Northern Gas Networks Limited
Registered in England & Wales No 5167070
Registered Office
1100 Century Way Colton
Leeds LS15 8TU

Jonathan Brearley
Senior Partner, Networks
9 Millbank
LONDON
SW1P 3GE

4 September 2017

Dear Jonathan,

Open letter on the RIIO-2 Framework

Thank you for the opportunity to comment on your open letter.

We are pleased that Ofgem have chosen to begin focussing on some of the key challenges for RIIO-2 early and provided an opportunity to feed back on the lessons learnt from both the RIIO-GD1 business planning process and the first four years of operating under the RIIO framework.

RIIO represented a significant step forward in the regulatory framework and has facilitated significant improvements in the services delivered for customers and the overall cost at which those services are delivered. The RIIO framework has been a key enabler in us transforming the way in which we deliver our services and build a sustainable business for the long term that will continue to extend the frontier of performance and deliver value for customers.

RIIO-GD1 has provided a challenging framework for the delivery of output targets over the period whilst balancing this with strong incentives to ensure that companies seek to find new and innovative ways to enhance value for customers in terms of improved levels of service at lower cost. NGN places our customers' interests at the heart of our business and now play a more prominent and direct role in shaping the services we deliver.

We believe that the principles of the RIIO framework remain the most appropriate basis for the RIIO-2 price controls. Continuing to evolve the framework by incorporating key learning over the last five years will lead to further enhancements that can deliver further benefits for customers whilst addressing the key energy challenges faced by the UK in transitioning to a low carbon economy.

There are several key elements of the RIIO framework that we believe will deliver these improvements:

- A framework that clearly differentiates between high performing and poorer performing companies. Setting the framework to better reflect markets where stronger financial returns are a reward for relatively better performance must be a guiding principle of the framework.

- Provide clearly defined outputs that are simple, transparent and measure performance in the activities that are most important to customers and reflect changing customer requirements over time. With targets set at levels that represent frontier levels of performance

- A strong incentive framework that focusses on rewarding strong performance against output targets and penalising relatively poor performance.

- Ensuring that financial and/or operational performance within period are sustainable and are not a result of deferring cost or risk into future periods.

- Introduction of mechanisms that address both the uncertainty created by the role of networks in the future energy mix whilst allowing the flexibility to address the changes in expenditure required to facilitate the low carbon networks of the future.

These enhancements, building upon the strong, stable framework that supports the low risk environment necessary to attract the significant levels of investment will allow the continued delivery of the safe and reliable networks demanded by our customers.

We look forward to working with you and your team in the near future to further develop the detail contained within your original letter and this response. If you would like to discuss any of the detail set out here then please do not hesitate in contacting us.

Yours sincerely,

Gareth Mills
Head of RIIO-GD2
Northern Gas Networks

Please find our detailed responses to the questions outlined in the Open letter below.

Question 1: Do you agree with our overarching objective for RIIO-2 and how we propose to achieve it?

The overarching objective set out within the open letter are based upon the core principles of the RIIO framework that we believe have proven to be effective in delivering benefits for customers over the RIIO-GD1 period.

RIIO-GD1 has provided a challenging framework for the delivery of output targets over the period whilst balancing this with strong incentives to ensure that companies seek to find ways to enhance value for customers in terms of improved levels of service at lower cost. NGN has had to work hard to transform key areas of our business including:

- Modernising Terms & Conditions – The first half of RIIO-GD1 has seen us transform our workforce. Over 60% of our people are employed on new, modern terms and conditions.
- Workforce Refresh – A shareholder funded voluntary early retirement programme has allowed us to refresh a significant percentage of our workforce to ensure we have the skills and job profiles for the future. More than 50% of our workforce are now under 40 – the comparable figure in 2013 was over 50 years of age.
- Contracting Models – Our model of using small, locally run engineering firms to deliver our iron mains replacement programme is now fully embedded, with new contracts awarded up to the end of RIIO-GD1. 2016 also saw the outsourcing of our whole Network Maintenance activity – another first for UK GDNs – helping unlock further efficiency potential. 2016/17 also saw us extend this contracting principle of using small, agile service providers to some of our corporate activities, in particular information services and technology – again creating further efficiency and service improvements.
- Technology & Innovation – Growing a culture of innovation and change within NGN that encourages challenge to traditional working practices and identification ownership of delivering new solutions has been key to developing and implementing change. Adoption of Technology has a key role in facilitating significant change both in operational and engineering disciplines but also increasingly in facilitating new back office processes and ways of working.

We believe that the RIIO principles represented a significant step forward in the regulatory framework. It has contributed directly to the delivery of higher levels safety, reliability, customer service across all customers along with improved environmental performance – all at lower cost to the customer when compared to previous regulatory periods.

NGN places our customers' interests at the heart of our business. Customers and the wider stakeholder community now play a more prominent and direct role in shaping the services delivered by network companies. Closer working relationships has led to greater understanding of our changing customer requirements and along with an enhanced culture of innovation and change has led in many areas to significant changes to the way in which we now organise our activities and the services we deliver.

The first half of the RIIO-GD1 period has provided the opportunity to identify how the framework can be adapted over the RIIO-2period. This, we believe, provides a sound basis for evolving the framework to continue to meet the increasing expectations and changing demands of our customers and the challenges of future.

However, the open letter correctly identifies the significant potential for longer term change in the energy industry. This is likely to involve a greater integration across the gas and electricity than we see today and changes to the levels and patterns of supply and demand (seasonally and geographically), types of gas transported (renewable forms of gas) and new uses for the gas network (energy storage, gas as a transport fuel).

RIIO-GD2 business plans will need to set out clearly how we deal with these challenges. Additionally the RIIO-2 framework must be flexible enough to cope with these challenges while still making sure customers enjoy energy choice and service.

One of key aims for RIIO-GD2 is that the framework continues to incentivise ourselves and the wider industry to deliver real output performance improvements and efficiency improvements to benefit both customers and provide suitable reward investors based on company performance.

Question 2. How can we strengthen the consumer voice (primarily end-consumers), in the development of business plans and price control decisions?

The RIIO-1 business planning process and the RIIO-1 period has represented a significant step forward in the role that customers and the wider stakeholder community play in the both the determination of the periodic reviews but also the day to day operation of NGN's business.

Strengthening customer voice to enhance the service experience is core to our Customer Experience strategy. Developed over the period since 2013 and designed to help deliver a more tailored service to our customers, the strategy has allowed us to develop a deep understanding of both who our customers and what they need from our organisation.

The clear focus that the RIIO framework and Ofgem have placed on the role of all stakeholders and customers in the regulatory process has provided a strong stimulus for these improvements over the period. This enhanced level of understanding and the relationships that now exist between NGN and its customers will provide a stronger basis for the development of the RIIO-GD2 business plan than existed in 2011. And as a result a higher quality submission, very clearly linked to customers' requirements.

The RIIO framework should be seen to continue to clearly support the requirements for companies to illustrate how they have engaged with customers in developing business plans, how feedback on customers' requirements has shaped those plans and the level of support that customers provide.

However, our engagement with customers has also highlighted that there are limits to the level of engagement that certain customers and groups believe is appropriate. Whilst we need to continue to strive to understand our customer requirements and ensure that customers are engaged in the process, we must also recognise where it is appropriate to take responsibility for representing customers' interests in the details of the price review process.

Question 3. How should we support network companies in maintaining engagement with consumers throughout the price control period?

The RIIO framework and Ofgem's clear expectations of companies to illustrate how they are engaging with customers and representing their requirements in the service it provides ash been a significant stimulus to improved performance in this area.

This continued strong leadership from Ofgem that places customers and stakeholders at the heart of the RIIO framework will continue to provide an incentive for this focus both during the development of the RIIO-GD2 business plans and beyond.

Incentivising companies both through reputational or financial reward and penalty will have a continued role and should be used as a means by which clear differentiation can be illustrated in the performance of companies. Both in the development of business plans and the day to day operation of the business.

It is also important to ensure that Ofgem are maintaining their own, independent view on stakeholder and customer requirements and feeding these view into the discussions with networks as plans are developed. We believe that Consumer Challenge Panel that was in put in place at RIIO-GD1 was an effective and challenging forum to test the customer focus of business plans. An enhanced role for this panel throughout the process could be an effective way of achieving this objective.

Question 4: Does this structured approach to defining outputs provide the right level of clarity around delivery?

We believe that the Outputs framework has been a key element of the success of the RIIO framework. Providing a critical level of clarity around what each companies' delivery requirements are over the period. Whilst also providing a clear and transparent basis on which Ofgem and customers can measure the performance of companies within the regulatory contract.

Clearly defined output targets that match customer requirements must remain a key element of the framework in RIIO-2.

However, there are a number of key learning points form the first half of RIIO-GD1 that should be considered in evolving the framework;

- Additional rigour and clarity in defining each output at the time of agreeing the regulatory contract. This would help avoid any differences in interpretation once within the regulatory period.

- Provide clarity on the intended purpose of Primary and Secondary outputs should be maintained. It is not clear that in practice there is any difference in the interpretation of the different categories of outputs.
- Whether, in certain areas, a focus on Outcomes rather than very detailed Outputs might more clearly describe and measure customer requirements and hence provide more appropriate incentives for customers.

Ensuring that any identified Output or Outcome specified within the regulatory contract is clearly linked to the stated requirements of customers must be a key principle that underpins the development of the outputs framework in RIIO-2.

Question 5: How can the outputs framework be improved, including the introduction of additional output categories for example around efficient system operation for distribution network companies?

The outputs framework needs to ensure that it continues to clearly measure and incentivise those services and the levels of service stated by customers. As identified above, experience to date in RIIO-GD1 has highlighted several areas of principle that need to be considered that could improve the framework for Ofgem, customers and network companies.

