Your gas. Our network.

Response to Draft Determination: Executive Summary

RIIO-GD2 Business Plan

4 September 2020

Positive impact

Safe and efficient

Shared net zero future

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SGN
Your gas. Our network.

Jonathan Brearley, CEO
cc'd Martin Cave / Akshay Kaul / GEMA Board
Ofgem

4 September 2020

Dear Jonathan,

SGN welcomes the opportunity to respond to the RIIO-GD2 Draft Determination (DD). We remain fully supportive of Ofgem's objective[1] for RIIO-2 to ensure that the price controls

- deliver value for money services that consumers want;
- mitigate the impact of networks on the environment; and
- ensure networks play a full role in addressing consumer vulnerability issues.

These objectives should enable us to build on our performance in GD1, where we are consistently #1 for customer service and where we have delivered all our outputs - from the most sparse areas of Scotland to the most densely populated areas of London and our Southern Network - and supported the social legitimacy of the sector through our voluntary contribution. We welcome the focus on decarbonisation and the use of well-designed reopeners to provide flexibility and agility.

However, as of today, we do not think that the current draft determination delivers the objectives that were set out in the original framework decision document, which have guided the subsequent consultations and submissions. Instead, we have a draft determination package that does not reflect our customers' priorities and does not reflect the costs that we will incur, ultimately making the package **non-financeable**; with a particular concern for our Southern network. There is a significant amount of further work required ahead of the Final Determination to ensure that RIIO-GD2 adequately delivers for all of our stakeholders as set out in your RIIO-2 Framework Decision:

- **'Giving consumers a stronger voice'.** The introduction of the enhanced engagement process by Ofgem and the creation of the CEGs was designed to bring customers and various other stakeholders to the heart of the business plan process. Their contributions have strengthened the quality of our business plan; as evidenced by the high approval ratings our plan received from our customers. It is, therefore, very disappointing that the draft determination does not reflect our customers' priorities. We are concerned the draft determination overlooks the insights our customers provided us and undervalues their role in shaping the plan.
- **'Responding to how networks are used':** Investment today is crucial to reduce our environmental impact in the near term, to maintain optionality for the government as it determines decarbonisation pathways and to **deliver valuable infrastructure investment at a time of economic stress**. Our customers strongly supported delivering higher workloads to reduce our environmental impact, improve safety and reduce the risk of higher unit costs in GD3. The draft determination has delivered the opposite. By contrast, our accelerated repex programme would have delivered immediate and significant environmental and economic benefits.
- **'Driving innovation and efficiency':** The regulatory framework as designed unduly limits the opportunity for networks to create value through innovative practices and new techniques by overly aligning allowances and activity. There is a strong incentive to minimise deviation from the final determination irrespective of customer benefits in order to mitigate the risk of ex-post adjustments.
- **'Simplifying the price controls':** The focus on aligning allowances and outputs and on the use of ex-post adjustments creates multiple additional layers of reporting and justification. This reporting burden increases substantially in RIIO-2 and the price control is now an order of magnitude more complex than any that preceded it and will distract Ofgem from delivering the priority issues for consumers. This will be made more onerous by the number of re-openers if they are not well designed, and we should strive to minimise bureaucracy for both companies and Ofgem.
- **'Fair returns and financeability':** Ofgem has proposed a cost of equity below that return available to an investor in water (itself currently subject to redetermination at the CMA). This is despite the higher risk profile to an investor in gas networks due to decarbonisation. This only serves to demonstrate that the headline return in gas is not fairly calibrated. When considering the severity of the cost challenge, penalty-based ODI package, and ex-post allowance adjustment mechanisms this creates a risk-return package that is significantly skewed to the downside. These factors make it very challenging for networks to earn the underlying base returns required for the business to be financeable.

We think these objectives remain important and the package should be reconsidered against them.

