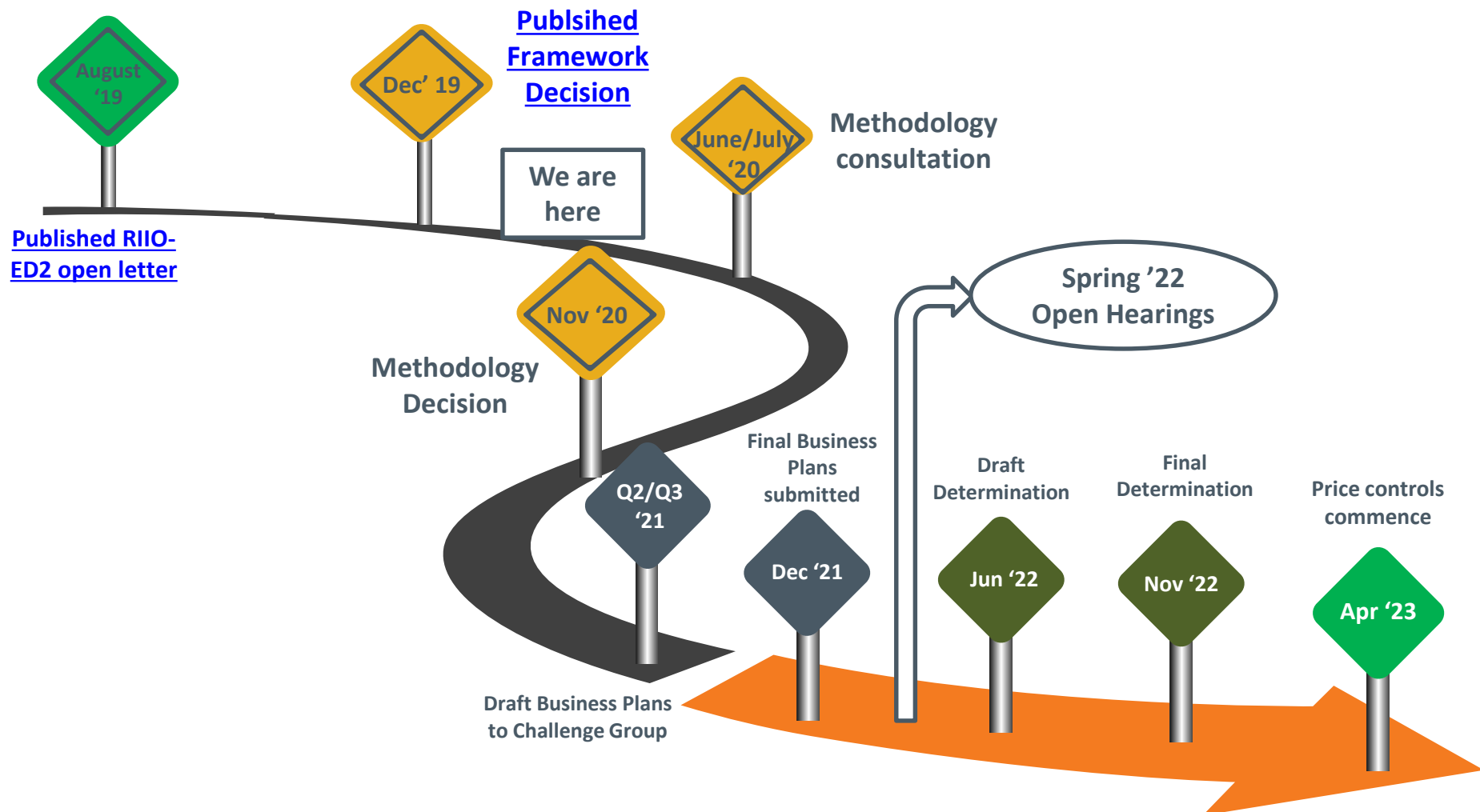
## Meeting 9 – NARM / CNAIM



**RIIO Electricity Distribution**  
18/03/2019

## **Safety, Resilience, and Reliability Working Group**

- Welcome and introductions from Ofgem
- ENA presentation on timelines and alignment of changes required in RIGs, Annex A, Annex D, CNAIM, BPDTs, etc.
- ENA presentation on treatment of Non-NARMS asset categories in ED2.
- ENWL presentation on revision of CNAIM values for ED2.
- SSEN presentation on Ofgem site visits and data audits
- Group discussion on how it all fits together and next steps.
- Group discussion on outcomes from ENA presentation to Ofgem on Whole Life Risk proposals
- AOB



- We propose to hold a WG session approximately every other week with feedback sessions to make sure all ground is covered and prioritised appropriately..
- We plan to run sessions in the Glasgow and London Ofgem offices.
- Depending on room availability, we may need to restrict the number of representatives that each member organisation sends to meetings of the Group

