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28th August 2018

Re: RIIO-T1 reopener consultation: Quarry and Loss Development Claims Costs

Dear Kiran,

This response is submitted by National Grid Gas Transmission (NGGT). We operate and own the gas transmission assets in Great Britain.

We broadly support Ofgem's initial views on the Quarry and Loss (Q&L) Development Claims cost assessment. The two main points we would like to make are:

- With regards to Quarry C, this is a very live situation with the judicial review decision only becoming available in April 2018. There may still be a need to undertake activity within RIIO-T1, however this is very uncertain and therefore we accept Ofgem's position not to grant the funding requested. However, we would like Ofgem to acknowledge if the activities at Quarry C are undertaken, National Grid will be held whole as part of the RIIO-T1 close out process.
- We disagree with Ofgem's disallowance of approximately £2.1m, relating to the higher unit costs of South West drainage jobs. We have articulated that the reason for the higher unit cost is due to both the delay in addressing the works and the complexity of the scope of drainage works. National Grid should be funded for the complexity of the scope and therefore the allowance should only be reduced by £1.3m. We expand on this and provide a new cost calculation within the appendix of this response.

Based on our proposed amendment to Ofgem's adjustments, the allowance for Q&L would be £20.1m.

Specifically, with regards to Ofgem's two questions please see our responses below:

Question 1 Do you agree with our assessment approach?

Yes, Ofgem have undertaken a thorough review of our costs and processes in accordance with the license requirements.

Question 2 Do you agree with our initial review in respective of each category of Q&L costs?

As stated above, we agree with Ofgem's assessment in all areas, except South West drainage, with an additional provision in relation to Quarry C and the RIIO-T1 closeout position.

We hope you find this response helpful. If you would like to discuss any of the above please do not hesitate to contact me.

Yours Sincerely



Tony Nixon
Head of Gas Transmission, Regulation

Appendix 1 South West drainage costs

As stated within the main body of the response, we disagree with Ofgem's assessment of the economic and efficient costs of rectifying the South West drainage claims. In paragraph 2.23 of the consultation, Ofgem state that 'as NGGT makes clear in its submission, the higher unit costs in the South West is driven by increases in scale and complexity of jobs caused by the delay'. During bi-lateral discussions with Ofgem following the submission, we provided additional clarity in relation to the South West. The response provided in full below:

'The higher costs in the South West region are predominantly as a result of the more challenging terrain (permanent pasture, undulating land, high altitude with significant annual rainfall), particularly in South Wales, which means the drainage works required are more complex and take longer for the contractors to resolve. It is difficult to assign a specific additional cost in relation to the delay in responding to these claims; however, this is not considered to be the main driver behind the cost increase in this region.'

In addition, since this response we have sought further information from our contractors to substantiate the view provided. Our contractors reviewed four South West drainage jobs, dating back to 2013 and 2014. They assessed what the cost would have been if they had addressed the works immediately compared to the delay in completing the works. The cost increase has been estimated to range between 40-50%. The remainder of the difference relates, as per our original response to Ofgem, to the complexity of the drainage works. Our average unit cost in the South West (in 09/10 prices) from our submission, correcting for the eight jobs included in error, equates to £24,752 per job. Therefore, if it is assumed that National Grid did not efficiently manage its contractor base, the efficient unit cost would be (using the midpoint number of 45% reduction, therefore 55% of unit cost awarded) £13,614. This would provide an allowance for the South West of £1,334,148 (based on 98 jobs), compared to Ofgem's £452,302 (based on 106 jobs). As a minimum, we believe this is the economic and efficient costs of delivering these works.

We accept that we could have more expediently addressed the contracting issues in the South West, and thus Ofgem's assessment with regards to this element is reasonable.

Therefore, our proposed allowances for the Q&L development claims costs, taking into account the £1.7m reduction and our updated analysis of delivering the South West works, would be as shown in the tables below. The cells highlighted in yellow are the only proposed adjustment.

	Actuals					Forecast				
£m (in 09/10 price base)	13/14	14/15	15/16	16/17	17/18	18/19	19/20	20/21	Total RIIO-T1	Reduction from Reopener Submission
Loss of Crop	2.466	0.874	0.765	0.937	0.550	1.061	0.677	0.508	7.838	0.000
Drainage	0.934	0.752	0.811	0.863	0.778	1.268	1.003	0.634	7.042	-1.266

Loss of Development	0.000	0.065	0.258	0.631	1.366	0.407	0.000	0.000	2.727	0.000
Sterilised Minerals	0.086	0.308	0.264	0.451	1.008	0.140	0.257	0.000	2.514	0.000
Quarry C	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-1.669
Total Value	3.486	1.999	2.098	2.882	3.702	2.876	1.937	1.142	20.121	-2.936