Balance of the overall package and key changes required

We consider the overall package to be undeliverable from the perspectives of the efficiency challenge, the low cost of equity and the asymmetry of the incentive package. As set out in the draft determination, the challenge is such that SGN will not be able to comply with its licence obligation to maintain the investment grade credit rating in plausible downside scenarios, and deliver all the outputs set out in the draft determination.

In comparison to the PR19 settlement, which is considered extremely challenging and which four networks are appealing, the draft determination squeezes the GDNs even tighter on important measures. Given the higher risk profile of the gas sector, and additional risks associated with COVID, the draft determination simply does not represent an acceptable package. Without any changes there will be detrimental impacts on consumers from underfunded key deliverables and a severe worsening in the financial resilience of the company that will disincentivise investors.

1 As set out in Ofgem's RIIO-2 Framework Decision

The four most important changes that are needed to redress the balance of the package are:

1. **Greater reflection of the needs of our customers:** We took very seriously the ambition to give consumers a stronger voice as part of RIIO-GD2. We had over 23,000 direct contacts and another 1 million online customer interactions. We listened carefully to this feedback, using it to develop carefully tailored proposals in the spirit of the approach envisioned for RIIO-2. The draft determination does not reflect the priorities of our customers. Our enhanced outputs and proactive investment to reduce leakage and avoid increased cost pressures in GD3 should be reinstated. At a time when the green recovery is so important these strongly supported proposals would have additional positive impact. We can only do this with the necessary cost allowances.

2. **A more reasonable cost challenge that enables deliverability:** On both the totex 'catch-up' benchmark and the level of ongoing efficiency improvement, Ofgem has chosen undeliverable assumptions that go beyond regulatory precedent, and beyond any reasonable interpretation of the evidence put forward by its consultants. We believe our networks have been deprived of £400m of efficient funding required to meet our obligations and these two choices alone contribute significantly to this shortfall. The efficiency challenge as set by the 85%ile (for catch-up efficiency), as well as the extreme top end of the consultant's range and additional innovation premiums (for ongoing productivity), will underfund core services and undermine output delivery. [redacted] This significant disparity between Ofgem's benchmarking models and real world market evidence clearly demonstrates that the models are wrong. This needs to be addressed through either a more **appropriate repex regional adjustment** or a **separate technical assessment process for repex.**

3. **A fairer and more robust consideration of our technically assessed costs:** We submitted 146 detailed and high-quality Engineering Justification Papers (EJPs) in support of our business plan providing much greater detail and transparency than any other GDN (which were aggregated at the asset type level). Ofgem's own assessment identified a higher proportion of our costs as 'high confidence', however, we also had the highest proportion of costs disallowed and the largest Business Plan Incentive (BPI) penalty. It is counterintuitive that SGN has the highest percentage of 'high confidence' costs, and at the same time receives the highest reduction in allowances and a BPI penalty. This penalises the provision of high-quality and better-evidenced EJPs, a point of significant consequence that we think should be discussed in the open meetings. We have addressed the points raised by Ofgem and its consultants (many of which we consider to be misunderstandings or misinterpretations of the evidence submitted) in our response; we trust this should allow Ofgem to reach a more robust, properly evidenced position that does not undermine the deliverability of important projects.

4. **A cost of equity that reflects the risks within the sector and the asymmetry of the package:** Without prejudice to whether we believe that the PR19 settlement constituted an appropriate cost of equity, we do not think it is credible for the RIIO-GD2 settlement to have a lower cost of equity than PR19 when you consider the enduring value proposition of water and electricity against the higher decarbonisation risks in gas distribution, the tougher efficiency challenge assumptions, a more asymmetric and penalty-based incentive package, the higher risks of customer incident and the associated reputational impact, and the now known risks from COVID. This needs to be addressed so that the risks faced by our investors are appropriately reflected and the price control provides the confidence required to support continued long-term investment in the UK. Confidence in the regulatory structure is essential to attract investment, currently the package is unfinanceable and will not deliver this.

We remain keen to work with Ofgem to reach an appropriate settlement and to adopt a process that allows Ofgem to take the time it needs to consider stakeholders' responses. As outlined above, changes are required to develop a well-balanced package and to maintain confidence in the enhanced engagement process. We look forward to discussing our detailed points with you and your team.