Date	Location	Summary	Items to cover
27 November 19	London	First session	ToR, Priorities
05-Dec-19	London	NARM/CNAIM	
09-Jan-19	London	Quality of Supply	
16-Jan-20	Glasgow	NARM/CNAIM	
30-Jan-20	London	Resilience	
12-Feb-20	London	NARM/CNAIM	
18-Feb-20	London	Quality of Supply	
03-Mar-20	Glasgow	Resilience	
18-Mar-20	London	NARM/CNAIM	
31-Mar-20	Glasgow	Quality of Supply	
07-Apr-20	London	Resilience	

## **ENA presentation on NARM/CNAIM timeline and alignment changes**

# The Voice of the Networks

# Energy Networks Association



**CNAIM/NARMS:**

**Timeline for Key Decisions**

**18th March 2020**

**Phil Mann**

# Key Decisions For CNAIM/ NARMs

Decision	Considerations
A) What is the basic structure of the reporting framework (incorporating Whole Life Risk)?	<ul style="list-style-type: none"> <li>• Are Network Asset Indices (i.e. Health Index, Criticality Index and Risk Index) to be retained as the reporting structure?</li> <li>• Will Health / Criticality Matrices be used to present and report NARMs?</li> <li>• Does application of revised Health Index weightings based on cumulative discounted PoF meet the requirement for incorporation of Whole Life Risk?</li> </ul>
B) How will the NARMs target be defined?	<ul style="list-style-type: none"> <li>• Does the ED2 target get defined by comparison of 'with intervention' and 'without intervention' forecasts? Or a simple monetised risk value?</li> <li>• Where will this be defined? In what format? (Is a NAW still required? If so, what does it look like?)</li> <li>• Will the target be based upon the asset health position at the end of ED2 (in a similar way to ED1)?</li> </ul>
C) What asset categories will DNOs be required include in their RIIO-ED2 NARMs?	<ul style="list-style-type: none"> <li>• Confirmation that Health Index Asset Categories are to be abolished.</li> <li>• Will all DNOs be required to include a common set of asset categories within their ED2 NARMs?</li> <li>• Which asset categories? Will any be elective?</li> </ul>
D) Will there be any direction of CNAIM/ NARMs developments required for ED3?	<ul style="list-style-type: none"> <li>• Will there be a formal direction for further development of risk metrics for non-NARMs assets, with a view to use in ED3?</li> <li>• If so, what will DNOs be directed to develop? (for example, what objectives would the development of metrics for non-NARMs assets need to meet?)</li> <li>• How will this be directed?</li> <li>• Alternatively, will there be clear separation of NARMs/ non-NARMs regulatory treatment?</li> </ul>

# Key Decisions For CNAIM/ NARMs

Decision	Considerations
E) What does the regulatory mechanism applicable to delivery of NARMs in ED2 look like?	<ul style="list-style-type: none"> <li>• How will this output be treated? (PCD? ODI?)</li> <li>• What will be the features of this output that need to be defined upfront as part of the price control settlement?</li> <li>• Definition of a 'clear methodology' relating to treatment at close-out</li> </ul>
F) Will Non-NARMs assets be subject to any regulatory mechanism to hold DNOs to account for delivery in ED2?	<ul style="list-style-type: none"> <li>• Should delivery of programs of work for non-NARMs assets be subject to a regulatory mechanism in ED2?</li> <li>• If so, what does this mechanism look like/ how would it work?</li> </ul>
G) How will NARMs be used in price control assessments?	<ul style="list-style-type: none"> <li>• What role do NARMs have in cost assessment?</li> <li>• How will NARMs be used to examine Business Plan justifications?</li> <li>• What NARMs information will be required to facilitate this?</li> <li>• Will NARMs metrics be sufficient to justify work activity or will additional engineering justification documents still be required?</li> </ul>
H) What will be the mechanism/ process for adjusting RIIO-ED2 NARMs targets to reflect price control adjustments?	<ul style="list-style-type: none"> <li>• How are NARMs targets to be adjusted to reflect volume adjustments identified in cost assessment?</li> <li>• How do expenditure adjustments (such as totex adjustments) translate into adjusted NARMs targets (noting these could impact the values that are used for PCD/ODI/close-out)??</li> </ul>



# Key Decisions For CNAIM/ NARMs

Decision	Considerations
I) What is the approval process for CNAIM v2?	<ul style="list-style-type: none"> <li>• What is the governance relating to using a revised CNAIM for ED2 price control submissions (noting that this will be being used ahead of any licence condition relating to ED2)?</li> <li>• Will the requirement to use CNAIM v3 be specified as part of the sector specific methodology?</li> <li>• Will there be any requirements for an associated IGP or NAIM (and what will be the role of these going forward)?</li> </ul>
J) What values should be used for key consequence of failure parameters in CNAIM for ED2?	<ul style="list-style-type: none"> <li>• What values should be considered for key parameters such as cost of a fatality, cost of oil lost to the environment, cost of carbon etc. in CNAIM v2?</li> <li>• Consistency with CBA assumptions required if risk metric is to align with CBA justifications.</li> </ul>
K) What value of VoLL (CIs & CMLs) should be used in Network Performance consequences?	<ul style="list-style-type: none"> <li>• A variable VoLL approach has been tabled as an option in the SRRWG (QoS) meetings.</li> <li>• Will a single value of VoLL or variable VoLL approach be adopted for RIIO-ED2?</li> <li>• If variable VoLL is adopted for QoS, should it also apply to CNAIM (taking into account the impact on comparability)?</li> <li>• What value(s) apply to CNAIM?</li> </ul>