It should be expected that the outputs framework, including the output categories and individual Outputs or Outcomes will need to change over in time in response to customer requirements and the changing nature of the wider energy market. Effective engagement with our stakeholders in the development of the RIIO-2 business plans

For example, the current Customer Services output measures have proved to be very effective in delivering significant improvements in customer service over the period with NGN delivering customer scores in excess of 9 out of 10. We believe there is opportunity to continue evolve these measures to include a wider demographic and service areas that can provide further stretch to the targets in this area.

Additionally, the RIIO-2 period represents an important stepping stone towards the low carbon energy future required by 2050. As such it will be a period of significant market and policy development with this objective in clear focus. It would be appropriate to consider developing outputs that encompass the role that gas distribution networks will play in what will be a multi-vector solution to this challenge. Outputs that consider and incentivise a ‘whole system approach’ to enduring network solutions has potential for significant financial benefits for customers.   Exploiting the significant economies of scale and scope associated with the volume of energy transported by the gas networks in investment decisions that consider not only the potential impact upon gas transmission but also electricity distribution and transmission.

Finally, whilst one of the key benefits of the Outputs framework is the ability to compare performance across networks. It should also be recognised that there are genuine differences customer requirements and delivery requirements. The framework must maintain the flexibility to accommodate these regional differences.

Question 6: Did the outputs target the right behaviours?

The output categories and individual outputs were developed with significant input from customers and stakeholders during the development of company business plans and the industry outputs working groups. These were further refined and via the evaluation and benchmarking carried out by Ofgem through the regulatory process. It is clear that the outputs framework accurately targeted those areas that were of greatest value/importance to customers.

The output targets have provided a significant challenge for over the period. Clearly defined requirements and targets set out by the Outputs has required companies NGN has in many cases needed to innovate and identify new solutions and working practices to meet these challenges over the period.

Performance against the key outputs over the RIIO-GD1 period to date has shown that NGN's network:

- Is more reliable;
- Is safer;
- Has increased levels of customer service;
- Has less environmental impact ; and
- Is lower cost

This performance maps onto the priority areas that our customers highlighted through engagement during the RIIO-GD1 business plan development.

The wider framework incentivises companies to exceed the targets set out within the regulatory contract where it is clear that this is in the customers' interest. We remain fully focussed on, as a minimum, meeting the requirements as set out in the 'RIIO-GD1 Regulatory Contract'. However, where it is clearly supported by our customers and efficient to do so – we will always look to go above and beyond those minimum requirements and deliver the best possible service for our customers.

We are therefore strongly of the view that the outputs framework and the strong incentive properties at the heart of the regulatory framework are targeting the right behaviours and creating significant value for customers. These are core principles which must be maintained in RIIO-GD2.

Question 7: How can we address areas of expenditure for which a clear output is difficult to define?

It would be incorrect to assume that in any industry /company it is possible to identify a causal relationship between individual items of cost and individual or groups of outputs. Certain elements of companies costs e.g. Support Costs that will be shared across activities and outputs.

There is benefit from a transparency and comparability point of view from attempting to map each item of cost directly onto a specified output. However, it should also be recognised that one of the key benefits of a move to a Totex based framework was the removal of rigid, artificial categorisation of costs that incentivised behaviours that could be considered to not be in the customers' interests.

The introduction of Totex principles has been effective in allowing individual companies to implement innovative and efficient solutions to the delivery of outputs. This has created greater opportunity for differences in the allocation of costs to outputs across companies and added complexity of benchmarking costs at a disaggregated level more difficult.

However, the benefits of the Totex framework, outweigh these added complexities. The allocation of costs to outputs must therefore be considered on a company specific basis and greater weight be placed on benchmarking of costs at a Totex level.

Question 8: Were the output targets and associated financial incentives set for RIIO-1 appropriate, reflecting what consumers value and are willing to pay for?

As outlined above, the output categories and individual outputs were developed with significant input from customers and stakeholders during the development of company business plans and the industry outputs working groups. These were further refined and via the evaluation and benchmarking carried out by Ofgem through the regulatory process. It is clear that the outputs framework accurately targeted those areas that were of greatest value/importance to customers.

Customer research carried out by NGN during RIIO-GD1 highlighted very clearly the key issues that customers valued from their gas supply. They required a service that was:

- Safe;
- Reliable;
- Has great customer service;
- Represented good value for money; and
- Seeks to minimise its impact upon the environment

The output categories and individual targets and the financial incentives package that were set out within the regulatory contract were very clearly aligned to these requirements and allow a clear demonstration of how they are being achieved or not.

Strong performance against output targets should be considered as a positive result of the strong incentive framework that is at the core of the RIIO framework. In many cases the financial incentives are funding the investment required to deliver the performance improvements. Strong performance in RIIO-GD1 creates an opportunity to fully capture the value for customers and embed fully in tighter targets and create challenges for companies to respond to and identify new opportunities to increase levels of service further.

RIIO-GD2 will see output targets and any associated financial incentives continue to become more challenging. Ensuring that the output categories, outputs definition and associated targets must continue to be a key element of a well justified business plan submission from networks.

Question 9. What changes in the RIIO framework would facilitate returns that are demonstrably good value for consumers?

It is prudent to always seek for and consider improvements to the framework that can deliver benefits for customers. However, we do not believe that there are any fundamental changes required to the RIIO framework. The framework has all the necessary tools to enable Ofgem to achieve the right balance of risk between shareholders and customers which is then reflected in the returns allowed in the network price controls. This is underpinned by an appeal mechanism to the CMA should any party believe this balance is significantly incorrect.

The RIIO-GD1 period has seen an increase in the levels of service provided to customers at the same time as a reduction in total costs (in real terms) when compared to the previous price control period. This represents a real improvement in the value proposition for customers over the period.

However, learning from the application of the RIIO framework during GD1 would indicate that a greater focus on differentiation between good and poor performance from companies would improve the legitimacy of the framework and provide greater value for customers. Both in terms of the quality of business plans and performance during the period. Achieving this clear differentiation should be a key focus during RIIO-2.

Question 10. How can we minimise the scope for forecasting errors?

By definition an ex-ante price control is based on forecasts of the future. However, within this structure there are a range of tools available to Ofgem which can be applied to different elements of the control, each with a different degree of reliance on forecasts:

- It is possible to eliminate forecasting error through use of pass through of actual costs but this is not always in the customers' interest as it significantly reduces the incentive to minimise those costs.
- Indexation to adjust elements within the price control period is another tool that can be applied. However, this relies on identifying an accurate index which in many cases is not possible.

In both of these example risk is primarily borne by customers not the company therefore application needs to be carefully considered on an individual basis to determine whether this is the customers best interest.

We believe that the efficient application of benchmarking to company forecasts combined with the application of the Information Quality Incentive (IQI) mechanism are effective tools to minimise forecasting errors. We would strongly advocate the retention of this form of incentive within the RIIO-2 framework as it contains very strong properties to both minimise the scope for errors but more importantly self-correct during the period to ensure value is returned to customers in a fair and timely fashion. The sharing between customers and the company of any overspends or underspends through the calibration in the IQI is an appropriate way of dealing with the consequences of these errors.

Question 11. What constitutes a fair return for a regulated monopoly network company, and how can we ensure that returns remain legitimate in the eyes of stakeholders?

A guiding principle of RIIO that was clearly set out by Ofgem during GD1 and set out clearly in the RIIO-GD1 Final Proposals documentation, was that the median GDN should have the potential to earn double digit RORE returns.

This principle has proved to be a very strong incentive for securing shareholder funding for initiatives to deliver improvements in performance during RIIO-GD1 and will enable Ofgem to return significant value to customers at GD2. The stability and consistency of this principle within the framework will be key in ensuring this continued support.

Capping or restricting returns has the potential to be counterproductive in the longer term and increase the cost to customers through significantly reducing the efficiency incentives on companies. However, we continue to believe that price controls should be calibrated such that only the best performing companies can earn this level of return and be a clear reward for exceptional performance over the period.

It is incumbent on companies along with Ofgem to demonstrate the legitimacy of the returns through delivering performance which merits the returns achieved. Performance must take the form of delivering a safer and more reliable network, meeting and exceeding customer service expectations and importantly delivering continuous and sustainable efficiency improvements.

Question 12: What factors do you think are relevant for assessing and setting the cost of capital so it properly reflects the risks faced by companies?

In discussing the appropriate cost of capital for regulated network companies it is important to recognise that it is only one of a large number of interdependent parameters that will form part of the overall appropriate financial package set by Ofgem. As such care must be taken in considering the cost of capital and its own separate parameters in isolation.

The primary focus for Ofgem must continue to be to ensure that the companies can adequately finance their activities and attract and reward the necessary investment in the short and longer term. The UK regulatory regime has gained a strong international reputation for consistency and certainty which is already lowering costs to consumers. However, issues such as Brexit, longer term energy policy and the potential for reduced regulatory certainty in RIIO-2 will test the ability of the framework to meet this requirement.

As such, the framework should seek to avoid overly-mechanistic approaches to the determination of the appropriate cost of capital. Any decision on the cost of equity or the cost of debt cannot be considered independently, but must be determined in the context of their interplay with each other and the financeability constraints.

We welcome Ofgem's and UKRN's decision to commission a study by expert academics and consultants, which should inform and help to understand the implications of the current market environment for the cost of capital regulatory decisions. At the same time we are concerned that a foregone conclusion, pointing to a "significantly lower cost of capital for regulated network companies than that set for the RIIO-1 price controls", may inadvertently influence the outcome of this study and act as a disincentive to strategic investment decisions.

There is a popular view that recent evidence of unprecedentedly low risk-free rates coupled with bewilderingly high Market-to-Asset ratios (MARs) seemingly suggests an imbalance between returns the market requires and the cost of capital RIIO-1 settlements offer. However, we would argue that high MARs may not necessarily signal that the cost of capital, allowed in RIIO-1, is too high. Premia that investors are prepared to pay depend on investors' expectations of the overall future operating performance of a company and costs of financing. The latter is a function of a number of parameters within the regulatory contract. A large part of the valuation premium could therefore be explained by the bidders' optimism bias rather than poorly calibrated WACC parameters.

