Minutes

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RIGs Development Working Group – Meeting 3

From: Ofgem	Date: 21st January 2021 Time: 09:30 – 13:00	Location: Teleconference

1. Present

Ofgem

Cadent
NGN
SGN
WWU
— GDNs

2. Introduction & action points update

2.1. The WG (Working Group) discussed action points from the previous WG meeting. This included:

- Ofgem still developing Business Support Costs (BSC) templates by working through GDNs' reporting differences and cost allocation assumptions, etc. Ofgem is waiting for some key responses from GDNs to complete this action point. There was an assurance that key responses will soon be issued to Ofgem.
- Ofgem is planning to liaise with SGN and Cadent for an update on their work on quantifying, at a network level, the differential cost in using current cost apportionment methods versus MEAV.

3. Hydrogen

3.1. Ofgem introduced the background of Hydrogen in the context of RRP reporting.

3.2. To help inform both Ofgem and BEIS on the future of heat and role for hydrogen, Ofgem proposes to use the GD2 RRP to capture data to help understand the hydrogen readiness of the gas networks.

3.3. There was discussion on the appropriate geographical level for the data to be reported e.g. regional / city, LDZ or Polygon. Whist some participants suggested that network polygons, which are commonly used across the GDNs, would be the most appropriate level, one participant suggested that data be reported for each major conurbation.

3.4. Cadent enquired if the proposed hydrogen data submitted will also be used to monitor GDNs progress for hydrogen readiness for 2032 (repex completion target period). Ofgem noted that this is not the intention, and that the data will be used in ascertaining the relative readiness of different geographical zones.

3.5. Cadent agreed with Ofgem's comment above and welcomed hydrogen readiness forecasts but noted that getting robust zonal data is a priority. Cadent noted that local authorities influence their work profile which may lead to significant changes in the hydrogen readiness forecasts over time. The GDNs noted some caution about providing forecasts for hydrogen readiness and/or mains replacement at a granular level, as these would potentially be liable to significant changes, due to interactions with local authorities.

3.6. Ofgem noted that whilst the proportion of PE in a network would provide a helpful high-level indicator, there are other important factors that may need to be considered, for example iron stubs represent a minority of the network by length but may be challenging to remove at a later date. GDNs agreed that whilst there are other important considerations, it would be appropriate to consider these at a later meeting.

3.7. Action – GDNs agreed to discuss this further and will produce a draft RRP table for Ofgem consideration.

4. Repex – Stubs

4.1. Ofgem queried the best approach for recording iron stubs. GDNs noted that the current RIGs (Regulatory Instruction Guidance) is not clear on the definition of a stub.

4.2. GDNs noted that they have agreed with HSE a stub definition (derived from a DNV-GL report that was commissioned by the GDNs) and proposed that this definition be adopted for the RRP. This was caveated by the GDNs, who explained that the current DNV-GL definition is likely to change during RIIO-GD2, and therefore allowances need to be made in the RRP for potential changes.

4.3. GDNs highlighted the non-uniformity of stubs costs which makes comparative analysis very difficult. The cost of removing stubs in isolation is materially higher than when it is done alongside other works. This makes unit costs difficult to predict.

4.4. Action –

- SGN to forward Ofgem DNV-GL report providing the agreed current stub definition.
- Ofgem and GDNs will arrange a meeting to discuss DNV-GL report and its application to the RIIO-GD2 RIGs.

5. Repex – decommissioning costs

5.1. Ofgem proposed that the RRP capture "decommissioned" costs, in addition to "commissioned" costs, for tiers 1 and 2A at diameter band level.

5.2. WWU raised concern about the potential data changes and additional reporting requirements being proposed for RIIO-GD2 and asked what was driving such changes. WWU stressed that new data requirements will result in new system configurations and will also require additional resources to produce but and cannot foresee any benefit for such investments.

5.3. Ofgem explained that requests for additional data in the GD2 RRP are to address key data challenges encountered in setting RIIO-GD2 and to ensure that Ofgem collect appropriate data in the lead up to setting RIIO-GD3.

5.4. GDNs explained that attributing costs to mains decommissioned is challenging, and largely a process of allocation rather than measurement. They cautioned against collecting decommissioned costs at too low-a-level on account of deteriorating accuracy. GDNs also argued that repex costs are driven more by mains commissioned than mains decommissioned.

5.5. NGN noted that providing decommissioned costs at diameter level will not provide useful trend over time as, as this tends to be quite variable year on year.

6. Repex – contributions

6.1. Ofgem queried which repex activities can attract contributions. GDNs confirmed that only rechargeable repex diversions are subject to contributions.

6.2. For non-rechargeable diversions it was agreed that contributions are not required.

7. Repex – lay to abandon

7.1. Ofgem asked GDNs if they can record lay-to-abandon at the diameter band level.

7.2. NGN stated that it can capture the data but at total level. It will be problematic if GDNs are required to report it at a more disaggregated level. Other GDNs agreed that lay-to-abandon becomes less useful at lower levels of disaggregation due to reliance on allocation.

8. Repex – capitalised replacement

8.1. Ofgem noted that there are known inconsistencies in capitalised replacement reporting. Repex assessment for RIIO-GD2 included capitalised replacement in the repex regression.