# Decisions Impacting Business Plan Content

- Some of the required decisions may have an impact upon:-
  - each DNO's view of the overall financial risks associated with RIIO-ED2; and/ or
  - the justifications for condition based investment.
- These decisions could therefore have a direct impact upon:-
  - the condition based activity and expenditure outlined in a DNO's Business Plan Submission; and/ or
  - the view of financeability of the submitted Business Plan.

# Decisions Impacting Business Plan Content

- DNOs need to engage stakeholders on their Business Plans ahead of submission of the Draft Business Plans to the Challenge Group (currently Q2/Q3).
- Any decisions that could significantly impact the content of the Business Plan submission, or its justification, need to be made sufficiently ahead of Draft Business Plan submission to enable stakeholder engagement to be effective in informing the Business Plan process.
- Decisions that could significantly impact the content of Business Plan need to be outlined as soon as possible. Decisions will be required in sufficient detail in Ofgem's November 2020 methodology decision, however a 'minded to position' within the methodology consultation, itself, would greatly help. This applies not just to NARMs, but wider in the RIIO-ED2 process, including the Strategic Code Review.

- The NOMS ED Working Group are developing a revised version of CNAIM for application in RIIO-ED2.
- Milestones for delivery of CNAIM v2 have previously been tabled at SRRWG:-
  - completion of development of methodology (Q2 2020);
  - completion of documentation for methodology (Q3 2020);
  - consultation on revised methodology (Q3/Q4 2020);
  - submission to Ofgem for approval (Q4 2020).
- These milestones take account of the requirement to:-
  - implement systems and processes to perform CNAIM v2 compliant calculations;
  - analyse CNAIM v2 output in the preparation of Business Plan Submissions.

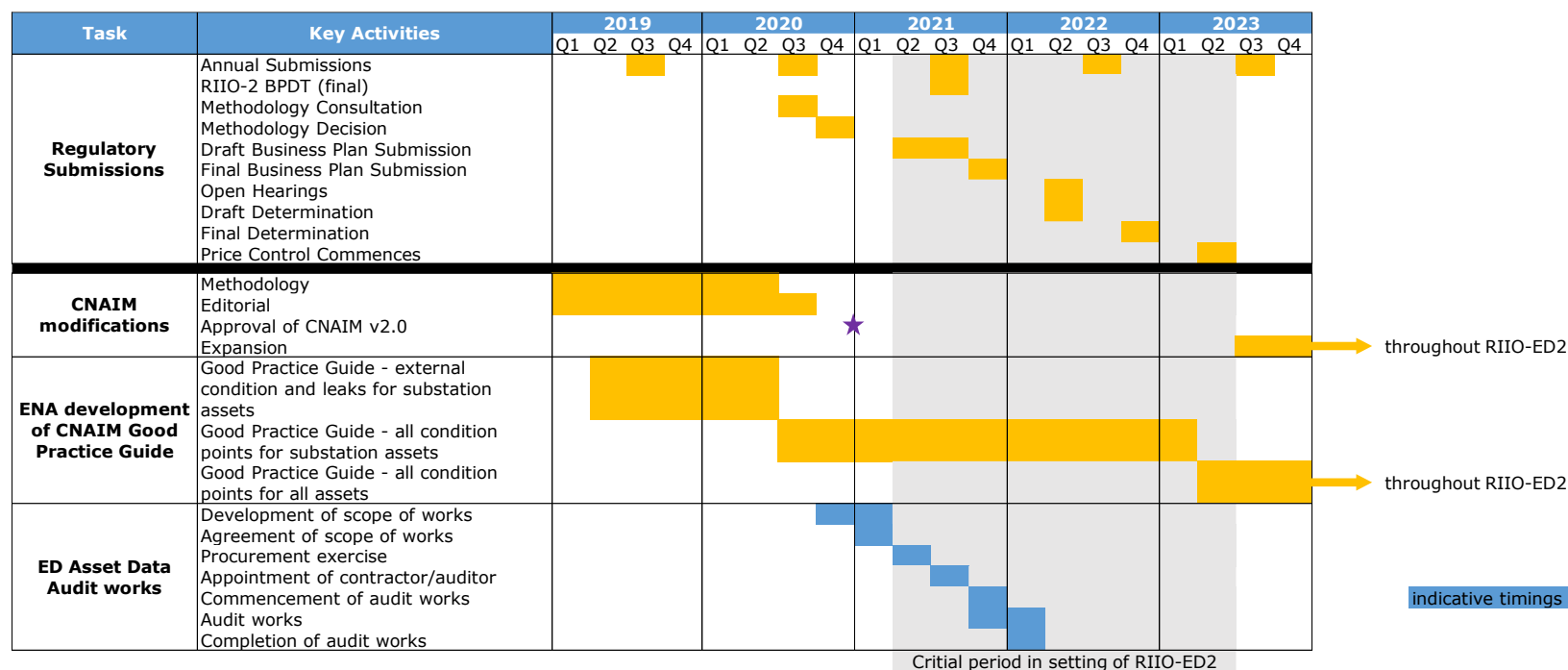
- Some of the required decisions will need to be reflected in the content of CNAIM v2, and in any assessment of 'fitness for purpose', which means they will need to be made in sufficient time (Q3 2020) to be included in the DNO's consultation on the revised methodology - or at least a 'minded to' position needs to be established by this point.
- It should be noted that there is currently no licence mechanism for the use of CNAIM v2 for the RIIO-ED2 submission (concurrent with CNAIM v1.1 for ED1 reporting). This includes the approval and governance process for this. The requirements shall need to be resolved before DNOs consult on CNAIM v2.
- Given the need for clarity by Nov 2020, can the proposed DNO consultation be removed from the timetable for approval of CNAIM v2? (noting there is currently no governance requiring this)
- As with any other new RIIO-ED2 mechanism, licence conditions do not exist ahead of the price control and therefore the route to specifying new requirements is through the Sector Specific Methodology/ Business Plan guidance.