The complex inter-relationship between single elements of the cost of capital calculation and the overall financeability of a company can be expressed by examining the impact of the indexation of the cost of debt introduced at RIIO-GD1.

Indexation can serve as a very effective mechanism of regulatory risk mitigation. However, it is not a universal panacea, destined to benefit both companies and consumers. The choice of the underlying index particulars is crucial. Cost of debt indexation, used by Ofgem in RIIO-1, has indeed passed through tangible benefits from falling interest rates to consumers. However, it has created a sizeable and still increasing gap between regulatory allowances and costs of actual debt, part of which was efficiently raised in the 2000s, when interest rates were materially higher. At present this debt allowance deficit is only partly offset by a fixed allowed Risk-free Rate with regard to the cost of equity. Thus a debate on the efficient length of the cost of debt index is valid only when a company's actual debt age profile and embedded (legacy) debt costs form an integral part of it.

Therefore, we believe that provided the overall approach to cost of debt indexing stands for RIIO-2, the length of the index should tend to mimic the regulated company average asset life length, but be no shorter than 15 years. Any shorter length of index will increase risk disproportionally more than it can potentially bring benefits, both for consumers and the companies. At the very least it will cause artificial market surges translating into increased volatility and reduced predictability of network charges.

We believe that the shorter the historic period the cost of debt index covers, the more weight should be given to efficiently incurred embedded debt, the costs of which have to be compensated in one way or another. Ofwat in its PR19 Consultation proposes in this regard to index the cost of new debt "to an efficient benchmark, with fixed allowances for embedded debt".

Another important interplay to bear in mind is the relationship between the cost of debt and the cost of equity. Falling allowed cost of debt with actual debt costs staying almost flat has a knock-on effect on cost of equity, which will have to "work harder" to bridge the increasing gap between the "prevailing market evidence" and the actual historic legacy, which any gas distribution network is endowed with. Moreover, leaving embedded debt aside, if the balance within a network company's debt portfolio were to shift towards shorter term new debt products, cost of equity would also go up, negating any potential savings. This rising cost of equity assumption is particularly attributable to a company that commits itself to especially tough cost efficiencies.

A reduction in the allowed cost of capital would reduce GDNs revenues and, accordingly, cash flows from their operations. This would reduce the capacity of GDNs to support debt, leading to either de-gearing (which may not be at all possible without equity injections) or downgrading of their credit ratings. The former, even provided that shareholders are capable and willing to inject additional equity, could lead to lost opportunities to harness low interest rates for the ultimate benefit of consumers. The latter could lead to increased interest costs for GDNs and ultimately to consumers.

Thus, the decisions on any element of the cost of capital must be viewed through the prism of GDN financeability and the wider financial package that forms part of the regulatory settlement.

Question 13. Can we improve our methods for the indexation of the costs of debt and equity?

Cost of Debt

In our view the use of an indexed, variable cost of debt index reduces risks for both the network companies and consumers more effectively than a fixed allowance. Nevertheless, the precise methodology used in RIIO-GD1 is subject to a number of shortcomings / limitations, including but not restricted to the following:

- The allowance should cover the cost of efficiently incurred embedded debt. The use of a 10-year trailing average means that the cost of long-dated bonds issued when yields were materially higher than today will cease to be fully funded by the allowance at some point in RIIO-1 or early in RIIO-2;
- The use of an average based on daily observations introduces inherent timing risk, particularly in the case of network companies who are infrequent issuers of new debt could lead to significantly under-funded or over-funded by the allowance;
- The iBoxx indices are reflective only of bond yields in secondary markets and fail to provide an allowance for other financing costs such as issuance fees, new issue premia, commitment fees on bank facilities etc. Whilst Ofgem has previously cited the "halo effect" as justification for this stance it does not necessarily follow that this effect will persist, particularly if lower returns for network companies are envisaged for RIIO-2;
- The average time to maturity of the bonds in the iBoxx indices is c24 years in the case of the A bonds and c19 years in the case of the BBB bonds. Fundamentally a network company should seek to fund what are long-life assets with long-dated debt but debt issued with a maturity longer than the bonds in the 10-years+ indices is likely to be issued at a yield higher than the index average (assuming a "normal" yield curve). This could drive network companies to issue shorter-dated debt than their natural appetite in order to avoid under-recovery of costs;
- There is an inflation mismatch in the operation of the allowance. Depending on whether actual inflation tracks higher or lower than market expectations this will work to the detriment of either the network companies or customers in any given year.

Cost of Equity

Determining the appropriate cost of equity is another example of the interdependency of different elements of the finance package, where if any one element is neglected, the others will not work as intended and may ultimately harm consumers.

Under the CAPM model the cost of equity depends on the risk-free rate (RFR), the equity risk premium (the difference between the market return and the RFR) and the value of beta. In the UK present-day reality, it could be possible to link the former two elements to an index. However, one needs to be mindful that whilst this approach may look attractive, rigorous sensitivity and impact assessment analysis, may reveal hitherto unforeseen complexities and limitations.

The recently published Citizens Advice Bureau report on network returns recommends indexation of the easily observable risk-free rate. In our view, this approach has a number of potential issues:

- indexation places the burden of risk on consumers for movements in the risk free rate. There is a strong possibility that rising government bonds yields will lead to higher customer bills in RIIO-2 if this element network revenues were directly linked to market rates.
- it is a generally accepted that long-dated index-linked gilt yields are the most suitable basis for estimating the RFR applicable to the cost of equity. It is also the case that long-dated index-linked gilt yields have been affected by distortions and that these need to be corrected in estimating the long run RFR applicable to the cost of equity. As there is no mechanistic way of adjusting the index for these distortions selecting a precise value for the RFR requires a certain amount of judgement in data interpretation.
- In a recent academic study on Cost of Capital for Regulated Companies, commissioned by Ofgem, Stephen Wright and Andrew Smithers concluded that the evidence base for an assumption that the equity market return moves up and down with the risk-free rate is not strong. Stating that “the…market risk premium and the risk-free rate must move in opposite directions: i.e., must be perfectly negatively correlated” and disagree with the Competition Commission’s approach “of giving more weight to contemporary market evidence in assessing the market cost of equity”.

Alongside these issues, it should be recognised that an indexing approach to estimation of the cost of equity would introduce a new systematic risk to the framework, as the allowed returns would vary in line with the equity market fluctuations. This would increase beta, and therefore imply a higher cost of capital.

All of these factors illustrate the complex nature of the relationships key financial criteria and cannot be considered in isolation. Any changes to the framework that increases systematic risk and hence cost of financing activities places an unnecessary burden on customers through increased bills and has the potential to undermine the stability of the framework and the necessary investor support for the continued investment in the networks.

Question 14. Are there specific amendments to any core aspects of financeability that we should be considering in light of performance during RIIO-1 and the change in the financial environment?

The principle of supporting/safeguarding the ability of network companies to secure financing in a timely way and at a reasonable cost in order to facilitate the delivery of their regulatory obligations should be maintained. It is not in the interests of consumers for network companies' financing costs to increase due to credit rating downgrades or other symptoms of financial instability. Engagement of the rating agencies to understand their imperatives is obviously crucial.

Network companies should be allowed to manage their financial structures to be consistent with at least "comfortable" investment grade ratings (in the Baa1/BBB+ to A3/A- range).

The concept of basing financeability analysis on a notional company that meets expectations in terms of costs, outputs, gearing etc. is reasonable. In our view, merely achieving the minimum investment grade credit rating (Baa3/BBB-) in the notional analysis should not be deemed sufficient to meet the financeability test. Having little or no headroom (in terms of notches against the minimum) could, in practice, lead to difficulties in securing efficient funding with potential knock-on effects for network investment.

Networks need to retain financial resilience to effectively manage cost shocks as has been the case in the past e.g. major changes in gas sources and demands. The increase in distributed gas engine power generators for example.

Question 15. Should we consider moving to CPIH (or another inflation index) and how should we put into effect any change to ensure it is present value neutral for investors?

We believe there is always merit in considering a move to any index, which can better mitigate the risk of uncertainty of economic forecasts. However, it is no less important to assess implications on all relevant parties, including risks to the business and the consumer, as no measure of inflation is perfect or can definitively better serve customers' and/or investors' interests. Ofwat's intention to move to CPIH or some evidence that CPI has usually been lower than the RPI should not be regarded as sufficient arguments for discounting the usage of the RPI in RIIO-2.

Since the launch of the Consumer Prices Index (CPI) in 1996, there has been an ongoing discussion on the differences and applicability of different measures of inflation, such as RPI, CPI, CPIH or RPIJ. In its letter as of 31st of July 2017 the UK Statistics Authority confirmed the re-designation of CPIH as a National Statistic. At the same time it specifically underlined that "In coming to our decision about National Statistics designation, we do not have a view about whether CPIH should be presented as a headline or preferred measure of inflation. Our judgement is simply about whether CPIH, as one possible measure of inflation, complies in full with the Code of Practice for Official Statistics".

Therefore, the CPI (or CPIH) in not necessarily "the best" or more accurate measure of inflation compared to other measures, including the RPI. In the wake of Brexit its international comparability may not be as relevant as it used to be. The UKSA in this regard submits that "Given the profile and relative infancy of CPIH, some users we spoke to expect to further monitor CPIH themselves before deciding whether and when to use the measure".

It is difficult to overestimate the importance and influence a measure of inflation used in regulated utilities' price controls has on both customers and investors.

The main rationale for the ongoing deliberation about switching to CPI(H) in Price Controls appears to be a simplistic view that RPI tends to overstate inflation and hence if network companies' revenues were indexed to CPI(H) energy bills would better reflect the actual inflation rate faced by customers across other goods and services.

