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Dear Jonathan,

Common Network Asset Indices Methodology Proposed Modifications – Standard Licence Condition 51 Part I Consultation

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group, excluding Centrica Storage.

In isolation, the rationale for the proposed changes to the Common Network Asset Indices Methodology (CNAIM) seems sensible. However, we are unable to form a view on whether the proposed values are more appropriate than the current. It is unclear why it is believed the current version of the CNAIM overstates the perceived risk associated with the relevant asset classes and, hence, has a disproportionate impact on the RIIO-ED1 risk reduction targets. The impact of each individual change on each licensee's targets and commentary on the extent to which the proposed changes are appropriate for each licensee have not been presented. More fundamentally than this, we are concerned that the consultation does not include any review of the extent to which the underlying issue causing this particular anomalous output may also be affecting, perhaps to a less obvious degree, other outputs of the CNAIM. Without such a review, it is difficult to have assurance that the CNAIM is fit for purpose.

In order to assess the suitability of the proposed values of k , the approach to identifying 'outliers', or whether it is even appropriate to exclude 'outliers' given "*...the range of interventions being used to create the calculation varied significantly between companies...*", would need to be explained. Similarly, an explanation of the empirical derivation of the proposed *Value of Coincident fault per hour* is needed for stakeholders to assess whether it constitutes an appropriate change to the CNAIM (especially since the proposed value has reduced from 1 in 100 to 1 in 2000). We recommend sufficient information is included in all Standard Licence Condition 51 Part I Consultations to allow stakeholders to assess whether proposed changes represent appropriate improvements.

We previously raised concerns about the rebasing of agreed targets according to the CNAIM during RIIO-ED1 for the purpose of assessing performance and recommended performance against risk reduction targets should continue to be assessed against each specific DNO methodology on which revenue allowances have been based¹. The issues raised in this consultation highlight the merit of assessing performance against each specific DNO methodology, especially because of the significant differences in asset management

¹ British Gas response to the Consultation on Distribution Network Operators (DNOs) Common Network Asset Indices Methodology: https://www.ofgem.gov.uk/sites/default/files/docs/2015/10/bg_response_0.pdf

approaches across the sector referred to in this consultation. We continue to believe the assessment of performance on any basis other than which allowances were provided is not in consumers' interests.

We hope you find these comments helpful. Please do not hesitate to contact me if you have any questions.

Andy Manning
Head of Network Regulation, Forecasting and Settlements