# Decisions Impacting The Format Of The BPDT

- Some of the decisions will relate to how NARMs is to be used in the price control process and also as an output measure throughout the RIIO-ED2 period.
- It is important that the information in the Business Plan Submissions provides the necessary NARMs related information required for assessment of Business Plan proposals, and is presented consistently with how it will be represented throughout the RIIO-ED2 period (to facilitate target setting and comparison back to the plan).
- This requires some decisions on the use of NARMs in the price control, and throughout the RIIO-ED2 period, to be considered when determining the format/framework of the BPDT.
- Ofgem's proposed plan for developing the RIIO-ED2 BPDT and RIGs is not currently clear.
- The format/ framework will need to be largely settled for any Draft Business Plan Submission, with sufficient time allowed for DNOs to compile the data in the required format.

# Timescales For Decisions

- An indicative timeline for RIIO-ED2 NARM/ CNAIM works tabled by Ofgem at the last SRRWG (NARMs) meeting:-



- Suggested milestones for key decisions have been based upon this timeline

# Timescales For Decisions

Decision	Impacts					Decision Required By
	Business Plan Content/ Justification	CNAIM v2	BPDT Structure	Price Control Assessment/ Final Determination	Licence Drafting	
A) What is the basic structure of the reporting framework (incorporating Whole Life Risk)?		Y	Y		Y	Q3 2020
B) How will the NARMs target be defined?			Y		Y	Q1 2021
C) What asset categories will DNOs be required include in their RIIO-ED2 NARMs?	Y	Y	Y		Y	Q3 2020
D) Will there be any direction of CNAIM/ NARMs developments required for ED3?					?	Q4 2022
E) What does the regulatory mechanism applicable to delivery of NARMs in ED2 look like?	Y				Y	Q3/Q4 2020
F) Will Non-NARMs assets be subject to any regulatory mechanism to hold DNOs to account for delivery in ED2?	Y		Y		Y	Q3/Q4 2020
G) How will NARMs be used in price control assessments?			Y	Y		Q1 2021
H) What will be the mechanism/ process for adjusting RIIO-ED2 NARMs targets to reflect price control adjustments?				Y	Y	Q2 2022
I) What is the approval process for CNAIM v2?		Y			Y	Q3 2020
J) What values should be used for key consequence of failure parameters in CNAIM for ED2?	Y	Y				Q3 2020
K) What value of VoLL (CIs & CMLs) should be used in Network Performance consequences?	Y	Y		Y		Q3 2020



## **ENA presentation on treatment of Non-NARM asset categories in ED2**

# The Voice of the Networks

# Energy Networks Association



## NON-NARMS ASSETS:

### Consideration Of Options For Treatment Of 'Non-NARMS' Assets In ED2

18th March 2020

Phil Mann

- The Health Index Asset Categories included in the Network Asset Secondary Deliverables agreed by DNOs in RIIO-ED1 cover approx. 70% of the Asset Replacement expenditure (excl. assoc. civil works) in the first half of the period.
- In the SRRWG meeting on 16<sup>th</sup> January 2020, the asset categories to be included in the RIIO-ED2 NARMs were discussed. This included consideration of a proposal for a common set of 61 RRP Asset Categories to be adopted by all DNOs. These categories cover approx. 75% of the Asset Replacement expenditure (excl. assoc. civil works) in the first half of RIIO-ED1.

# Non-NARMs assets in RIIO-ED2

- In the SRRWG meeting on 12<sup>th</sup> February 2020, a possible roadmap was presented for the development of CNAIM to encompass the evaluation of condition based risk for further asset categories (“CNAIM Lite”) for implementation in RIIO-ED3. This would cover the majority of the Asset Replacement expenditure that won’t be covered by the RIIO-ED2 NARMs.

