



Regulatory Instructions and Guidance modifications

Northern Powergrid's response to Ofgem's proposal to make modifications to the Regulatory Instructions and Guidance

KEY POINTS

- **Northern Powergrid has very few comments to make at this stage in the process, but there remain at least three significant items that Ofgem should address in its final modification. Beyond this, Ofgem must be acutely conscious of the limitations of the cost driver reporting, while we also recommend that Ofgem re-convene two working groups to discuss RIGs issues.**
- Northern Powergrid does not have any material representations to make at this stage on most of the modifications set out in Ofgem's consultation – most of our comments relate to minor details and are set out below in this response and in the attached change log.
- However, we have identified three significant items that we believe still need to be addressed in the drafting as part of this year's RIGs update.
 - The 'Restoration of supply' definition needs to be updated in the Interruptions guidance document line with the discussions during 2017 at the Quality of Supply working group.
 - The RPIf value in the Revenues reporting pack needs to align with the revised Forecasts for the UK Economy document (published 28 November 2017). We understand Ofgem is minded to make this change. Northern Powergrid supports this decision.
 - The cost driver categorisations being introduced as part of the Strategic Commentary reporting do not all appear to use the same baseline, and are not all mutually exclusive. Unless this is corrected the guidance will not achieve a basic level of consistency.
- We also believe that the cost driver categorisations are likely to lead to non-comparable figures being reported across companies, both now and the future. We do not think this fundamental issue can be addressed and, assuming that Ofgem goes on to impose these reporting requirements, Ofgem must recognise these limitations.
- Lastly, as part of the on-going development of the RIGs, we recommend that Ofgem convenes the Environment and Innovation RIGs working group as early as possible in 2018 and convenes further meetings of the Quality of Supply working group to further develop the clock-stopping guidance ahead of next year's RIGs update.

1. Material Observations

Northern Powergrid has very few comments to make at this stage in the process, but there remain at least three significant items that Ofgem should address in its final modification.

- 1) **The RPIF value used by Ofgem in the Revenues reporting pack (R5 input range, I15) is incorrect.** On 14 March 2018, an email from Andrew Ryan, Ofgem, stated that Ofgem is minded to update the RPIF value in the Revenues reporting pack to align with the revised 'Forecasts for the UK Economy' document (published 28 November 2017). Northern Powergrid supports this decision.
- 2) **The 'Restoration of supply' definition needs to be updated in the Interruptions guidance document (Annex F) in line with the discussions at the QoS working group.** In May 2017 we proposed a new RIGs definition for supply restoration, which was subsequently recirculated in July 2017 to the QoS working group (including Ofgem) and as agreed yet it has not been reflected in the updated RIGs or as a proposal in the issues log, something which Northern Powergrid made Ofgem aware of again more recently in an email from Matthew Preston to Louise Deighan (7 March 2018).
- 3) We believe that supply should not be classified as restored unless the customer is able to use the supply to the premises as they did prior the supply interruption. The use of generation may provide short-term supply to the consumer but it may provide a lower capacity than the customer's connection agreement and therefore should not be equated with restoring the supply to the premises. Moreover we do not think it necessary to define restoration in terms of the electrical characteristics of the supply, by reference to any other regulatory instruments or electrical standards, or by reference to the particular types of generator that may be being used by distributors. Instead we think a conceptual definition based on the customer being back in the position they were in before the interruption occurred best captures the intention of the Interruptions Incentive Scheme. Accordingly, we proposed the following definition for IIS purposes:

'The supply to any premises that has been interrupted will be deemed to have been restored when the Customer is able to use the supply to the premises in the same manner as the supply could have been used before the interruption occurred. For the avoidance of doubt, where a temporary generator is provided following the interruption of a supply, that supply shall not be treated as having been restored if the output of the generator provides a lower capacity at the Customer's terminals than is provided for in the Customer's connection agreement.'

