

RIIO-GD2 Asset Management Stakeholder Working Group – Meeting 2

From: Ofgem

Date: 7th Aug 2019

Location: Ofgem, Glasgow

Time: 10:00 – 15:00

1. Present

Ofgem representatives;

Callum Mayfield (Chair)

Jonathan Farrier

Colin Laing

Ian Bagworth

Neil Guha

Thomas McLaren

Mike Barlow

Stakeholder representatives;

Cadent

NGN

SGN

WWU

HSE

2. Introduction (Ofgem)

2.1. Ofgem introduced the purpose of this newly established working group, and explained the proposal to change of name of the group to the Asset Management Working Group. There were no objections to the proposed name change.

2.2. Ofgem introduced the agenda for today's session.

3. NARM (Ofgem)

- 3.1. Ofgem led a discussion on the its current thinking on how to calculate long term risk benefits for NARM, including presenting a theoretical example. It was suggested that for the purpose of setting NARM targets, benefits would be assessed from the end of the RIIO-GD2 period, by assuming that all interventions take place at the end of RIIO-GD2. The approach outlined Ofgem's current thinking and not necessarily Ofgem's final position.
- 3.2. A stakeholder questioned what the assumption would be on when the subsequent interventions would occur and suggested an alternative approach could be to assume the asset is run to the end of its life, without applying a second intervention. Another stakeholder suggested that there would likely be inconsistencies between GDNs in the assumptions being made about when subsequent interventions would occur and the lifetimes of different assets.
- 3.3. A stakeholder questioned how the multiple intervention approach would work on cohorted assets. It was suggested that the GDNs NARM models may not allow them to consider multiple intervention approaches.
- 3.4. It was noted by a stakeholder that CBA and NARM assessments may be different in some case. It was suggested that GDNs had not necessarily considered or planned multiple interventions beyond the RIIO-GD2 period. Ofgem asked for clarification on what assumptions the GDNs had used in their CBA submissions in the July draft Business Plan submission.
- 3.5. Ofgem requested feedback from stakeholders to a number of questions regarding this topic by the end of August. Ofgem noted that there were sector-specific and cross-sector NARM meetings planned for September, where these topics would be futher discussed.

4. Repex BPDTs (Ofgem)

- 4.1. The discussion focused on a number of individual areas within repex where further clarification regarding the approach to the design of the RIIO-GD2 BDPT was required.
- 4.2. A stakeholder noted that it was challenging to provide insertion data for repex services and this hasn't been collected historically. It was noted that GDNs do not know which relay technique will be used until they get to site. Ofgem asked how GDNs would provide this information if required to do so. GDNs suggested this would likely have to be on an assumption or allocation basis.
- 4.3. Ofgem asked whether all of the networks are facing potential issues in dealing with Tier 1 stubs in RIIO-GD2. There was a mix of responses, with some GDNs noting they felt they had a good view on stubs, while others were continuing to investigate. A stakeholder noted that the GDNs had jointly commissioned a report to look at the risk posed by stubs. Ofgem noted that it is important to define a stub to ensure common understanding. There was an action on the GDNs to agree a definition and share this with Ofgem.
- 4.4. Ofgem questioned whether there was a need to provide space in the BPDT to detail specific projects. A stakeholder noted that they had identified some projects that they consider to have distinct costs. Another stakeholder noted that regional factors would need to be considered for any projects split out separately.
- 4.5. Stakeholders generally preferred the simplified table for capturing dynamic growth that Ofgem presented, although some stakeholders suggested there was potential to simplify it further. A stakeholder agreed to share an example of dynamic growth calculations with Ofgem.
- 4.6. Ofgem asked for the GDNs to clarify how they currently used and recorded CISBOT and other robotic intervention techniques and how best to capture these in the

RIIO-GD2 BPDTs. There was a discussion around whether robotic intervention counts as opex or repex expenditure. One stakeholder noted that they currently consider it to be repex, while another suggested they consider it to be primarily an opex survey. One stakeholder noted that STASS and CISBOT technologies are very different in their application and, therefore, may need to be considered differently within the guidance. Ofgem suggested it would include a separate table to capture robotic interventions in the RIIO-GD2 BPDTs.

5. CBA Feedback (GDNs and Ofgem)

- 5.1. The GDNs provided feedback on the CBA template and guidance documents.
- 5.2. A stakeholder suggested that Ofgem should lock the formula cells in the final version of the template, to avoid accidental changes. Ofgem noted that it would consider this suggestion when finalizing the CBA template.
- 5.3. One stakeholder noted that any interventions carried out in later years of the price control will result in no benefit being generated in the early years of RIIO-GD2, which is not reflective of the actual benefit expected. They sought clarity on the purpose of Ofgem requiring GDNs to phase costs and benefits over the life of GD2, suggesting that this is not relevant to CBA.
- 5.4. One stakeholder sought clarity on the definitions of reactive maintenance vs ongoing maintenance vs emergency, suggesting that they should be clearly distinguished. Another stakeholder suggested that these align with the current RIGs definitions. It was suggested that additional fields could be added for GDNs to input specific asset and intervention specifications. Another stakeholder noted caution on including emergency costs in CBA baselines, suggesting these could inflate the benefit of repair. The group discussed the interaction of Opex maintenance and repair costs with the CBA.