## RRP Asset Categories Not Included in CNAIM v1.1

LV Service (UG) LV Service associated with RLM Cut Out (Metered)  LV Main (UG Consac) LV Main (UG Plastic) LV Main (UG Paper) Rising & Lateral Mains 6.6/11kV UG Cable 20kV UG Cable  Cable Tunnel (DNO owned) Cable Bridge (DNO owned)	LV Service (OHL)  LV Main (OHL) Conductor 6.6/11kV OHL (Conventional Conductor) 6.6/11kV OHL (BLX or similar Conductor) 20kV OHL (Conventional Conductor) 20kV OHL (BLX or similar Conductor) 33kV OHL (Pole Line) Conductor 66kV OHL (Pole Line) Conductor 132kV OHL (Pole Line) Conductor  132kV Pole	6.6/11kV CB (PM) 6.6/11kV Switch (PM) 6.6/11kV Switchgear - Other (PM) 20kV CB (PM) 20kV Switch (PM) 20kV Switchgear - Other (PM) 33kV Switch (PM)  33kV Switchgear - Other 66kV Switchgear - Other 132kV Switchgear - Other	LV Transformers/Regulators 6.6/11kV Transformer (PM) 20kV Transformer (PM) 33kV Transformer (PM)  Batteries at GM HV Substations Batteries at 33kV Substations Batteries at 66kV Substations Batteries at 132kV Substations  Pilot Wire Overhead Pilot Wire Underground Electrical Energy Storage
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- The NOMs ED Working Group has given consideration to possible options for treatment of ‘Non-NARMs’ assets in RIIO-ED2.

- The following three options have been identified as giving a potential method of measuring non-NARMs asset performance against targets:-
  - Option 1: Multi-asset Volume Driver;
  - Option 2: Notional Risk Weighting; and
  - Option 3: Fault Rate Measure

# Option 1: Multi-asset Volume Driver

- A simple input led multi-asset volume driver could be used to provide a measure of delivery against the allowed volumes for 'Non-NARMs' Asset Replacement.
- Such a measure would need to consider the delivery of 'Non-NARMs' Asset Replacement in totality (recognising that forecasting of activity amongst these categories will generally be population based). This would require dissimilar asset categories to be appropriately weighted. The Ofgem benchmark asset replacement unit cost could provide a possible suitable weighting for each asset, for example:-

RRP Asset Category	Unit	Unit Cost (£k)	Allowed Volume	Allowed Volume * Unit Cost (£m)	Actual Volume	Actual Volume * Unit Cost (£m)
LV Main (OHL) Conductor	cct km	13.9	400	5.56	800	11.12
LV Service (OHL)	#	0.4	21300	8.52	10650	4.26
LV Main (UG Consac)	cct km	88.2	0	0.00	0	0.00
LV Main (UG Plastic)	cct km	88.2	264	23.28	208	18.35
LV Main (UG Paper)	cct km	88.2	0	0.00	0	0.00

Target: **37.36**

Actual: **33.73**

Delivery: **90%**

# Option 1: Multi-asset Volume Driver (cont.)

- Any weightings, and close-out mechanism, would need to be defined prior to commencement of the ED2 period, otherwise such a volume driver would introduce uncertainty of outcome and therefore increase risk within the period.
- Consideration would need to be given to the valuation of financial adjustments for close-out (e.g. would a 10% under-delivery lead to a 10% reduction in non-NARMs allowances)
- Consideration would need to be given to the use of deadbands around the targets.
- Consideration would need to be given to whether any volume driver would be based upon additions or disposal volumes, noting that:-
  - the risk benefit measured in NARMs is largely delivered by the removal of poor condition assets (i.e. through disposal volumes); but
  - Asset Replacement expenditure is reported against the type of asset installed, to facilitate delivery cost efficiency assessment.

# Option 1: Multi-asset Volume Driver (cont.)

- A simple volume driver does not facilitate evaluation of any trade-offs between NARMs expenditure and 'Non-NARMs' expenditure.
- It is suggested that the volume driver may be unsuitable to extend to cover Refurbishment (SDI) activities given that the scope of works (and range of unit costs) within these activities is broad.
- If incentivised, this would effectively ring-fence Asset Replacement expenditure into two distinct pots, probably requiring separate reporting tables for:-
  - Asset Replacement (NARMs assets); and
  - Asset Replacement (Non-NARMs assets).



# Option 2: Notional Risk Weightings

- Using consistent principles to the underlying principles in CNAIM:-
  - a 'typical' value of PoF for a poor condition asset; and
  - a 'typical' value of CoF

could be determined for each 'Non-NARMs' asset category, to create a notional value of monetised risk appropriate for a 'typical' poor condition asset.

