

RIIO-GD2 Repex Stakeholder Engagement Group – Meeting 6

From: Ofgem

Date: 30th July 2020

Location: Conference Call

Time: 13:00 – 16:00

1. Present

Ofgem representatives;

Callum Mayfield (Chair)

Thomas Mackenzie

Duncan Innes

Graham Dickson

Daniel Mitchell (CEPA)

Jill Fryars (CEPA)

Stakeholder representatives;

Cadent

NGN

SGN

WWU

Centrica

HSE

2. Tier 1 mains PCD

Overview

2.1. Ofgem set out the agenda for the meeting and outlined the structure of the Tier 1 PCD. In response to a stakeholder question, they confirmed there was no tolerance band on outturn volume, and a 2% band on value. Two stakeholders noted they thought that 2% was too low. There was a discussion on how the adjustment would interact with the TIM, and whether there were any caps/collars on unit cost

outperformance. A stakeholder asked if diversions are to be included in the PCD, and Ofgem said they were not.

2.2. A stakeholder asked whether the repex element of the CSV for the totex regression was still being calculated on the basis of lay, and Ofgem confirmed that it was.

2.3. In relation to the NARM allocation, a stakeholder pointed out that wider diameter bands had higher monetised risk scores under the NARM, and queried the proposed approach of taking the same proportion from each diameter band. Another stakeholder said they thought the risk measure should account for the net monetised risk of underdelivery in one workload category, and overdelivery in another. They felt that a worked example of how this would work in practice would be helpful. Ofgem agreed, and requested support in doing so.

Use of Mains Decommissioned Costs

2.4. Several issues were raised with the use of decommissioning costs. One stakeholder commented that the data request didn't provide a means of picking up other associated costs (such as services, capital costs and governors). Another noted that previous prices controls used mains laid costs and did not think this had led to a misalignment. They also noted that there may be knock on issues to the supply chain. It was noted that if decommission only costs were set at the wrong level, companies may not be incentivised to undertake this activity in the future.

Data Analysis

2.5. Ofgem presented its analysis of the GDNs' submissions in response to Ofgem's data request. In response to a question, Ofgem confirmed that the intention was to apply regional factors to the industry average unit costs when estimating costs for the PCD. A stakeholder noted that they had concerns over some of the assumptions that may have been used to report decommissioned data and this may cause issues in terms of comparability between networks. Another stakeholder noted that they didn't think

abandon-only costs could be set at an industry level because of the different ways networks approach this work. Ofgem noted that they were keen to discuss what options there were to improve data quality and the confidence in it.

Impact of Disallowed Workloads

2.6. There was a discussion on disallowed workloads, and whether this would lead to reduced efficiency, for instance due to fixed costs being spread over a smaller workload, or from losing the opportunity to include other work within Tier 1 projects . Ofgem noted that the consultation included a question on this point.

Inclusion of Abandon Only Workload Category

2.7. Several stakeholders commented that abandon-only work occurs at the margin, and should not be treated separately, particularly given questions over the data robustness.

Feedback & Next Steps

2.8. A stakeholder asked if the proposed unit costs would be published prior to Final Determinations, given they could not be included for Draft Determinations. Ofgem noted they would come back on this point.

2.9. There was a discussion on the cost curves used by the networks, and Ofgem asked if GDNs would be happy to share the assumptions used with each other and with Ofgem. The GDNs agreed they were.

2.10. A stakeholder said they thought there should be 8 workload categories, and that costs should be based on GD2 forecasts only, as these were a better guide to the future. Another stakeholder asked if the approach to time periods and regional adjustments needed to be consistent with the overall method for cost assessment, and Ofgem said that was true for the latter but not necessarily for the former, as baseline allowances were not set on a bottom-up basis while the PCD would make end of period

adjustments. There was a request for the relationship between top-down and bottom-up allowances to be included on the next CAWG agenda.

3. Services PCD

3.1. A stakeholder queried the 10% cap, and the approach of allocating over-delivery to the NARM, suggesting that an alternative option would be to calculate the impact on monetised risk.

4. Tier 2A Volume Driver

4.1. In response to a question, Ofgem confirmed there were just 3 diameter band categories within the volume driver mechanism, as volumes were relatively low and, therefore, the additional complexity through more categories wasn't necessary.

5. Stubs

5.1. A stakeholder noted that stubs are part of the mandatory Tier 1 requirements and suggested the materiality threshold may not be appropriate, preferring a "use it or lose it" allowance.

5.2. Another stakeholder suggested that the proposal for a single reopener window should be reconsidered, while a third noted that the industry had not been able to agree on a common approach for stubs, so the determination ought to say that companies "should" come together rather than "must".

6. Diversions

6.1. There was general agreement on the approach, as this area is hard to predict. One stakeholder thought the approach should be extended to transmission, to create greater consistency. Ofgem confirmed that the UM was for non-rechargeable diversions only but said it would be willing to discuss the treatment of partly rechargeable diversions at the engineering bilaterals. Another stakeholder suggested including >7 bar mains as well, and said another reopener window would allow more flexibility.

7. HSE Policy Reopener

7.1. A stakeholder suggested the wording should be broader than the listed triggers.

Ofgem noted that the licence drafting working group and licence consultation would provide opportunities to discuss the specific wording. Another stakeholder said that the reopener materiality thresholds across all the UMs should take account of the cumulative impact.