However, rather limited historic evidence, showing that CPI has tended to be lower than RPI is not in itself a sufficient proof of CPI being more beneficial to customers or otherwise more appropriate for using in network regulation. For example, during the 2008 financial crisis CPI swung by almost 6% versus RPI, staying higher than RPI by 3.5% over almost 2 years.

From the investors' point of view, any systemic change from original arrangements of RPI indexation, which existed at the time of privatisation and networks sales, needs to be present value neutral. Otherwise, it will be seen as undermining investors' confidence in the stability and predictability of the UK regulatory regime and discourage further investments.

Present value neutrality can only be achieved if the change in Revenue is accompanied by the congruent change in costs. With this in mind, a relationship between the measure of inflation used in RIIO-2 and Real Price Effects (RPEs) calculation methodology should be carefully considered.

Currently RPEs are based on forecast differences between the RPI and input price inflation, which were calculated based on analysis of historical trends of relevant price indices relative to the RPI. RPI series started in 1947, so it was possible to examine correlations of specific price indices to RPI over 4 full economic cycles since 1970s.

The CPI has a much shorter history than the RPI. The official CPI series started in January 1996 and the official series for CPIH started only in 2005. Such a short history of both CPI and CPIH naturally limits statistical accuracy of the RPEs estimation for RIIO-2. Thus switching to CPI or CPIH involves an inevitable risk of setting incorrect RPEs for network companies, informed by a less rigorous academic and industry analysis.

Separately to RPEs, finance-specific matters need to be taken into account. The RPI is still widely used in financial markets, ranging from index-linked gilts and inflation coupon bonds to contract covenants in bank loan agreements. A significant proportion of the embedded debt is linked to the RPI. These arrangements do not depend on regulatory decisions, so if any different to RPI inflation measure were to be used in indexing the regulated allowances, this would mean an inherent divergence between Revenues and Costs. Present value neutrality in this scenario will be difficult to achieve and financeability concerns will be exacerbated.

In order to reduce risks for all parties it might be beneficial to consider using different indices for different elements of a Price Control. The RPI can continue to be utilised for indexing RAV & Returns, cost specific input indices (e.g. relating to PE pipes and Labour) can be introduced to adjust individual Totex cost elements instead of RPEs and CPIH may be most appropriate to inflate Pension and Tax elements of the allowances.

Therefore, we would err on the side of caution at deciding whether to continue or stop using the RPI or completely move to CPI(H) in RIIO-2 Price Controls. The effects of changing from the RPI to the CPI(H) are complex and deserve separate comprehensive expert research.

Question 16: Do you think there are sufficient benefits in aligning the electricity price controls to off-set the disadvantages we have outlined?

Given the rapidly changing nature of the energy system in the UK and the potential for technological advances and changes in customer behaviour it is appropriate to consider if the current framework which is based upon the vertical separation of activities in the energy supply chain is still appropriate.

We believe that there is a strong case for considering the alignment of electricity transmission and distribution price controls that allow for consideration of the potential for interaction between the two systems that deliver better value solutions for customers in the longer term. This would probably need to take the form of extending the RIIO-T1 price control period to align with the start of ED2.

However, we believe there to be an equally strong case for consideration of aligning the gas and electricity distribution price controls. The potential for future synergies and significant integration between the two distinct distribution network is significant as the coordination of low carbon technologies that span both electricity and gas. This can allow the alignment of any investment programmes in areas of joint interest for the customer but also direct alignment of outputs and associated incentives to deliver system wide solutions.

Question 17: Are there any other realignment options we should consider?

There is increasing evidence that the energy systems of the future are likely to be more complex than this we see today. With greater interaction between energy solutions that no longer recognise the demarcation between the primary source of energy.

We are already seeing changes in the way customers are viewing the use of energy networks that breaks down these traditional barriers as the system adapts to the energy challenges of the future. Growth in gas distribution connected powers stations, gas as a low carbon and clean transport fuel, gas networks a store for energy, the potential for converting the gas network to Hydrogen are all areas that are pointing towards a greater interaction between electricity and gas networks over time.

It is worth considering over what time frame it would be appropriate to bring together the regulatory framework across all four energy systems in the UK to address the potential long term benefit for customers of integrated energy solutions. If this is not appropriate for RIIO-2 it will almost certainly be a requirement for RIIO-3 and the length of the next individual price controls may need to be changed to allow alignment at this point.

As highlighted above, there is a strong case for considering aligning all price controls across the energy sector, a feat which is already achieved in the water sector. The RIIO framework provides a much stronger basis for applying this approach than the previous RPI-X regime. The level of significant information and understanding on the performance of networks provided by the outputs framework within RIIO makes this a clearly more achievable prospect than at any time in the past.

Question 18. What amendments to the RIIO framework, if any, should we consider in supporting companies to make full use of smart alternatives to traditional network investment?

The current RIIO principles and Totex regime are being delivered successfully and NGN suggests no major changes to the framework model. We agree that a Totex approach removes any bias towards Capex solutions when an Opex solution may be the right thing to do for our customers.

The Totex model encourages GDN's to take a long term view of their assets and utilise innovative methods to maximise the whole life value of their existing asset base. During RIIO GD1 NGN has successfully delivered a Totex approach to utilise more cost effective Opex solutions rather than undertake expensive Capital projects. Examples are:

- Below 7 bar reinforcement – we are actively using smart pressure management technology through loggers and control equipment at the governor so that we can increase capacity in the pipe by using pressure rather than undertaking large capital expenditure programmes to install new assets to achieve the same increase in capacity. This solution provides better value and is less invasive and is therefore the right thing to do for our customers.
- LTS reinforcement – we are actively using customer interruption contracts instead of costly LTS reinforcement projects. Since 2013 we have had four interruption contracts which have either avoided or deferred having to do costly capital expenditure reinforcement on the LTS network.

For a Totex approach to be truly successful the RIIO framework needs the same incentives for GDN's to spend either operating or capital expenditure. A continued focus upon Outputs with within the Totex framework we believe will provide the GDN's greater power in deciding the right whole life cost solutions for their networks.

Monetised risk should be used within the Totex framework to drive GDN's to think innovatively around lengthening the life of the assets to minimise replacement costs. However, the RIIO framework needs to recognise that provision of new assets through the capital programme will often reduce more risk on the network than an operational solution such as repair or maintenance would do. Therefore the framework will need to address this imbalance in risk reduction and will need to take into account the commercial gains which can be sought from smart alternatives.

GDNs have to be provided with sufficient flexibility to enable the companies to make the correct investments decisions at the optimum time. The GDN's should not be penalised for choosing the options which provide best value for the customer.

NIC and NIA investment have proved to be a successful incentive for the GDNs to innovate and trial new technology, which ultimately benefits the customers. As smarter alternatives are developed over time, the RIIO framework needs to be flexible enough to ensure the most is made out of these advances in technology, intelligent networks and innovative ways of thinking.

Companies should face continued incentives to developing smart alternatives which may not be identified at the time of submitting their business plans. It is for consideration if these types of smart alternatives should receive different incentivisation to promote their application in delivering long term solutions to traditional investment options.

Question 19. Given the uncertainty around demand for network services, how much of an issue might asset stranding be and how should this risk be dealt with?

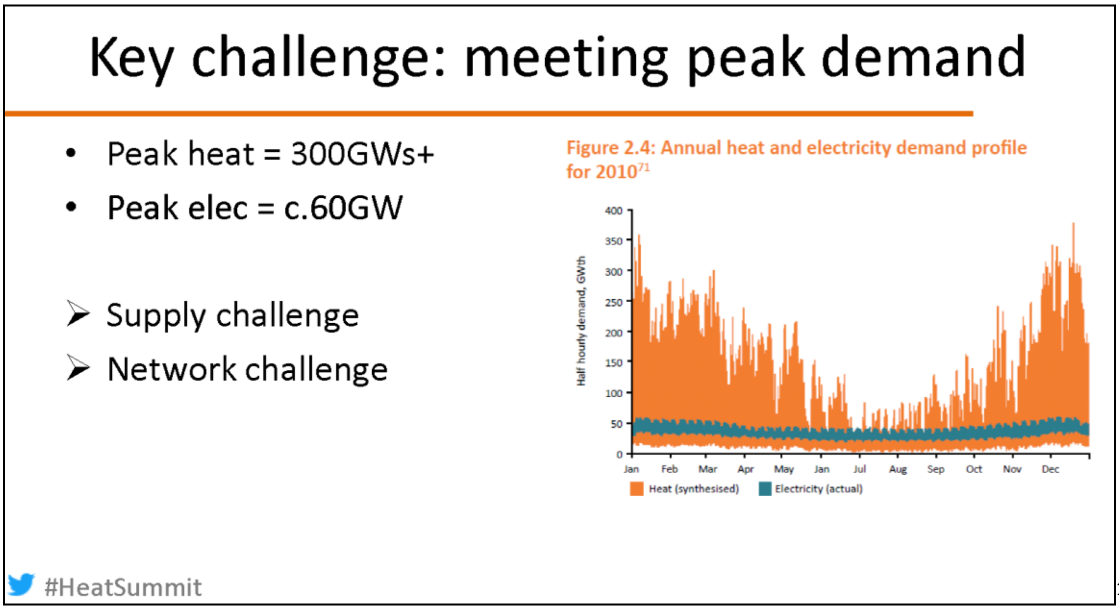
Asset stranding of the gas network is extremely unlikely to be a significant issue in the short to medium term which merits specific treatment or consideration in the RIIO-2 controls.

The UK benefits from an extensive gas network, which delivers over 720TWh of energy to customers and covers 284,000km. It is an extremely valuable asset and a feat of engineering which has helped industry to grow and has provided an affordable way to heat our homes over many decades. Making efficient use of this asset is in the overwhelming interest of customers; is necessary to meet peak heat demand; and will enable us to keep costs low as we move to a low carbon economy.