- This would provide a weighting that could be applied in an input led volume based mechanism for 'Non-NARMs' assets, regarding all assets removed as poor condition assets.
- This might enable NARMs and 'Non-NARMs' delivery and expenditure to be considered together, provided the notional monetised risk weighting is suitably calibrated.
- This approach might not readily be applicable to Refurbishment (SDI) activities as this would require further assumptions to be made in order to assign a notional value of reduction in monetised risk for the activity.

## Option 2: Notional Risk Weightings (cont.)

- Previous SRRWG meetings have considered the expansion of CNAIM asset categories in RIIO-ED2 and concluded that, given Ofgem's indicated priorities for NARMs development, there is not enough time to develop new CNAIM asset models, test, refine and update IT systems to accommodate before business plan submissions.
  - Whole Life risk metric development
  - Commonality of assets
  - Development of CNAIM Best Practice Guide
  - Update to CNAIM 1.1
  - Extension of Assets
- The development of notional risk weightings for 'Non-NARMs' assets would also be difficult to develop before business plan submission given the resource requirements of the higher priority NARMs related activities.



# Option 3: Fault Rate Measure

- The DPCR5 Network Outputs comprised three elements:-
  - Health Index;
  - Load Index; and
  - Fault Rates.
- Fault Rates provided an output measure intended to ensure that DNO's asset replacement activity maintained the reliability of the 'non-Health Index' asset categories.
- The Fault Rate measure is a lagging measure.
- Faults occur for numerous reasons, not just condition related. Fault Rates can be affected by other expenditure (e.g. QoS, Tree Cutting, Reinforcement (incl. LCT driven) etc.). A Fault Rate measure, therefore is not a direct measure of the outcomes of condition based expenditure such as asset replacement.
- NARM and non-NARM replacement activities can impact the same fault categories (e.g. pole in NARMs and conductor in non-NARMs can impact the "OH Lines - Asset Repair/Replacement Required" fault category)

# Option 3: Fault Rate Measure (cont.)

- The DPCR5 Fault Rate measure included the reporting of fault rates against the following categories (which cover some of the non-NARMs asset categories):-
  - LV Main OHL;
  - LV Main (UG non-Consac);
  - LV Main (UG Consac);
  - LV Service OHL;
  - LV Service (UG);
  - HV OHL;
  - HV UG Cable;
  - HV Switchgear (PM) – CBs; and
  - HV Transformer (PM).
- Principles and mechanisms developed for DPCR5, including DPCR5Close Out, could provide a basis for development of a Fault Rate measure.

# Option 3: Fault Rate Measure (cont.)

- A RIIO-ED2 Fault Rate measure could be constructed around information already reported in the current RRP.
- Table CV26 in the RIIO-ED1 Annex B pack includes the reporting of fault volumes for the following categories, which cover the HV and LV non-NARMs assets:-

HV and LV CV26 Categories - Covering Non-NARMs Assets	
LV Services (excluding cut out incidents)	Overhead
LV Services (excluding cut out incidents)	Underground
LV Network	UG Cables (Non CONSAC) - Asset Repair/Replacement Required
LV Network	UG Cables (CONSAC) - Asset Repair/Replacement Required
LV Network	OH Lines - Asset Repair/Replacement Required
HV Network (11 kV & 20 kV)	UG Cables - Asset Repair/Replacement Required
HV Network (11 kV & 20 kV)	OH Lines - Asset Repair/Replacement Required
HV Network (11 kV & 20 kV)	Pole Mounted Switchgear Circuit Breakers - Asset Repair/Replacement Required
HV Network (11 kV & 20 kV)	Pole Mounted Switchgear (All Types ex CB) Asset Repair/Replacement Required
HV Network (11 kV & 20 kV)	Pole Mounted Transformers - Asset Repair/Replacement Required

- The 'non-NARMs' asset categories within the CV26 categories above cover approx. a further 20% of the Asset Replacement expenditure in the first half of RIIO-ED1.

- The NOMs ED Working Group have considered how DNOs could be held to account for 'Non NARMs' condition based activity in RIIO-ED2. This has identified a number of potential options:-

Option 1: Volume Driver	Option 2: Notional Risk Weightings	Option 3: Fault Rate Measure
Can be developed from existing volumes reporting (and unit costs from cost assessment)	Requires significant development works to evaluated suitable monetised risk weightings	Can be developed from existing fault volume reporting
Input led (direct relationship to Asset Replacement expenditure)	Input led (direct relationship to Asset Replacement expenditure)	Lagging output measure (not a direct link to Asset Replacement/ Refurbishment expenditure)
Effectively treats NARMs and 'Non-NARMs' Asset Replacement as separate expenditure areas	If calibrated correctly could be incorporated in an overall metric enabling NARMs and 'Non-NARMs' to be considered as a whole.	'Back stop' measure to ensure appropriate balance between NARMs and 'Non-NARMs' condition based expenditure

# Summary (cont.)

- The current proposed common set of asset Categories for RIIO-ED2 NARMs cover approx. 75% of Asset Replacement expenditure.
- Longer term, DNOs have proposed to extend CNAIM (through creation of 'CNAIM Lite' models) to cover more asset categories. The current proposals have considered development for use in RIIO-ED3.
- The options for treatment of 'Non-NARMs' assets considered in this presentation would therefore only be required for a single price control period. This needs to be considered in any decision to proceed with any of these options.