Process and next steps

We submitted a detailed and well justified business plan taking into account Ofgem's Business Plan Guidance. We appreciate the difficulties Ofgem will have had in assessing the high volume of plans submitted at the same time in 3 different sectors during a period heavily affected by COVID. We are nonetheless concerned that the draft determination does not properly take account of all the information contained in our plan and there are some significant errors that have been uncovered in the analysis. The previous draft determination for RIIO-1 benefitted from an initial assessment of the plans as part of the fast-tracking process. PR19 also had an initial assessment of plans ahead of its own draft determination. We respectfully consider that the RIIO-GD2 draft determination can be no more definitive than these initial assessments given the scale and number of errors identified. Given the number of changes Ofgem will need to make to correct these errors, we do not think it provides a robust basis to make the final determination without further consultation. There is therefore a compelling need for a further iteration to make sure that all issues are appropriately addressed (and consulted on) ahead of the final determination. We think it is important that the draft determination is restated by Ofgem on an error corrected basis so that networks and other stakeholders can see the full implications and impacts of Ofgem's policy choices.

We remain keen to work with Ofgem to reach an appropriate settlement, and to adopt a process that allows Ofgem to reach a robust conclusion.

Appended to this letter is an executive summary, providing an overview of the issues raised and addressed in our more detailed response documents. We look forward to discussing our detailed points with you and your team.

Yours sincerely,

John

John Morea

Executive Summary

Overview

In RIIO-GD1 we have been the frontier company that has consistently provided the best customer service, delivered all outputs and put forward a voluntary contribution to maintain sector social legitimacy. This is a strong platform from which to progress into RIIO-GD2 and comes at an important time for the gas distribution sector in terms of:

- Ensuring that customer bills are affordable and continue to provide value for money at a challenging time for the UK economy.
- Continuing the important work on the 30-year repex programme to ensure the network remains safe, reliable and reduces its environmental impact.
- Preparing net zero decarbonisation pathways by trialling hydrogen and enabling a greater penetration of green gas onto the network.
- Making sure the sector plays an active role in the green recovery by investing in long term assets that will benefit consumers and the environment over the long-term.
- Ensuring that the needs of vulnerable customers are delivered and that a strong customer voice is maintained throughout the GD2 period.

"We have been pleased with the extent to which SGN has evolved its plan over the course of the process in response to our feedback and challenge, and also feedback from customers and stakeholders. Engagement has clearly and visibly helped shape the plan from the start."

SGN CEG Report Dec 2019

SGN presented an ambitious business plan that meets these objectives and challenges. The plan delivered exceptionally high levels of customer acceptability, at 92%. Following submission we were conscious of potential impacts from COVID and wanted to re-test to confirm our customers' support. We take great assurance in our customers' support given that after lock-down customer acceptability remains exceptionally strong at 91%.

These high acceptability levels demonstrate the degree to which we listened and tailored our plan to the needs of our customers. We challenged ourselves, and our CEG challenged us, on costs and service levels; and we provided a high quality and detailed plan that was based on the three commitments that we agreed with our customers;

1. **We will make a positive impact on society, by supporting vulnerable communities and providing excellent service.**
2. **We will deliver a safe and efficient service by acting safely, keeping the gas flowing and keeping costs down.**
3. **We will build a shared net zero future by accelerating decarbonised energy solutions and minimising our environmental impact.**

The quality of our plan was further demonstrated by the high levels of assurance it received from the independent assurance providers and the RIIO-2 challenge group, who gave us the only 'Green' rating for 'Business plan commitment/assurance' of the 9 plans that it assessed.

Our plan was, and remains, strongly supported by our customers. Confirming that our customers believe our plan accurately reflects their needs.

We are therefore disappointed that the draft determination does not sufficiently reflect the well justified proposals in our plan and so it follows that it does not meet the needs and interests of our customers.

