

## RIIO-GD2 Repex/NARM/IDP Stakeholder Working Group – Meeting 1

From: Ofgem

Date: 17<sup>th</sup> May 2019

Location: Ofgem, Canary Wharf

Time: 10:00 – 15:00

### 1. Present

Ofgem representatives;

Callum Mayfield

Jonathan Farrier

Colin Laing

Ian Bagworth

Neil Guha

Stakeholder representatives;

Cadent

NGN

SGN

WWU

HSE

### 2. Introduction (Ofgem)

- 2.1. Ofgem introduced the purpose of this newly established working group, and followed by introducing the Terms of Reference. There were no objections to the proposed terms.
- 2.2. Ofgem introduced the agenda for today's session, followed by a discussion on the interactions between the NARM BPDTs and engineering justification. Ofgem noted that this forum is focussed on RIIO-GD2 development, rather than RIIO-GD1.

- 2.3. Ofgem noted that gas distribution cost assessment was not expected to be covered in this working group in detail, since cost assessment would be covered in the gas distribution Cost Assessment Working Group.
- 2.4. Following an introduction, one stakeholder queried how often this new working group would convene. Ofgem noted that this had not been fixed, and there was flexibility to convene the group as regularly as required.

### **3. Linking CBA and NARM (Ofgem)**

- 3.1. Ofgem talked through the individual templates that make up the BPDT, NARM and investment decision pack.
- 3.2. One stakeholder questioned the timing of future template issues. Ofgem noted that we were working towards a September 2019 publication for all final templates, with engagement taking place in the lead up to then.
- 3.3. One stakeholder questioned the requirement for a DAG to be completed on the draft business plan submissions in July. Ofgem talked about the need for a full DAG for the December submission, but noted that we were still working through the assurance requirements for the July submissions.
- 3.4. Ofgem talked about the purpose of each of the templates - CBA, engineering justification, NARM/NARM BPDTs, BPDTs - and talked through the end-to-end process across each of these.
- 3.5. One stakeholder queried whether the networks had a clear understanding of which endeavours a CBA is required for. Ofgem noted that whilst the guidance included a minimum list of assets that would typically require a CBA, Ofgem wasn't intending to be prescriptive, and would instead expect the networks to use good judgement in determining whether or not a CBA is required.

- 3.6. One stakeholder queried whether CBAs would be required on individual components that comprise one of the assets listed in the guidance as requiring a CBA. The example given was an individual valve. Ofgem noted that GDNs should refer to the guidance around the levels at which CBAs should be submitted, but in general it is likely that programme of works / asset class level is likely to be most appropriate for much of the gas distribution spend.
- 3.7. One stakeholder queried whether CBA justification would be required on mandated or compliance activities, for example works required on the basis of safety. Third-party driven reinforcement was given as an example, and another stakeholder referenced the CBA guidance, which stated that cost-recoverable third-party driven works did not necessarily require a CBA.
- 3.8. One stakeholder queried whether works being undertaken on the basis of safety would require a CBA, given that the works may be essential. Ofgem noted that a CBA would still reveal the options considered and the justification for the chosen option.
- 3.9. One stakeholder queried how Ofgem would deal with expenditure that did not have an accompanying CBA, or where companies were submitting differing levels of CBAs - e.g. where one company provided a single CBA for the replacement of thirty governors, and another company providing thirty separate CBAs. Ofgem noted that it was continuing to develop guidance for final Business Plan requirements and would take this into consideration. It was noted that there is a balance between ensuring the Business Plans remain concise and the majority of investment is suitably justified.
- 3.10. One stakeholder queried whether Ofgem was expecting a full suite of CBAs to be submitted in July. Ofgem noted that the guidance stated that we expect CBAs on the

listed assets, but reserved the right to request additional information, including CBAs, following the July submission.

- 3.11. Two stakeholders raised the issue of reconciling between the CBA and BPDTs. An example given was avoided Opex costs realised by undertaking a Capex intervention, and how this can be captured in the BPDTs. One stakeholder suggested that networks explain the source of differences between the two, where applicable, rather than attempt to make the numbers match.
- 3.12. One stakeholder queried how to resolve any discrepancies between the figures produced by both CBA and NARM. One stakeholder suggested that such discrepancies could be driven by price base and inflation measure.
- 3.13. There was a discussion on the inflation measure being used in each template, which revealed a potential conflict between the templates. Ofgem to confirm this.
- 3.14. Ofgem proposed to add in a NARM memo line to the CBA template, which would allow GDNs to capture and compare the output from their NARM models against the benefits identified in the CBA template. A stakeholder asked whether Ofgem would reissue the template with this line included. Ofgem agreed that it would reissue an updated version of the template which included the NARM memo line.
- 3.15. There was a discussion around how to deal with similar investments over time that may ordinarily be justified by a single CBA and engineering justification.
- 3.16. There was a discussion around how to the templates deal with risks across asset cohorts. One stakeholder gave an example of a single governor exposed to a high-level of flood risk. The stakeholder pointed out that whilst the CBA would justify intervention on the basis of this risk, flood risk isn't currently captured in the NARM, and therefore this intervention would not deliver an accurate reduction in monetised risk in RIIO-GD2.