## **ENWL presentation on revision of CNAIM values for ED2**





# Revision of CNAIM values

SRR WG

18 March 2020

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- Within CNAIM V1.1, a number of key fixed values were established from publicly available Government data or those used in the RIIO-ED1 Final Determination
- Where appropriate, they were set at the same level as the equivalent parameters in the RIIO-ED1 CBA model
- These values all impact the average Consequence of Failure and hence risk score per asset type
- As part of the development of CNAIM2 for RIIO-ED2 these will need to be reviewed and revised as appropriate
- The adoption of Whole Life Risk will not have a material impact on the effects seen, only the quantum value



- Since 2014, a number of revisions have been made to many of the values
- These have not necessarily been solely in line with either the RPI or CPI measures stated by the Office of National Statistics
- As part of the CNAIM2 development, an initial view of the relevant updated values has been produced
- These have been inflated as required to represent a FY22 price base (anticipated basis of RIIO-ED2), including ONS inflation forecasts

# Revision of ED1 Values to ED2



Description	ED1 Value	Proposed ED2 Value	Comments
Asset Intervention Cost	Various	?	These were set as the Expert View costs from the RIIO-ED1 assessment
Lost Time Accident	CNAIM £9,000, CBA £30,000	CNAIM £9250, CBA £39,732	Source - HSE adjusted by ONS index
Death or Serious Injury to Public	£1,600,000	£2,134,440	Source - HSE adjusted by ONS index
Death or Serious Injury to Staff	£1,600,000	£2,134,440	Source - HSE adjusted by ONS index
Environmental cost per litre of oil	£36.08/litre	£43.30/litre	Source - Defra cost of carbon value with ONS adjustment
Environmental cost per kg of SF <sub>6</sub> lost	£240/kg	£290/kg	Source - Defra cost of carbon value with ONS adjustment
Traded Carbon Price	£10.04/tonne	£20.54/tonne	Source - Defra cost of carbon value with ONS adjustment
Conversion Factor of SF <sub>6</sub> loss to cost of carbon	23,900 kg(CO <sub>2</sub> )/kg SF <sub>6</sub>	23,900 kg(CO <sub>2</sub> )/kg SF <sub>6</sub>	Source - Defra
Environmental cost of fire	£5,000	£6,600	Calculation based on - Defra cost of carbon value ONS adjustment
Environmental cost per tonne waste	£150/tonne	£198/tonne	Calculation based on - Defra cost of carbon value ONS adjustment
Cost of CML	£0.38	?	Requires discussion
Cost of CI	£15.44	?	Requires discussion
VoLL	£18,143	?	Requires discussion



- The creation of proposed values for the recalibration of the CNAIM V2 raises the following issues;
  - CI & CML values were taken from those published with the final RIIO-ED1 licence conditions. The RIIO-ED2 equivalent will not be known at the time that RIIO-ED2 plans are being developed.
  - Similarly, the unit costs used to price the cost of intervention were taken as the Expert View developed through the RIIO-ED1 cost assessment process. These will also not be known.
  - There may be further movement in the fixed parameters identified by third parties
  - In particular, there are proposals to revise the HM Treasury Green Book to reflect additional factors, eg 'levelling up'



- The following options are possible to manage the calibration issue for FD-related values
  1. Don't update the values for the ED2 period and use ED1 values – Underestimates asset risk values in ED2 and beyond, thus accuracy reduced
  2. Inflate the ED1 values using RPI/CPI and fix for the period – more representative but will not be consistent with ED2 package
  3. Re-state the ED2 values following FD and re-calculate subsequent NARMS targets – consistent and representative but creates additional stage in process
- Key to ensure consistency between CBA benefits calibration and risk factor parameters within CNAIM

# Lunch

## **SSEN presentation on Ofgem site visits and data audits**



# Data considerations for RIIO-ED2

## Quality assurance, Completeness & Timeliness

- Verification and Assurance Activities (day to day and audit activity)
- Data Quality Improvements
- Data Management Incentives
- Information Gathering Plans (IGP) – commitments & timescales for CNAIM v1.1
- Data Completeness commitments
- Potential IGP to support CNAIM v2.5 / v3.0 for RIIO-ED3
- Future data gathering plan incentives
- Data timeliness – refresh rates best practice

## **Ofgem presentation on incentives associated with NARM/CNAIM**

Positions as outlined at Network Asset Resilience cross sector working group:

**Deviation of delivery from output targets – over delivery**

Default position - the cost of over-delivery will be subject to the TIM:

- on an exceptional basis, a company may make a case to Ofgem for being held cost neutral.
- If we deem any portion to be justified, then the company will be recompensed at our view of the efficient cost for the relevant additional costs it has incurred for that portion of the over-delivery.

