

RIIO-GD2 Cost Assessment Working Group – Meeting 1

From: Ofgem

Date: 26th June 2018

Time: 15:00 – 17:30

Location: Ofgem, London

1. Present

Ofgem representatives;

Geoffrey Randall

Martin Siner

Tessa Hall

Callum Mayfield

Jonathan Farrier

Daniel Kyei

Teresa Romano

Nicole Weir

Stakeholder representatives;

Cadent

NGN

SGN

WWU

2. Introduction

2.1. Ofgem introduced the cost assessment working group (CAWG) and its place within the wider stakeholder engagement for RIIO-2.

3. Proposed terms of reference

- 3.1. Ofgem stated that the CAWGs are an open forum to look at cost assessment. It was clarified that the meetings should be seen as an advisory board, where no final decisions are taken. In relation to meeting minutes, it was stated by Ofgem that minutes will be circulated to stakeholders for comment after each meeting, although the form of the minutes (attributable / non-attributable) is unknown at this time, and that Ofgem will update stakeholders on any decision on this.
- 3.2. Ofgem pointed out that there is also a policy working group that will look at reliability, whole system outcomes and consumer satisfaction and social.
- 3.3. The outputs of the CAWG meetings were discussed, and Ofgem stated that there will be a summary of the discussion published online. Ofgem expect ongoing engagement and dialogue with individual GDNs between working group meetings. Geoffrey Randall was named the chair, although it was stated that this may change to the head of GD cost assessment in future. The secretaries are Callum Mayfield and Tessa Hall, and queries should be directed to them.
- 3.4. Stakeholders queried how many people per company are expected to attend each meeting. Ofgem and stakeholders agreed that two representatives per GDN is suitable. Ofgem added that subject experts may be involved to help guide discussion on particular topics.
- 3.5. Ofgem outlined the plan for the logistics of the working groups. It was proposed that meetings will occur once a month, for three to four hours, and that they will take place either in London or Glasgow due to the Ofgem team being split between these two locations. Ofgem informed the group that they are anticipating the CAWG meetings to occur until at least November. Ofgem are looking towards December (when the strategy consultation will be published), and want to get an early idea on the areas that stakeholders and Ofgem agree and disagree on.

3.6. Ofgem stated that they want active stakeholder participation in the CAWG meetings, and asked if there are any other stakeholders that would be interested in the CAWG meetings. It was suggested that DNOs may be interested in seeing the meeting discussion summaries, but may be less interested in attending meetings.

4. Lessons from RIIO-GD1 (Ofgem)

4.1. Ofgem presented a high level summary of the main takeaways from bilateral meetings with GDNs, and asked for stakeholders to flag any other issues not mentioned.

4.2. One stakeholder asked if real price effects (RPEs) are within the scope of this working group. Ofgem stated that cost assessment comes first, but welcome any proposals from stakeholders on indexing RPEs. One stakeholder suggested that the discussion of indexation of RPEs is better suited to this working group than the policy one.

4.3. There was a discussion of various issues that could be covered in this working group. Ofgem stated that all the mentioned issues will be considered, but that it doesn't mean that Ofgem agree with all the stakeholder views.

4.4. Ofgem asked stakeholders for thoughts on the use of historical and forecast data, and when they think history is a good indicator of the future. One stakeholder mentioned that the use of more years of forecast data was considered in RIIO-GD1, but the reliability of the data was questioned. Another stakeholder raised the point that there will be more useable historical data for RIIO-GD2 than there was in RIIO-GD1.

4.5. Ofgem informed the group that they are still considering the topics to prioritise for this group, but that principles should be discussed early on, and then more detail later on in the process. Ofgem asked the group what they think the priorities should be for the CAWG. One stakeholder agreed that looking at principles to start with is a good approach. Another stakeholder suggested that materiality could be a way to prioritise topics for discussion by the group. One idea was raised by a stakeholder that could prevent the group spending time on topics that everyone is in agreement on; they

stated that areas that everyone agreed on during GD1 could be recapped briefly, so there is more time left for contentious topics.

5. Benchmarking and efficiency (Cadent)

- 5.1. Ofgem asked if any stakeholders have considered using Northern Ireland data in regression analysis in addition to the data from the eight networks in England, Scotland and Wales to increase the size of the dataset. One stakeholder stated that they have done some work incorporating Northern Ireland data. Another stakeholder raised the point that the Northern Ireland data is very new so it has limitations when trying to compare to the GDNs' data. It was also mentioned that data from Ireland also has limitations because it only comprises of one network.
- 5.2. The GDNs have all done some analysis where they have re-run regressions using the data from RIIO-GD1 so far. There was a discussion on their results, and it was found that there are differences in their findings due to slightly different assumptions and analysis approaches (e.g. using a different number of years of data).
- 5.3. Stakeholders identified and discussed several areas that they have concerns with and think should be looked at again for RIIO-GD2. Concerns were raised over several different topics such as the grey area with reporting costs for emergency and repairs, LTS and what actually drives their costs, and the exclusion of fuel poor connections from the connections synthetic costs.

6. Next steps and AOB

- 6.1. Ofgem stated that feedback on what could be on the agenda for the next meeting is welcome.
- 6.2. The group asked what topics will be covered in the December document. Ofgem stated that it will include some reflections on GD1, thoughts on the next steps and directions of travel. Ofgem stated that they would like to go as far as possible, but it is difficult to say at this stage what level of detail will be included.