A stabilisation in levels of gas connections and peak gas demand have not changed and there are few indications that significant existing or new customers are switching to electricity/other sources for heating. As such, asset stranding is likely to be relatively limited on the lower pressure gas distribution network. The role of gas as a transition fuel to a longer term low carbon scenario (which may continue to include a significant element of gas in the energy mix) is leading to increased demand for connections to the gas network from both demand (distribution connected gas fired power stations) and production (biomethane) connections.

Gas is the fuel choice for the vast majority of UK consumers, meeting the heating needs of almost 85% of domestic properties and the cooking needs of around 50% residential and service sector buildings. The cheap and reliable nature of gas for heat has very important implications for energy affordability and fuel poverty. Heating your home by gas is around three times cheaper than using electricity and saves consumers over £400 per annum compared to alternatives. Low carbon solutions which make the most of existing infrastructure and fit consumer behaviour and preferences will reduce cost, as well as minimising disruption to communities and businesses from new developments.

Over 80% of peak energy usage is currently derived from gas. Without gas and the gas grid there is simply not enough energy for the UK to function, or the means to transport that energy to end users during peak periods. With the population set to increase by 22% by 2050, total energy demand will increase significantly.



[1]

Whilst electrification of heat can play a role in some areas but full electrification is not a viable solution to meeting low carbon heat demand. There is simply no viable option to store the vast amount of energy required inter seasonally without gas and the gas networks. There are however viable options to significantly or fully decarbonising the gas network through moving to a full hydrogen system (as we are developing with the H21 project), natural gas and hydrogen blending (as being tested by the Hydeploy project), use of biomethane and synthetic gas or a combination of these various technologies.

The future of the gas grids needs to be considered in the context of the energy system as a whole. Decisions taken on heating, gas, electricity and transport have direct consequences on each other. For example, the move away from diesel generation plant in the electricity capacity auction has seen a glut of enquiries and an increasing number of gas generating plants connecting to the gas network.

Gas continues to be the fuel of choice for domestic customers. Increases in economic activity are seeing returns to growth in annual demand for gas on NGN's network. Gas demand grew by 11.6% in 2016 compared to 2015.

Question 20. How do we need to adapt the RIIO framework, and the uncertainty mechanisms in particular, to deal with this uncertainty?

We agree with the conclusions of Ofgem's Future Insights Report on the Decarbonisation of Heat which in turn supported the conclusion from the recent Climate Change Committee report that the near term steps should focus on active experimentation, not on a wait and see approach.

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[1] Slide presented by Policy Exchange to the 2016 Heat Summit.

During the RIIO2 period we are likely to see live trials of hydrogen being injected into the mainstream gas network either on a blended or 100% basis. Where companies are planning for this we would expect business plans to justify why any related expenditure (with stakeholder support) is in the customers interest. We envisage this would take the form of alternative modules to the core business plan covering a number of steps with appropriate gateways to justifying funding for progression to the next stage.

The framework must continue to incentivise and support exploration of potential future solutions as part of networks ongoing activities. The challenge to decarbonise heat will be a constant feature of the energy landscape and a policy decision on how this should be achieved must be made to facilitate the delivery of this objective. It would be appropriate for RIIO-2 plans to explicitly include contingency plans and/or 'no regrets' preparation for these expected policy decisions.

There is sufficient flexibility in the RIIO toolkit to deal with this type of approach or different types of uncertainties that are likely to occur in the RIIO2 period.

Question 21. Is an eight-year price control period with built-in uncertainty mechanisms still appropriate given the greater range of plausible future scenarios?

NGN's experience of the eight year price control in RIIO-GD1 is that is has provided a significant de-risking to the regulatory framework. Periodic reviews create significant uncertainty for companies and investors. Extending this period by 3 years has had significant positive benefits.

A five year price control which was the norm under the previous framework essentially only provides a 2 year period before preparations for the next review begin. This has several significant disadvantages over a longer duration:

- Increases regulatory risk for shareholders and deters investment in NPV positive projects that do not provide a return in a very short time period.
- Significant change within an organisation or industry will require sufficient time to devise and implement. A five year control may not provide sufficient time to deliver some of the significant change necessary to transform the industry in readiness to deliver a low carbon future.

We continue to support an eight-year price control with built-in uncertainty mechanisms as an appropriate duration. We do not consider the range of plausible scenarios for the future energy system is significantly more diverse than at RIIO-1.

The move to an eight year price control has been a major improvement. Generally this allows the management team to focus on running the business and delivering for customers. Shorter periods can result in more focus on regulatory settlements and remove the focus on customers. For NGN it has allowed us to address some of the more difficult challenges early in the RIIO1 period with sufficient time for the investment we have made to be recovered and the benefits demonstrated. These include:

- Modernising Terms & Conditions – The first half of RIIO-GD1 has seen us transform our workforce. Over [60%] of our people are employed on new, modern terms and conditions.
- Workforce Refresh – A shareholder funded voluntary early retirement programme has allowed us to refresh a significant percentage of our workforce to ensure we have the skills and job profiles for the future. More than 50% of our workforce are now under 40 – the comparable figure in 2013 was over 50 years of age.
- Contracting Models – Our model of using small, locally run engineering firms to deliver our iron mains replacement programme is now fully embedded, with new contracts awarded up to the end of RIIO-GD1. 2016 also saw the outsourcing of our whole Network Maintenance activity – another first for UK GDNs – helping unlock further efficiency potential. The longer period has provided stability for these changes by providing certainty over the work basket over a longer period and helps avoid feast and famine years than have been seen in shorter duration price controls.
- Technology & Innovation – Growing a culture of innovation and change within NGN that encourages challenge to traditional working practices and identification ownership of delivering new solutions has been key to developing and implementing change. Adoption of Technology has a key role in facilitating significant change both in operational and engineering disciplines but also increasingly in facilitating new back office processes and ways of working. 2017 will see NGN deploy the new SAP S4/HANA enterprise resource management product across the business. We will be the first company in the UK to fully implement this solution. The system will eventually allow us real time access to business information and data and we have already been engaging with Ofgem and our customers about providing real time access to information on the financial and operational performance of NGN.

Our belief is that it would not have been possible to secure shareholder support for these initiatives or deliver these improvements in a period of less than 8 years.

Question 22: What improvements should be made to the assessment of business plans?

The learning and experience gained throughout the RIIO-1 process should allow Ofgem to develop clear guidance on the expectations of any submitted business plan and the basis on which they will be evaluated. Publishing early will provide companies with a firm basis on which to develop their plans and illustrate and evidence where it is meeting expectations/requirements. The RIIO-1 process would have benefitted significantly from this up-front view of how business plans were to be assessed and evaluated.

In general, we believe that the assessment of business plans during RIIO-GD1 was robust and largely effective in determining appropriate cost allowances. The ‘Toolkit’ approach that considers a range of analysis that included both Top Down (Totex), Bottom Up (disaggregated analysis) and qualitative assessments, with the use of Upper Quartile benchmarks struck a reasonable balance in determining efficiency and cost allowances.

We would welcome the continued use of this approach in the assessment of business plans during GD2.

However, it is likely that the use of the analysis and interpretation of the results will need to evolve to address the changing nature of companies expenditure profiles. The success of the Totex framework and the use of innovative working practices and technologies has meant that there are now likely to be numerous ways in which companies are delivering solutions e.g. the use of opex/non-asset based solutions to deliver customer outputs or asset health improvements. The framework and the toolkit approach will need to adapt and evolve to be able to deal more effectively with these developments.

Question 23. Should we give further consideration to companies' historic performance against their business plans?

Yes, we welcome Ofgem's determination to maintain the comprehensive toolkit approach adopted in RIIO-1 for assessing efficient costs in the companies' business plans, involving a range of different levels of analysis.

Although it is a common wisdom that history might not always be a valid predictor for the future, it is a solid and objective foundation on which to base analysis in many cases. Thus historical data alongside with business plan forecasts for both costs and workloads should continue to be utilised in both regression and qualitative benchmarking to determine cost baselines for RIIO-2.

As Capex projects are not homogenous, it may be harder to directly inform the future allowances by looking at the history of capital expenditure. However, it should still be beneficial to factor in the high level Capex expenditure and workload observed and smoothed over long periods of time.

Very importantly, Repex historic performance analysis should not be confined to aggregated high level figures. Full quantitative and qualitative consideration of companies' performance in RIIO-1 should be conducted to establish what consequential adjustments will have to be made in RIIO-2 to either reward or penalise them for delivering (or not delivering) outputs they said they would deliver.

With the abolishment of Mains Replacement Incentive Mechanism (MRIM) in RIIO-1, which was an effective automatic mechanism of Repex costs adjustment during previous Price Control, perverse incentives may have arisen to fulfil iron main replacement programmes. Delivering the required length of abandonment does not always mean delivering what a GDN has been funded for in terms of a diameter band mix.

At present GDNs are not formally restricted from doing cheaper work than initially planned and allowed for in Business Plans in terms of iron mains diameter band mix, provided that overall length of mains has been decommissioned. We believe that any such practices (if any), which lead to customers paying more in the next Price Control, should be penalised, whereas the opposite "Best practice" approach to delivering the work – should be properly rewarded.

Question 24: Should we determine the revenues an "efficient" network company requires before seeking information from the companies themselves?

The determination of the efficient revenues for network companies would require Ofgem to take a view on all the key building blocks within the regulatory model including:

- Workload (opex, capex and repex)
- Output targets
- Cost Allowances
- Financial Parameters (RAV, Cost of Capital, Depreciation)
- Financeability requirements

Given these requirements it is not clear how Ofgem could take a view on many of these parameters without having first engaged with customers and stakeholders and understanding how reflect their requirements within the regulatory contract in the business plan. This proposal would seem to be directly at odds with the core principles of RIIO and the stated objective in the open letter to increase the involvement of customers and stakeholders in the development of the business plan.