- 5.5. There was a discussion about whether investments should be entered in the year they occur or whether the CBA should just start from the first year of investment.
- 5.6. One stakeholder expressed that the in-tab commentary was detailed and arduous to complete, and suggested that the engineering justification papers alone could be used for commentary. Ofgem noted that this commentary was important, but acknowledged that it could possibly be streamlined to avoid duplication.
- 5.7. Stakeholders requested further clarity on the decision making process through updating of the guidance.
- 5.8. One stakeholder queried whether a full CBA would be required for a mandated and non-rechargeable project driven by a third-party. Ofgem noted that they would take this away for further consideration.
- 5.9. There was a discussion over the baseline scenario and how this would work in practice.
- 5.10. Ofgem asked whether whole systems benefits were expected to be a major driver of any proposed investments within the RIIO-GD2 Business Plans, in light of the updated Business Plan guidance published in May. One GDN noted that the current guidance could be restrictive, since it states that there must be a benefit to consumers within that sector. They considered that there could be instances where there is no benefit to gas consumers, but there is benefit to another sector - e.g. a gas-fired peaking plant.

6. Engineering Justification Paper feedback (GDNs and Ofgem)

- 6.1. There was a discussion around the EJP and the GDNs provided some minor feedback points regarding the guidance document. Stakeholders indicated they were generally comfortable with the EJP guidance document published in March.
- 6.2. One stakeholder noted that RIIO-GD2 is the first instance of GDNs having to produce engineering justification papers, and as such were keen to receive feedback

from Ofgem on whether they were developing these correctly and consistently with other GDNs. Ofgem noted that there would be a CBA/EJP workshop in September for Ofgem to talk through the structure of the EJP and receive feedback from GDNs.

- 6.3. Ofgem also presented some generic, high level feedback points on EJPs, based on an initial review of the July draft Business Plans submissions.
- 6.4. One stakeholder queried which template they should use to justify non-engineering type spend, for example vehicle replacement or property costs. Ofgem noted that they would take this away for consideration.
- 6.5. There was a discussion about unit costs and what evidence the GDNs could provide to support the unit cost estimates presented in their Business Plans. Ofgem asked whether any of the GDNs kept cost books detailing the range of unit costs relating to their business. Stakeholders noted that they did not generally keep information in unit costs in this format.
- 6.6. One stakeholder queried why Ofgem is looking to better understand the unit costs related to asset health works, given that these are benchmarked top down vs bottom up. Ofgem explained that this information will help in understanding the drivers of large unit costs in the absence of a cost book or significant historical comparators. Ofgem noted that it is difficult to assess proposed costs in detail if these costs are based on a simple unit rate.
- 6.7. Ofgem presented the timelines for finalizing the CBA template and guidance and the EJP guidance. Ofgem noted there would be a dedicated CBA & EJP workshop on 6th September, where Ofgem would talk through worked examples of the CBA and EJP with the GDNs. Stakeholders noted this would be helpful.

7. Repex Policy (Ofgem)

- 7.1. Ofgem presented some initial ideas for detailed policy designs for the HSE policy reopener and the diameter band unit cost restriction.
- 7.2. A stakeholder suggested that the HSE policy reopener may need to include a provision to cover stubs.
- 7.3. Stakeholders noted that diameter band is only one driver of completing a repex project and suggested that diameter band alone would not have a significant impact on moving more complex projects into later price control periods. Another stakeholder suggested that any diameter band restriction should have sufficient flexibility that it allows GDNs to avoid having to complete inefficient projects in the final years of the price control.
- 7.4. A stakeholder proposed that an end of period "true up" would be their favoured design for the diameter band restriction, rather than fixed tolerance bands.
- 7.5. Ofgem noted all of the stakeholder comments and said it would take them into consideration when finalising the design of the diameter band restriction.

8. Next steps and future engagements (Ofgem)

- 8.1. Ofgem reviewed the actions from the meeting and noted that it would share these with the group by email.
- 8.2. Ofgem noted there would be a workshop focusing on CBAs and EJPs on 6th Sept and that further communications about this would follow.
- 8.3. Ofgem noted that it would continue to review the need for further meetings and encouraged stakeholders to let Ofgem know which topics they would like to bring back to any further groups.