## **4. Baseline CBA Guidance (Ofgem)**

- 4.1. There was a discussion on the information captured in the CBA options tables. One stakeholder queried the definition of GDN Avoided Costs, which led to a group discussion around how GDNs each interpret this field.
- 4.2. There was a discussion on the differences between Option A and Option C in the CBA template. Ofgem expressed a preference for GDNs to use Option C where possible.
- 4.3. There was a discussion on the characteristics of the data being captured in the societal benefits table, and what type of financial risks this data should reflect.
- 4.4. One stakeholder queried how these issues would be taken forward, including across other sectors.

## **5. IDP/CBA Feedback (Ofgem)**

- 5.1. One stakeholder expressed a view that the level of prescriptiveness around when to provide a CBA could be more detailed. Ofgem noted that they were reluctant to be too prescriptive, instead looking for the companies to use good judgement where possible.
- 5.2. Ofgem queried the intended meaning of proactive investment to conform to HSE legislation requirements. One stakeholder noted that investment driven by legislative changes would ordinarily be handled through an uncertainty mechanism. Another stakeholder noted that their investment proposals would be based on current requirements. Ofgem agreed with the assertion that investment profiles should be based on current legislative requirements.
- 5.3. One stakeholder sought clarification on whether CBAs should be completed at an asset-type level rather than at an individual asset level, in which case whilst a CBA could be completed for a population of assets, it may only lead to intervention on a

small subset of that population. This led to a discussion around which asset types the GDNs are looking to cohort. One networks confirmed that they are currently only expecting to cohort mains and services.

5.4. There was a query on how capitalisation rates would be applied. *Action on Ofgem.*

5.5. One stakeholder suggested that the measure of emissions input into the CBA template should be consistent with NARM, i.e. m<sup>3</sup> of natural gas, rather than m<sup>3</sup> of CO<sub>2</sub>. The suggestion was to convert from natural gas to CO<sub>2</sub> within the template. Ofgem agreed with this logic.

5.6. One stakeholder suggested that the breakdown of materials for mains captured in the CBA should be simplified. Ofgem suggested that this should align with the breakdown captured in the BPDTs for consistency and alignment.

5.7. One stakeholder noted that since the last CBA was published in March, the traded CO<sub>2</sub> price has been updated by BEIS.

## **6. Engineering Justification Paper (Ofgem)**

6.1. There was general discussion around the purpose of the Engineering Justification Paper (EJP) and the structure as outlined in the guidance document. Ofgem explained that the EJP allowed the GDNs to demonstrate the needs case, solutions considered, option chosen and cost estimates for each investment proposed.

## **7. Long Term Risk Benefit Template (Ofgem)**

7.1. It was agreed that all of these points had been covered already.

## **8. NARM BPDT Feedback (Ofgem)**

8.1. Ofgem presented the changes made to the NARM BPDT tables since the last issuance.

- 8.2. There was a group discussion on some of the challenges that the networks anticipate in populating the NARM BPDT tables. Ofgem asked that the networks complete these tables on a best endeavours basis, noting any assumptions made as part of their business plan submissions.
- 8.3. There was a discussion on the scale of data being asked for across all templates. The networks highlighted concerns at the scale of data being requested, suggesting that Ofgem reflect on what the data will be used for.
- 8.4. There was a discussion around the intended purpose of the NARM BPDT. Ofgem stated that these tables form an important part of allowing Ofgem to understand the basis for investment profiles.
- 8.5. One stakeholder drew a comparison between the electricity distribution sector and RIIO-GD1. Ofgem reiterated its view that these tables were an important part of telling a story of how monetised risk is reduced over time.
- 8.6. In response to the above points, Ofgem noted that the expectation on GDNs to populate these tables on a best endeavours basis affords networks the ability to do what they can and justify any gaps in their submission.
- 8.7. One stakeholder noted that Repex is the most material component of CBA-justified work, and excluding Repex, NARM represents a relatively small component of total spend.
- 8.8. One stakeholder acknowledged that a best endeavours basis would afford the group the opportunity to address these concerns for the final NARM BPDT version.
- 8.9. Ofgem confirmed that they would accept these tables being completed on a best endeavours basis, and for the networks to articulate any specific issues encountered and justification for any incomplete sections in the July submission.

8.10. The networks were unwilling to confirm acceptance of the offer to complete the NARM BPDT on a reasonable endeavours basis, as a discussion was needed with the networks' regulation managers, who had views on the templates.

## **9. Repex and NARM Outstanding Policy Issues (Ofgem)**

9.1. One stakeholder noted the need to pick up the issue of CISBOT in this forum, as agreed in the previous cost assessment working group. Ofgem confirmed that this would be picked up in this forum.

9.2. No other areas of clarification.

## **10. Wrap Up (Ofgem)**

10.1. Ofgem noted that holding the second working group in June/July was tentative due to workload and leave, but would consider organizing a second session at this time if there was strong stakeholder support. No stakeholders objected to this. Ofgem explained that the onus was on stakeholders to provide feedback following our SSMD publication around whether a call/meeting is needed next month.

10.2. Ofgem requested feedback from stakeholders on a suitable name for this working group. No consensus was reached, so Ofgem will assign a name shortly.