Determining efficient revenues for a full network is clearly very different and complex than for a single asset with a comment set of parameters. A large interconnected network will have a complex system of different assets of different histories, specifications, modes of operation and different customer requirements. Deriving a 'desktop' efficient company would require Ofgem to hold a deep knowledge of these energy systems for these efficiency calculations to be meaningful.

However, we believe that there continues to be significant merit in Ofgem updating its own comparative efficiency analysis on an annual basis that will assist all parties in understanding of costs and provide a starting position for discussion of efficient costs submitted within company business plans.

Question 25. What has an eight-year price control period allowed network companies to accomplish or plan for that would not have occurred under a shorter price control period?

Operating a gas network is a long term commitment with long term decisions affecting assets which often have asset lives in excess of 50 years. Longer price controls inherently support longer term planning for sustainable solutions and generate greater incentives for efficiency.

In terms of efficiencies, longer control periods support more investment as efficiencies can be retained for a longer period of time. It's important to remember that the customer also benefits from efficiency through the exiting Totex Incentive sharing mechanism, receiving 36% of any outperformance.

In RIIO-GD1 NGN has been able to fund a considerable investment in refreshing our workforce which may not have been possible or would have been less effective if the benefits were not shared over an 8 year control. We have also invested c£10min our Pressure Management and Control programme which has had material benefits in terms of reducing reinforcement costs and environmental impacts from Shrinkage and Leakage. Having 8 year cost allowances and an 8 year incentive regime supported this investment.

The price control process can create a regulatory cycle involving swings in the volume of capital expenditure, which is exacerbated with shorter controls. This doesn't support long term planning. Moving to an 8 year control, and Ofgem's focus on the longer term 'health' of our assets in RIIO has helped us focus on the longer term and changed the context in which we make some of our decisions, in particular regarding our high pressure assets and the offtakes we have from the National Transmission System (NTS). It allows to take a more holistic view of the network and how it interacts with customers, the NTS, new biomethane connections, and the future of gas.

More frequent price reviews impose a greater administrative burden on both the companies and the regulator. They also divert management and investor attention from delivering operational improvements.

Question 26. How well has the IQI and efficiency incentive worked in revealing efficient costs through the business plan process and encouraging efficiency throughout the price control period?

We believe that the approach of incentivising companies to reveal efficient costs has significant potential to drive the correct behaviours from companies in developing business plans. However, the application of the incentive is critical in ensuring its effectiveness. With no information on the strength of the incentive or how it will be applied presents companies with a risk of 'double jeopardy'. It is not clear that evidence of this type of risk will drive the correct behaviours.

For the IQI and efficiency incentive to provide an effective incentive, the methodology and constraints must be both published early enough to impact the network operators plan development, and provide a clear and strong enough incentive to drive behaviours.

In RIIO-GD1 the IQI matrix was published too late in the process to have a direct impact, and ultimately the networks received very similar outcomes, which is not reflective of how the networks are performing in RIIO-GD1. The incentive differential should be strong enough to properly incentivise the submission of efficient costs.

However, the concept of within period sharing factors of achieved efficiency has been significant in retuning value to customers on a timely basis. This has clearly driven s strong value proposition for customer over the RIIO-1 period.

Question 27. What alternative approaches could we consider to encourage companies to give us high quality information that minimises the damage from their information advantage?

As noted above the existing framework could work better if the targets and incentives are known up front, and the incentive differential is strong enough to drive efficient cost submissions. In addition the incentive should not just be cost related but should also be related to output or workload delivery where these can materially impact costs. This could also be reflected more in the final allowances which where appropriate could be volume related, as per the current Repex Tier 2A allowance. Unit costs should be used more often and justified and be set in context of performance in RIIO-GD1.

Question 28. What impact has the innovation stimulus had on driving innovation and changing the innovation culture?

The Network innovation Allowance and Network Innovation Competition have both been successful in delivering an increased stimulus for innovation within GDN's and the wider gas industry. The availability of an allowance specifically aligned to innovative projects has helped to make significant impact and enable a change in the culture of organisations and people that work in the industry.

Essential key areas of impact of both NIA and NIC funding mechanisms are:

- An increase in research and development projects in the gas industry, whereas typically innovation would be seen as demonstration projects more aligned to higher technology readiness level areas where there is less perceived risk of failure.
- An increase in the technology based solutions that are now available to undertake network tasks and the changing approach to delivery that this enables.
- The appetite for Network Licensees to innovate through active engagement with both internal and external stakeholders, specifically to explore areas that are diverse and where diversification across industries to deliver benefits is possible.
- The increase in collaborative working in many different guises, including joint project management, in-depth cost and benefit analysis to ensure justification of investment and value for money, collaborative forum attendance and open sharing and knowledge dissemination to ensure that the funding allocated through NIA and NIC are transferable and can be of benefit to the wider UK gas industry.

This innovation stimulus has proven to be effective in delivering significant advancements in the issues and technologies surrounding the decarbonisation of gas and heat across the industry. The stimulus has also provided for some significant secondary benefits which address issues of sustainability across the industry including building engineering capability across the industry and beyond whilst also increasing the appeal of the energy industry as a career choice.

Question 29. Have the incentives inherent in the RIIO model encouraged network companies to be more innovative and what should we consider further?

Yes we believe the eight year price control combined with the range of incentives in the GD1 price control has encouraged companies to be more innovative. Our response to question 21 highlights some significant examples of this within NGN.

We have fully adopted the Totex approach and can provide examples of where operating cost solutions have been favoured over capital investment (e.g. in relation to offtake metering and major IT infrastructure). We strongly support retention of a Totex approach and incentive going forward.

A basket of incentives targeting those areas of importance to customers and stakeholders should be retained. The precise design and calibration needs to reflect the relative importance and value to customers of any over or underperformance.

Question 30. Do you agree that the scope of competition should be expanded in RIIO-2? What further role can competition play?

Competition already exists in many different forms across the industry and delivers significant benefits for customers. Aggressive competitive tendering of projects and programmes of work is already widespread across the industry. Along with competitive outsourcing of activities to specialist service providers that are better placed to deliver higher quality, lower cost services than network companies.

We have been successful in introducing new and innovative arrangements for the delivery of key services over the RIIO-GD1 period. These have included the outsourcing of our Network Maintenance activities and the development and introduction of our Direct Service Provider (DSP) model for the delivery of mains replacement work. Both of these initiatives have delivered significant improvements in both cost of delivery and service delivery. Competition for new connections within gas distribution is already a well established competitive activity.

We would support the extension of the scope of competition in driving value for customers within the regulatory framework. It is clear that competition for the construction and delivery of large scale, discrete new assets in offshore transmission has been effective in delivering benefits for customers in terms of lower costs.

However, it must be recognised that the very particular circumstances of large scale offshore transmission investments that has helped facilitate the effective introduction of competitor in these areas. These include;

- Projects are large scale and clearly separate from existing network assets
- The regulatory framework has been set up to create a very low risk environment for investors when compared to traditional network investment that are linked to the very specific outputs with large financial incentive and penalty mechanisms.

It is not yet clear that the customer benefits seen in this arena can be delivered if these very particular circumstances cannot be recreated. Value for customers is measured in both cost but also levels of service – again for small scale, interconnected assets that require significant customer and stakeholder interaction both in design, planning and delivery it is not clear that the OFTO based regime could have the same impact.

Question 31. Which elements add the most complexity and how do you think that these and the broader RIIO framework could be simplified?

The submission of the detailed financial and workload tables and the resultant benchmarking models are the most complex and detailed part of the process. Completing the tables requires clear and comprehensive agreement and guidance on what elements should be included in which areas prior to the first submission. In RIIO-GD1 there are clear differences between how the different networks completed the tables over the various submissions, in particular in the Repex area. This will affect the benchmarking and hence the final allowed workload and allowances. The tables should be simplified as much as possible, removing duplication and focusing in only on items that feed directly into any benchmarking.

The benchmarking models themselves are complex by nature, and could become more complex if outputs are brought more directly into the process. Allowing sufficient time to review and check the models, their inputs, processes and outputs would make the process less iterative and complex.

In terms of the broader RIIO framework it is important to focus on those outputs that our stakeholders deem to be the most important, allowing more time to fully develop these and the analysis around them. This would impact the tables and the benchmarking.

Question 32. What improvements could be made to the format and presentation of the business plans?

Whereas we understand the need to have some comparability across business plans to help Ofgem and other users assess the plans we support this being at a relatively high level and perhaps being focused in on certain directly comparable areas, such as revenue forecasts, cost forecasts, and customer bill impacts. We see the business plan as an opportunity for differentiation and to generate new ideas and new ways of working and delivering for our customers. Therefore we do not want it to be overly prescriptive but just to provide clarity on key areas we all should cover in a similar manner.

Question 33. Should the plans be revised at any stage during the price control, for example annually?

The networks already provide an update of their forward looking plans through the annual Regulatory Reporting process at a detailed level, covering both costs, outputs and workload. These forecasts are also covered and explained in the accompanying commentaries. Ofgem could provide increased clarity if this is not deemed detailed enough or consistent across the network operators through the current 'Strategic Performance Overview' trial or the 'front end' of the new RIIO accounts. It would be helpful if these two new requirements were considered together to prevent any duplication.

Question 34. Should we retain fast tracking and if so, for which sectors?

We support fast tracking as a concept, whether or not it provides any direct financial benefits to companies.

There are several aspects of the current framework which we believe could be enhanced to support the use of 'fast-track'. The early publication of an IQI framework which incorporates not only the results of comparative cost benchmarking but also an evaluation of outputs and the quality of the overall business plan we believe could add significantly to the incentives placed and drive meaningful differentiation between companies within the regulatory framework.

