

RIIO-GD2 Repex Stakeholder Engagement Group – Meeting 1

From: Ofgem

Date: 6th September
2018

Time: 10:00 – 15:00

Location: Premier Inn,
Glasgow

1. Present

Ofgem representatives;

Pete Wightman

Callum Mayfield

Jonathan Farrier

Ian Bagworth

Stakeholder representatives;

Cadent

NGN

SGN

WWU

Centrica

ENA

IGEM

2. Introduction

2.1. Ofgem provided an overview of the purpose of the stakeholder engagement groups, including the scope for the activities of the group and some principles around how the group would operate. Ofgem also presented information on the structure of the outputs and incentives framework in RIIO2.

3. Repex GD1 lookback (WWU)

3.1. The presentation provided an overview of the history of the repex programme and discussed the value of the programme in terms of safety and other benefits, such as

environmental and customer experience. There was discussion around some of the assumptions that underpin the counter-factual measuring the number of repairs had no programme been in place.

- 3.2. One stakeholder suggested that the iron mains replacement programme (IMRP) also has benefits for government policy decision making, as it increases the ability of the GDNs to potentially support hydrogen in the future.
- 3.3. There was a group discussion around the public feedback the GDNs had received from the public during their stakeholder engagement events. One stakeholder noted that based on their stakeholder consultation, the general public broadly felt that IMRP progress should be faster given the importance of the programme from a safety perspective. They also noted that there was some public concern around pollution attached to the programme, both from iron mains being left in the ground once abandoned and from using plastic for the replacement mains. Another stakeholder noted that local authorities were generally supportive of the programme, although the majority were content with the current pace of the programme.
- 3.4. One stakeholder noted that “green/environmental” was the primary issue identified through its public engagement to date. Cost was also highlighted as an important factor. Other stakeholders were in agreement that these issues were of high importance.

4. Review of industry drivers of underspend (Ofgem)

- 4.1. Ofgem presented an overview of some of the main drivers of industry underspend, relative to cost allowances, that have been observed in the repex component of RIIO-GD1. The presentation presented an overview of the current and expected levels of underspend for repex across the industry and the performance of the GDNs relative to output targets, before highlighting some of the reasons for underspend.
- 4.2. There was discussion around variations between the Tier 1 diameter band mix that the GDNs had forecast in their business plans for GD1 and the outturn Tier 1 diameter band

mix observed to date and how this may have contributed to underspend. Several of the stakeholders noted that it is important to consider both lay and abandonment commitments when analyzing underspend drivers, as secondary deliverables are based on kms abandoned but costs are based on kms laid. One stakeholder noted that it was important to consider the consistency of data reporting across all reporting mechanisms and templates going forward, in order to aid comparability.

4.3. Ofgem highlighted that the current level of underspend is a concern and that it was important to have a framework for GD2 that more closely reflected industry costs, while still incentivising the GDNs to drive cost efficiencies. One stakeholder noted that care should be taken not to be too prescriptive in GD2 and that GDNs should have flexibility to manage assets in the most cost effective manner. Another stakeholder suggested a Residual Income Model (RIM) could be used to allow annual allowances to be adjusted within the price control period. It was noted that some GDNs already provide Ofgem with explanations for their underspends through the annual reporting process.

4.4. There was a discussion around the link between risk removed and costs in the repex programme. It was questioned whether risk removed is a useful output in the current GD1 framework. One stakeholder noted that compared to earlier in the IMRP, the current level of risk on the network overall is now much lower and the difference the highest risk and lowest risk mains is less extreme. Another stakeholder noted that the cost to replace mains is not necessarily correlated with the riskiness of the mains. Another stakeholder agreed that risk removed does not provide a useful indication of the costs of programme, although noted that this is not its primary aim.

5. Future of the network (Cadent)

5.1. The group discussed some of the key issues facing gas distribution networks heading into the future and how these may impact thinking and policy design for RIIO-GD2. Emerging

issues identified included safety issues relating to steel services, the necessity to deal with stubs and growing interest around risers.

6. Innovation, cost pressures and RPE indexation (SGN)

- 6.1. There was a discussion around some of the emerging cost pressures that the GDNs are experiencing and which they expect to continue into RIIO-GD2. One stakeholder suggested that they will have to return to more problematic areas in RIIO-GD2, due to experiencing access issues which has prevented them from undertaking the work previously. Other GDNs also noted some difficulties in undertaking work due to stakeholder issues.
- 6.2. Ofgem asked how many of the gains observed in RIIO-GD1 are expected to continue into RIIO-GD2. One stakeholder noted that the answer will be dependant on the design of the RIIO-GD2 framework, particularly around innovation funding. They suggested that SMEs have played an important role in bringing new technology to market and without the Network Innovation Allowances (NIA), or similar, this collaboration with third parties could disappear.
- 6.3. Other stakeholders also agreed that the framework must be supportive of innovation, innovation will remain a key tool for countering increased cost pressures and innovation funding is key to encouraging collaboration, both between GDNs and internationally.
- 6.4. There were no responses given when Ofgem asked what a supportive innovation framework might look like.
- 6.5. Ofgem asked which area of spending (capex, opex, repex) benefits most from innovation spending. There was general consensus among the GDNs that repex was the largest benefactor of innovation stimulus due to its scale.

7. Outputs and incentives (NGN)

- 7.1. There was a consensus among the GDNs that the process of agreeing NOMs for RIIO-GD1 has taken longer than would have been preferred.

7.2. A stakeholder suggested that Ofgem need to provide greater clarity on outputs for RIIO-GD2, if they want to measure GDNs against them. Another stakeholder suggested that there had been “output creep” in RIIO-GD1, with secondary deliverables being increasingly discussed in the same terms as outputs. They noted there was uncertainty around whether secondary deliverables are being treated as outputs for RIIO-GD1.

7.3. One GDN questioned what the benefit of providing accurate forecasts is under the RIIO-GD1 framework, given that the incentives were generally to beat their forecasts. They suggested that RIIO-GD2 should incentivize GDNs to put forward their most accurate forecasts, while still providing an incentive to beat them.

8. AOB and next steps

8.1. Ofgem agreed to circulate a list of actions to the group and confirm the dates and locations of the meetings for October and November.

8.2. Ofgem to circulate additional information regarding the content for the next meeting.