**Deviation of delivery from output targets – under delivery**

Default position - we will claw back any allowances associated with the under-delivery plus a penalty which is an amount proportionate to this clawed back amount:

- If any portion deemed to be justified, then we may reimburse the penalty associated with that portion of the under-delivery.

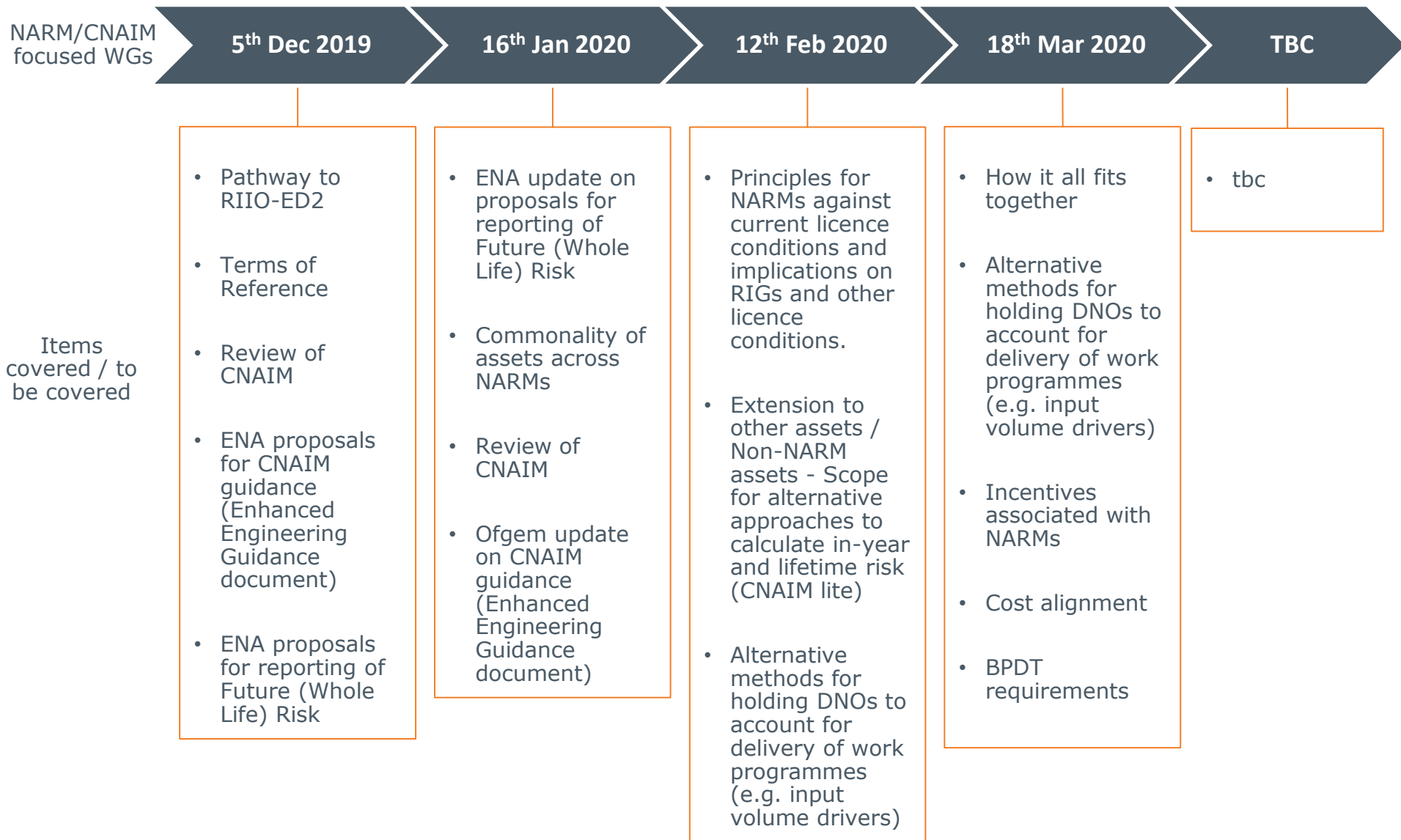
**Interaction with other funding mechanisms**

We will:

- exclude monetised risk delivered through other funding mechanisms in assessing NARM output delivery for RIIO-2.
- ring-fence certain activities and projects with separate Price Control Deliverables and allowances.

Licensees should indicate the projects and activities that, in their view, should be ring-fenced as well as those that should be subject to other funding mechanisms.

## **Actions, Next Steps, AOB**



- The next meeting will take place on 31<sup>st</sup> March, covering QoS. It will be a teleconference only meeting.
- We will circulate notes and an actions log from this meeting.

**Our core purpose is to ensure that all consumers can get good value and service from the energy market. In support of this we favour market solutions where practical, incentive regulation for monopolies and an approach that seeks to enable innovation and beneficial change whilst protecting consumers.**

**We will ensure that Ofgem will operate as an efficient organisation, driven by skilled and empowered staff, that will act quickly, predictably and effectively in the consumer interest, based on independent and transparent insight into consumers' experiences and the operation of energy systems and markets.**