Simply knowing the outcome earlier allows companies to respond, plan and act earlier, extending the time benefits can be realised and would be similar in effect to extending the price control period.

Question 35: Do we collect the right information in the right format and are there better ways to monitor the performance of companies?

There is a significant amount of information shared between network companies and Ofgem throughout a regulatory control period. It is clear that this is a fundamental ort of the regulatory process and necessary in providing Ofgem with the data and information required to ensure that companies are delivering the obligations set out within the regulatory contract. We do not view this as being a significant driver of cost or a burden to the delivery of our core services to customers.

We believe that network companies and Ofgem would benefit from more frequent and direct interaction on the key performance metrics set out within the regulatory contract. This can provide the opportunity for more dialogue and provide greater clarity on issues and risks as they arise. It is with this greater level of engagement and understanding that a clear picture of the data and information sharing requirements can evolve.

With this in mind NGN are currently investing in new IT systems (SAP S4 HANA Platform) that will have the core capability to provide real-time access to key operational and financial data through its Digital Operations Room (DOR). We have already been exploring with Ofgem how this capability can be deployed directly to provide greater access to NGN's performance data.

Question 36: What are your views on how the changing role of the electricity SO should be factored into the RIIO framework, including whether or not the electricity SO should have a separate price control?

Not Applicable.

Question 37. Do you agree with our broad stakeholder engagement approach set out above?

Yes. It is important to try and coordinate Ofgem's stakeholder work across the network companies and other stakeholders. The stakeholder requirements that underpin the regulatory to avoid duplication and overload of some stakeholders.

Appendix A: Questions Responses Summary

	Question	Key points
1	Do you agree with our overarching objective for RIIO-2 and how we propose to achieve it?	• We agree with the objective to ensure 'regulated network companies deliver the value for money services consumers want and need'. • Customer interests are now more firmly at the heart of our business, and customers and stakeholders play a prominent and direct role in shaping the services delivered by all network companies.
2	How can we strengthen the consumer voice (primarily end-consumers), in the development of business plans and price control decisions?	• The RIIO-1 business plan development has already led to customers and stakeholders taking a prominent role in the price control process. • This has continued on and improved during RIIO-1 due to the clear focus on all stakeholders inherent in the RIIO framework. This improved relationship provides a strong base for RIIO-2. • We do recognise that there is a limit to the level of engagement some customer groups are able to provide, and see it as our responsibility to represent these customers in the process.
3	How should we support network companies in maintaining engagement with consumers throughout the price control period?	• Ofgem's strong leadership has placed customers and stakeholders at the heart of the RIIO framework, and this itself provides an incentive for continued engagement. • Incentivising companies both through reputational or financial reward and penalty should have a continued role during the plan development and onwards.
4	Does this structured approach to defining outputs provide the right level of clarity around delivery?	• The Outputs framework has been a key element of the success of the RIIO framework, providing clarity around what needs to be delivered and allowing network performance to be measured. • However there needs to be additional rigour and clarity in defining each output at the time of agreeing the final targets, as there have been clear differences in interpretation between Ofgem and the networks during RIIO-1. • Also in certain areas a focus on Outcomes rather than very detailed Outputs might more clearly describe and measure customer requirements and hence provide more appropriate incentives.
5	How can the outputs framework be improved, including the introduction of additional output categories for example around efficient system operation for distribution network companies?	• The outputs framework needs to ensure that it continues to clearly measure and incentivise those services and standards wanted and needed by customers, and reflects the changing nature of the energy market. • The current Customer Services output measures have proved to be very effective in delivering significant improvements in customer service over the period. In RIIO-2 we see an opportunity to evolve these measures to include a wider demographic and service areas. • RIIO-2 represents an important stepping stone towards the low carbon energy future required by 2050. Outputs that consider and incentivise a 'whole system approach' to enduring network solutions has potential for significant financial benefits for customers. This should recognise the economies of scale and scope associated with the volume of energy transported by the gas networks in investment decisions that consider not only the potential impact upon gas transmission but also electricity distribution and transmission.
6	Did the outputs target the right behaviours?	• We are strongly of the view that the outputs framework and the strong financial and reputational incentive properties at the heart of the regulatory framework are targeting the right behaviours and creating significant value for customers. These are core principles which must be maintained in RIIO-GD2. • The output targets have provided a significant challenge in RIIO-1 and we have needed to innovate and identify new solutions and working practices to meet these challenges.
7	How can we address areas of expenditure for which a clear output is difficult to define?	• It is not possible to identify a causal relationship between individual items of cost and individual or groups of outputs in every case. • The allocation of costs to outputs must therefore be considered on a company specific basis and greater weight be placed on benchmarking of costs at a Totex level.
8	Were the output targets	• The output categories and individual outputs were developed with significant

	and associated financial incentives set for RIIO-1 appropriate, reflecting what consumers value and are willing to pay for?	input from customers and stakeholders. • It is clear that the outputs framework accurately targeted those areas that were of greatest value/importance to customers. Our customer research highlighted that customers required a service that was safe, reliable, has great customer service, represented good value for money, and seeks to minimise its impact upon the environment • The financial incentives package that were set out were very clearly aligned to these requirements and allow a clear demonstration of how they are being achieved.
9	What changes in the RIIO framework would facilitate returns that are demonstrably good value for consumers?	• We do not believe that changes to the RIIO framework are required. • The framework has all the necessary tools to enable Ofgem to achieve the right balance of risk between shareholders and customers which is then reflected in the returns allowed in the network price controls. • This is underpinned by an appeal mechanism to the CMA should any party believe this balance is significantly incorrect. • We do believe the framework could be applied more appropriately, and looking at the performance in RIIO-1 would indicate that a greater focus on differentiation between good and poorer performance from companies.
10	How can we minimise the scope for forecasting errors?	• We believe that the efficient application of benchmarking to company forecasts combined with the application of the Information Quality Incentive (IQI) mechanism are effective tools to minimise errors. • The sharing between customers and the company of any overspends or underspends through the calibration in the IQI is an appropriate way of dealing with the consequences of these errors. • Indexation and the use of volume drivers and pass through costs can also be used where appropriate, taking into account these techniques can also reduce efficiency incentives.
11	What constitutes a fair return for a regulated monopoly network company, and how can we ensure that returns remain legitimate in the eyes of stakeholders?	• Ofgem's principle was that the best performing company should have the potential to earn double digit RORE returns. This has proved to be a very strong incentive for improvements in performance during RIIO-1 and will enable Ofgem to return significant value to customers in RIIO-2. • Capping or restricting returns has the potential to be counter-productive in the longer term and increase the cost to customers through reducing the efficiency incentives on companies. • However price controls should be calibrated so that only the best performing companies can earn this level of return and be a clear reward for exceptional performance over the period.
12	What factors do you think are relevant for assessing and setting the cost of capital so it properly reflects the risks faced by companies?	• It is important to recognise that the cost of capital is one of a large number of interdependent parameters that form part of the overall financial package, and so can't be considered completely independently. • The primary focus should be to ensure companies can adequately finance their activities and attract and reward investment in the short and long term. Issues such as Brexit, longer term energy policy and regulatory uncertainty will all impact. • As such the framework should seek to avoid overly mechanistic approaches to determining the appropriate cost of capital
13	Can we improve our methods for the indexation of the costs of debt and equity?	• The use of an index for the cost of debt can effectively share risk between companies and consumers but care must be taken to ensure the balance of risk is appropriate • The index itself should reflect any efficiently incurred embedded debt, and account should be taken of other costs such as issuance fees and issue premia, as well as maturities and timing issues as networks are infrequent issuers of debt. Indexing the cost of equity would introduce a new systematic risk to the framework which would imply a higher cost of capital in itself • Identifying an appropriate index could be done for the different elements of the cost of capital i.e. the risk free rate and the equity risk premium. However a full and effective impact assessment on all parties would need to be carried out. • In any case some academics argue these factors move in opposite directions,

		negating the impact of any indexation.
14	Are there specific amendments to any core aspects of financeability that we should be considering in light of performance during RIIO-1 and the change in the financial environment?	• In our view, merely achieving the minimum investment grade credit rating (Baa3/BBB-) in the notional analysis should not be deemed sufficient to meet the financeability test. Having little or no headroom (in terms of notches against the minimum) could, in practice, lead to difficulties in securing efficient funding with potential knock-on effects for network investment.
15	Should we consider moving to CPIH (or another inflation index) and how should we put into effect any change to ensure it is present value neutral for investors?	• There is always merit in considering any index which can better mitigate the risk of uncertainty of economic forecasts. • However, it is no less important to assess implications on all relevant parties, including risks to the business and the consumer, as no measure of inflation is perfect or can definitively better serve customers' and/or investors' interests. • Any change should be present value neutral, otherwise it will be seen as undermining the stability and predictability of UK regulation with knock on impacts on future investment.
16	Do you think there are sufficient benefits in aligning the electricity price controls to off-set the disadvantages we have outlined?	• We believe that there is a strong case for considering the alignment of electricity transmission and distribution price controls that allow for consideration of the potential for interaction between the two systems that deliver better value solutions for customers in the longer term. This would probably need to take the form of extending the RIIO-T1 price control period to align with the start of ED2.
17	Are there any other realignment options we should consider?	• There is increasing evidence that the energy systems of the future are likely to be more complex than this we see today. • Growth in gas distribution connected powers stations, gas as a low carbon and clean transport fuel, gas networks a store for energy, the potential for converting the gas network to Hydrogen are all areas that are pointing towards a greater interaction between electricity and gas networks over time. • It is worth considering over what time frame it would be appropriate to bring together the regulatory framework across all four energy systems in the UK to address the potential long term benefit for customers of integrated energy solutions. • If this is not appropriate for RIIO-2 it will almost certainly be a requirement for RIIO-3 and the length of the next individual price controls may need to be changed to allow alignment at this point.
18	What amendments to the RIIO framework, if any, should we consider in supporting companies to make full use of smart alternatives to traditional network investment?	• The current RIIO principles and Totex regime are being delivered successfully and NGN suggests no major changes to the framework model. • GDNs have to be provided with sufficient flexibility to enable the companies to make the correct investments decisions at the optimum time. The GDN's should not be penalised for choosing the options which provide best value for the customer.
19	Given the uncertainty around demand for network services, how much of an issue might asset stranding be and how should this risk be dealt with?	• Asset stranding of the gas network is extremely unlikely to be a significant issue in the short to medium term which merits specific treatment or consideration in the RIIO-2 controls. • The gas network is an extremely valuable asset. Making efficient use of this asset is in the overwhelming interest of customers; is necessary to meet peak heat demand; and will enable us to keep costs low as we move to a low carbon economy. • The future of the gas grids needs to be considered in the context of the energy system as a whole. Decisions taken on heating, gas, electricity and transport have direct consequences on each other.
20	How do we need to adapt the RIIO framework, and the uncertainty mechanisms in particular, to deal with this uncertainty?	• We agree with the conclusions of Ofgem's Future Insights Report on the Decarbonisation of Heat which in turn supported the conclusion from the recent Climate Change Committee report that the near term steps should focus on active experimentation, not on a wait and see approach. • During the RIIO2 period we are likely to see live trials of hydrogen being injected into the mainstream gas network either on a blended or 100% basis. Where