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- 4) **The introduction of the cost driver categorisations as part of the Strategic Commentary still gives us cause for concern.**
- a. **Northern Powergrid is uncomfortable with the requirement to provide quantified estimates for these categories.** Regardless of the caveats applied within the guidance that these are estimates, committing these numbers to writing in a document such as this lends them significance and credibility that is unwarranted given the estimates will be subjective and incomparable. Any comparison or aggregation of these numbers will be inconsistent and will likely arrive at incorrect conclusions.
 - b. **The guidance for the cost driver categorisations must be clear on which baseline should be used for the reporting of variances.** We believe Ofgem wants an explanation of differences between actual expenditure and allowances but that is not clear, and at times the guidance explicitly suggests a different baseline. The baseline needs to be clarified to help achieve even a very basic level of consistency in reporting.
 - c. **The cost driver categories should be made as far as possible, mutually exclusive. As they are currently drafted, they are not.** If this is not corrected it will fundamentally undermine the exercise as DNOs will allocate similar variances under different categories.

2. On-going development of the RIGs

Although these comments do not respond directly to the subject of this consultation, we think that further work needs to be done in the following areas to improve the development of the RIGs in the future.

- 5) **Ofgem needs to convene the Environment and Innovation RIGs working group as early as possible in 2018.** This group failed to gain traction during 2017 and there are known issues around reporting inconsistencies that have existed since the Environment and Innovation RIGs were introduced and are in need of rectification.
- 6) **The QoS working group needs to convene and develop the guidance for clock stop codes ahead of 2019/20 regulatory reporting.** On 2 May 2017, as part of the QoS working groups, Northern Powergrid presented a proposal to modify the RIGs to bring further clarity around the treatment of customer requests to delay restoration and the use of mobile generation. The proposed modification to Annex F: Interruptions paragraph 2.47 is to replace ‘...and classify this as a temporary supply arrangement’ with, ‘... and classify this as a refusal of a temporary supply.’
- 7) This would necessitate the creation of a new clock-stop category and template code in the RIGs. Reference will also need to be made to the new proposed restoration definition (set out in paragraph 3 above) to prevent small suitcase-style generators being offered to invoke an IIS

clock stop because they lack sufficient capacity to fully restore supplies. This amendment will allow Ofgem to track these 'customer refusals', where at present once an incident is temporarily restored, the actual total incident duration is not visible in the IIS data.

3. Minor comments

Minor issues and comments that do not correspond to a listed change (i.e. are not included in the attached log).

- 8) **Strategic Commentary: Section A4 (Financial Performance).** There is a requirement to report 'Allowed revenue (in reporting year), as extracted from R14 of Revenue Reporting Pack'. This seems out of place in a Financial Performance section as it isn't a measure of performance as such. We would suggest removing the requirement, or at least clarifying the purpose of this information.
- 9) **Strategic Commentary: Section A4 (Financial Performance).** The incentives table has 'NA' in the '% of maximum reward' column for BMCS. There is a maximum reward for this incentive; we suggest removing 'NA'. The complaints metric element of BMCS is penalty-only, but this shouldn't affect whether the % of maximum reward can be calculated.
- 10) **Strategic Commentary guidance – Cost Performance: Volume Variations.** In the table containing the list of worksheet titles, the title for CV8 needs amending to include the underlined text that follows 'Refurbishment no Secondary Deliverable Improvement (no SDI)'.
- 11) **Strategic Commentary guidance – Rising and Lateral Mains.** The Rising and Lateral Mains (RLMs) guidance includes the following, 'In particular report what calculation method has been used to determine km of mains length'. This should be deleted as rising mains should be units (per riser) not lengths. The change must also be reflected in the reporting template.
- 12) **'R2 Changes Log' cell D12.** Ofgem has added a comment stating that it has 'Added Corporation Tax Rate to 2016/17', but it has also added it to 2017/18 as well. The comment needs updating to include 2017/18.

We have reflected our comments in the issues log attached. Annex B, C and F have been updated, the cells have been shaded orange.