8.2. Ofgem enquired if capitalised replacement should be captured separately to other repex categories, or whether costs and volumes should be embedded within the corresponding tier figures. There was a general agreement by GDNs that capitalised replacement should not be separated out but included in the main repex pot, as per the approach adopted for RIIO-GD2 FDs.

9. Repex – services

9.1. GDNs agreed with Ofgem's proposal to remove average service length from the GD2 RRP. This was included in the BPDT.

9.2. The was discussion about how useful capturing data on "relay by insertion" is. It was agreed that it is only relevant to tier-1 mains. SGN noted that the ability to insert a service is a technical decision, driven primarily by network pressure considerations, rather than solely an efficiency decision.

9.3. The GDNs also noted the potential for changes in pressure upstream and downstream from the ECV and the possible impact this could have on the ability of GDNs to maintain the same share of relay for insertion for services. It was suggested that this should be revisited when more information emerged from the ongoing IGEM discussions on any potential changes.

9.4. There were discussions on the significant cost differences between insertions and open cuts and the potential for major cost changes in RIIO-GD2 if the mix changes in coming years.

10. Repex – reinstatement

10.1. Ofgem noted that it thought reinstatement was a useful metric to understand cost allocations between mains and services. Ofgem suggested for the reporting to continue at tier-1 only as other categories are lower volumes.

10.2. Cadent raised concerns that reinstatements are captured within their contracted-out repex works therefore costs are not known and cannot be isolated.

10.3. NGN also noted that reinstatement can be included in its contracted-out rates for mains replacement or at times contracted out separately. This can vary by contractor and location. NGN suggested that capturing reinstatement data in a high-level table may be useful but trying to break this down would be quite difficult.

11. Repex – domestic and non-domestic services

11.1. Ofgem queried whether it would be useful to capture cost/volume information according to the split between domestic and non-domestic services. This is particularly relevant for high-volume categories/diameter bands i.e. tier 1.

11.2. GDNs suggested that reporting of repex services could be aggregated to combine domestic and non-domestic connections, since volumes of non-domestic services are low in comparison to domestic. This is consistent with Ofgem's approach for setting the Tier 1 services PCD in RIIO-GD2.

12. Repex – dynamic growth

12.1. Ofgem queried the best way to capture dynamic growth and suggested this would probably sit better in the assets section of the RRP.

12.2. SGN proposed a simple formula to derive dynamic growth.

12.3. Action – SGN to forward Ofgem formula to derive dynamic growth highlighting relevant data links.

13. Repex – robotic intervention

13.1. Ofgem queried the best way to deal with reporting of CISBOT (and other robotic) costs and volumes. Ofgem asked which element, if any, should be reported as opex.

13.2. There was general agreement among GDNs that robotic intervention predominantly applies to tier-3 mains. GDNs noted that the debate as to whether CISBOT (and similar tools) intervention should be reported against repex or opex had been had in the past, and that GDNs believe where the life of the asset is extended as a result, it is appropriate to record against repex. Where CISBOT is used purely for inspection purposes, it is appropriate to record against opex.

14.Repex – draft RRP tables

14.1. Action – Ofgem agreed it would update the draft RRP tables to reflect the discussion above. Once this had been issued, the GDNs agreed to work together to discuss and provide feedback.

15.Other Discussion Points – Statement of Allowances (SoA)

15.1. Ofgem queried the relevance of including the statement of allowances in the GD2 RRP.

15.2. Ofgem noted that the Price Control Financial Model (PCFM) can incorporate this data, but noted that there may be valid reasons for including it in the RRP

15.3. All the GDNs agreed that this should be maintained in the GD2 RRP and said in the early years of GD1 the tab was automatically generated by Ofgem but in recent years it has been left blank for GDNs to complete.

16. Other Discussion Points – RPE and Ongoing Efficiency Reporting

16.1. Ofgem referred to recent NGN correspondence highlighting reporting and timing issues relating to RPE (Real Price Effects) calculations and Ongoing Efficiency reporting between the RRP and PCFM.

16.2. Ofgem queried the benefit of trying to calculate the impact of RPEs within the RRP model, rather than relying on the PCFM to perform this function.

16.3. One GDN noted that using the RRP would allow the impact of RPEs to be calculated at a lower level of disaggregation than the PCFM.

16.4. Ofgem and GDNs agreed that timing issues around the publication of index updates could pose a challenge for attempting to use the RRP to calculate RPE impacts.

16.5. Action – Ofgem to liaise with Regulatory Finance colleagues to discuss issued raised by NGN and make proposals for RIIO-GD2 reporting.

17. Other Discussion Points – Covid Reporting

17.1. Ofgem noted that in line with RIIO-2 FD, it would assess the impacts of Covid-19 on the price control as part of close-out.

17.2. Ofgem queried how it might use the RRP to obtain appropriate data to enable this future assessment process. The GDNs agreed with using the RRP to capture Covid-19 impacts and proposed to develop a draft table and corresponding guidance points.

17.3. Action – WWU offered to lead GDNs in developing a Covid reporting table for Ofgem to consider incorporating into the new RRP.

18. AOB

18.1. Cadent asked about the timeline for when RIIO-GD2 reporting guidance on customer surveys will be issued, as this is becoming a priority for their customer survey process.

18.2. Action – Ofgem will liaise with Policy colleagues and email the response directly to GDNs.

18.3. Ofgem noted that it will be willing to prioritise topics in future WGs areas where early resolution through WGs will help GDNs in their RIIO-GD2 reporting preparations.