		companies are planning for this we would expect business plans to justify why any related expenditure (with stakeholder support) is in the customers interest. • There is sufficient flexibility in the RIIO toolkit to deal with this type of approach or different types of uncertainties that are likely to occur in the RIIO2 period.
21	Is an eight-year price control period with built-in uncertainty mechanisms still appropriate given the greater range of plausible future scenarios?	• The move to an eight year price control has allowed the management team to focus on running the business and delivering for customers. Shorter periods can result in more focus on regulatory settlements and remove the focus on customers. • For NGN it has allowed us to address some of the more difficult challenges early in the RIIO1 period with sufficient time for the investment we have made to be recovered and the benefits demonstrated. • Our belief is that it would not have been possible to secure shareholder support for these initiatives or deliver these improvements in a period of less than 8 years.
22	What improvements should be made to the assessment of business plans?	• We believe that the assessment of business plans using the 'Toolkit' approach during RIIO-1 was robust and largely effective in determining appropriate cost allowances. • However, it is likely that it will need to evolve to address the changing nature of companies expenditure profiles. The success of the Totex framework and the use of innovative working practices and technologies has meant that there are now likely to be numerous ways in which companies are delivering solutions e.g. the use of opex/non-asset based solutions to deliver customer outputs or asset health improvements. • The framework and the toolkit approach will need to adapt and evolve to be able to deal more effectively with these developments.
23	Should we give further consideration to companies' historic performance against their business plans?	• Historic performance is a solid and objective foundation to drive analysis in many cases, and should continue to be used together with forecasts in regression and qualitative benchmarking to determine allowances for RIIO-2. • Importantly, Repex historic performance analysis should not be confined to aggregated high level figures. Full consideration of companies' performance in RIIO-1 should be conducted to establish what adjustments will have to be made in RIIO-2 to either reward or penalise them for delivering (or not delivering) outputs they said they would deliver.
24	Should we determine the revenues an "efficient" network company requires before seeking information from the companies themselves?	• The determination of the efficient revenues for network companies would require Ofgem to take a view on all the key building blocks within the regulatory model. • It is not clear how Ofgem could take a view on many of these parameters without engaging with customers and stakeholders • However, we believe that there continues to be significant merit in Ofgem updating its own comparative efficiency analysis on an annual basis.
25	What has an eight-year price control period allowed network companies to accomplish or plan for that would not have occurred under a shorter price control period?	• In terms of efficiencies, longer control periods support more investment as efficiencies can be retained for a longer period of time. It's important to remember that the customer also benefits from efficiency through the exiting Totex Incentive sharing mechanism. • In RIIO-1 NGN has been able to fund a considerable investment in refreshing our workforce which may not have been possible or would have been less effective if the benefits were not shared over an 8 year control. • We have also invested c£10m in our Pressure Management and Control programme which has had material benefits in terms of reducing reinforcement costs and environmental impacts from Shrinkage and Leakage. Having 8 year cost allowances and an 8 year incentive regime supported this investment.
26	How well has the IQI and efficiency incentive worked in revealing efficient costs through the business plan process and encouraging efficiency	• For the IQI and efficiency incentive to provide an effective incentive, the methodology and constraints must be both published early enough to impact the network operators plan development, and provide a clear and strong enough incentive to drive behaviours. • In RIIO-1 the IQI matrix was published too late in the process to have a direct impact, and ultimately the networks received very similar outcomes, which is not

	throughout the price control period?	reflective of how the networks are performing in RIIO-1. The incentive differential should be strong enough to properly incentivise the submission of efficient costs.
27	What alternative approaches could we consider to encourage companies to give us high quality information that minimises the damage from their information advantage?	• In addition to the response to 26 above, incentives should not just be cost related but should also be related to output or workload delivery where these can materially impact costs. • This could also be reflected more in the final allowances which where appropriate could be volume related, as per the current Repex Tier 2A allowance - removing some of the information advantage. • Unit costs should be used more often and justified and be set in context of performance in RIIO-1.
28	What impact has the innovation stimulus had on driving innovation and changing the innovation culture?	• The Network innovation Allowance and Network Innovation Competition have both been successful in delivering an increased stimulus for innovation within network companies and the wider industry. • The availability of an allowance specifically aligned to innovative projects has helped to make significant impact and enable a change in the culture of organisations and people that work in the industry.
29	Have the incentives inherent in the RIIO model encouraged network companies to be more innovative and what should we consider further?	• Yes we believe the eight year price control combined with the range of incentives in the GD1 price control has encouraged companies to be more innovative. Our response to question 21 highlights some significant examples of this within NGN. • We have fully adopted the Totex approach and can provide examples of where operating cost solutions have been favoured over capital investment (e.g. in relation to offtake metering and major IT infrastructure). We strongly support retention of a Totex approach and incentive going forward. • A basket of incentives targeting those areas of importance to customers and stakeholders should be retained. The precise design and calibration needs to reflect the relative importance and value to customers of any over or underperformance.
30	Do you agree that the scope of competition should be expanded in RIIO-2? What further role can competition play?	• Competition already exists in many different forms across the industry and delivers significant benefits for customers. Aggressive competitive tendering of projects, specialist services and programmes of work is already widespread across the industry. • However we would support the extension of the scope of competition in driving value for customers within the regulatory framework. • It is clear that competition for the construction and delivery of large scale, discrete new assets in transmission has been effective in delivering benefits for customers in terms of lower costs. • However this relied on very specific criteria i.e. Projects are large scale and clearly separate from existing network assets, and there is a specific regulatory framework in place to support the investment. It's not clear that this could work with smaller interconnected assets that require significant customer and stakeholder interaction.
31	Which elements add the most complexity and how do you think that these and the broader RIIO framework could be simplified?	• The submission of the detailed financial and workload tables and the resultant benchmarking models are the most complex and detailed part of the process. • In RIIO-1 there are clear differences between how the different networks completed the tables over the various submissions, in particular in the Repex area. • The tables should be simplified as much as possible, removing duplication and focusing in only on items that feed directly into any benchmarking. • The benchmarking models themselves are complex by nature, and could become more complex if outputs are brought more directly into the process. Allowing sufficient time to review and check the models, their inputs, processes and outputs would make the process less iterative and complex. • In terms of the broader RIIO framework it is important to focus on those outputs that our stakeholders deem to be the most important, allowing more time to fully develop these and the analysis around them. This would impact the tables and the benchmarking.
32	What improvements could	• Whereas we understand the need to have some comparability across business

	be made to the format and presentation of the business plans?	plans to help Ofgem and other users assess the plans we support guidance on the format and presentation to be at a relatively high level and perhaps being focused in on certain directly comparable areas, such as revenue forecasts, cost forecasts, and customer bill impacts. • We see the business plan as an opportunity for differentiation and to generate new ideas and new ways of working and delivering for our customers.
33	Should the plans be revised at any stage during the price control, for example annually?	• The networks already provide an update of their forward looking plans through the annual Regulatory Reporting process at a detailed level, covering both costs, outputs and workload. These forecasts are also covered and explained in the accompanying commentaries. • Ofgem could provide increased clarity if this is not deemed detailed enough or consistent across the network operators through the current 'Strategic Performance Overview' trial or the 'front end' of the new RIIO accounts.
34	Should we retain fast tracking and if so, for which sectors?	• We support fast tracking as a concept, whether or not it provides any direct financial benefits to companies. • Simply knowing the outcome earlier allows us to respond, plan and act earlier, extending the time benefits can be realised, similarly to having longer price control periods. • Price reviews are also complex and managing the process takes time and divert attention away from delivering the regulatory contract.
35	Do we collect the right information in the right format and are there better ways to monitor the performance of companies?	• There is a significant amount of information shared between network companies and Ofgem which is necessary to allow Ofgem to monitor performance. We do not view this as being a significant driver of cost or a burden to the delivery of our core services to customers. • We believe that network companies and Ofgem would benefit from more frequent and direct dialogue on the key performance metrics set out within the regulatory contract to in order to drive a greater level of engagement. • With this in mind NGN are currently investing in new IT systems that will have the core capability to provide real-time access to key operational and financial data. We have already been exploring with Ofgem how this capability can be deployed directly to provide greater access to NGN's performance data.
37	Do you agree with our broad stakeholder engagement approach set out above?	• Yes. It is important to try and coordinate Ofgem's stakeholder work across the network companies and other stakeholders to avoid duplication and overload of some stakeholders.