In the remainder of this summary we set out the key themes from our more detailed response documents. It summarises our response under the following key areas:

- The **customer voice** appears to have been disregarded in the draft determination.
- Our views on **environment and decarbonisation** issues where our customers wanted a much more proactive approach have been disregarded. We also have concerns that the draft determination approach will undermine the investment required to deliver net zero and decarbonisation of the energy system.
- Our assessment of the **balance of the package** which we consider to be significantly weighted towards networks underperforming the required base level of return due to a series of overly demanding cost challenges and an asymmetric penalty-based incentive regime.
- The draft determination does not adequately cover the costs that will be incurred delivering our outputs. Our **outputs are underfunded by £400m** due to the overlapping impact of the extreme efficiency challenge, errors in the model, errors in the assessment process and unreliable assumptions.
- We have identified a specific issue regarding **accuracy of benchmarking models** in the way they represent Repex costs that needs to be addressed ahead of Final Determination.
- Similarly we have identified that we have been exposed to a more aggressive and unjustified cost reduction compared to other networks, **a transparency penalty** that has resulted from more detailed information that we have provided for technically assessed costs.
- **Finance issues** where we think the unprecedented low cost of capital is driven by methodological errors and the failure to take into account all available market evidence and the unique risks faced in gas distribution. Combined with the skewed downside risk in other areas of the control, the draft determination does not present a financeable proposition for the notional company in Southern and Scotland.
- Our **conclusions** on the key changes that are required to deliver a robust Final Determination.

Overall, the package as a whole appears to prioritise short term bill reductions at the expense of longer term financial stability and the impact on future customers and the environment.

> **"SGN's Plan presents a thorough and well-articulated approach to stakeholder engagement. The impact of stakeholder engagement on the Plan is well evidenced, trade-offs are discussed and there is evidence that this triangulation of insights has led to the Plan being changed in some areas."**
>
> **RIIO-2 Challenge Group Report Dec 2019**

Customer voice

We ask that Ofgem clearly recognises the customer priorities identified and considers its assessment against that evidence base.

After reviewing Ofgem's draft determination against our customers' stated priorities, we're disappointed at the apparent lack of recognition of these priorities, and limited evaluation or recognition of the quality of our approach.

To support us in the development of our business plan we engaged extensively with customers, worked alongside our stakeholders and had the benefit of an experienced and knowledgeable Customer Engagement Group. Throughout this engagement process our customers told us what really mattered to them and where we needed to improve. They told us how an adaptive and appropriate package tailored to meet the needs of customers was more effective than a one-size fits all approach of increasing GSOP payments[2]. Working with our stakeholders we set out a tiered framework through which we could provide the most appropriate and best levels of help for our customers in vulnerable circumstances[3]. We co-designed our continuous improvement loop to ensure that throughout GD2 we continue to engage and listen to our customers, our people and our stakeholders.

It is this agile approach that will enable us to engage and continuously improve. We have been, and continue to be, firmly focused on outcomes and doing the right thing for our customers, this has led us to being ranked #1 for customer service for the last four years. Our approach was independently assured by PwC[4] and it is disappointing that there was no reference to our ways of working or achievements within the draft determination. Unless Ofgem clearly recognises its value then we risk undermining the engagement and interest we have had from customers, stakeholders and our CEG.

2 MFT workshop November 2018 London and Edinburgh (Appendix 022 – SGN – Enhanced engagement - ref 088) and Stage 3:Conjoint & WtP Summary Report (valuation phase) (Appendix 022 – SGN – Enhanced engagement - ref 005)
3 SGN Business Plan pg 55 and Appendix 023 – SGN – Customer and Vulnerability Plan – Dec 19, pg 27 sourced from Qualitative workshops - Customer Service & Supporting Vulnerable (Ref 085) Positive Impact round table event (Ref 088), Positive Impact round table event (Ref 088) and Agility eco report (ref 091)
4 PwC – SGN RIIO-GD2 stakeholder Engagement Assurance Report, Nov 2019

Environment and decarbonisation

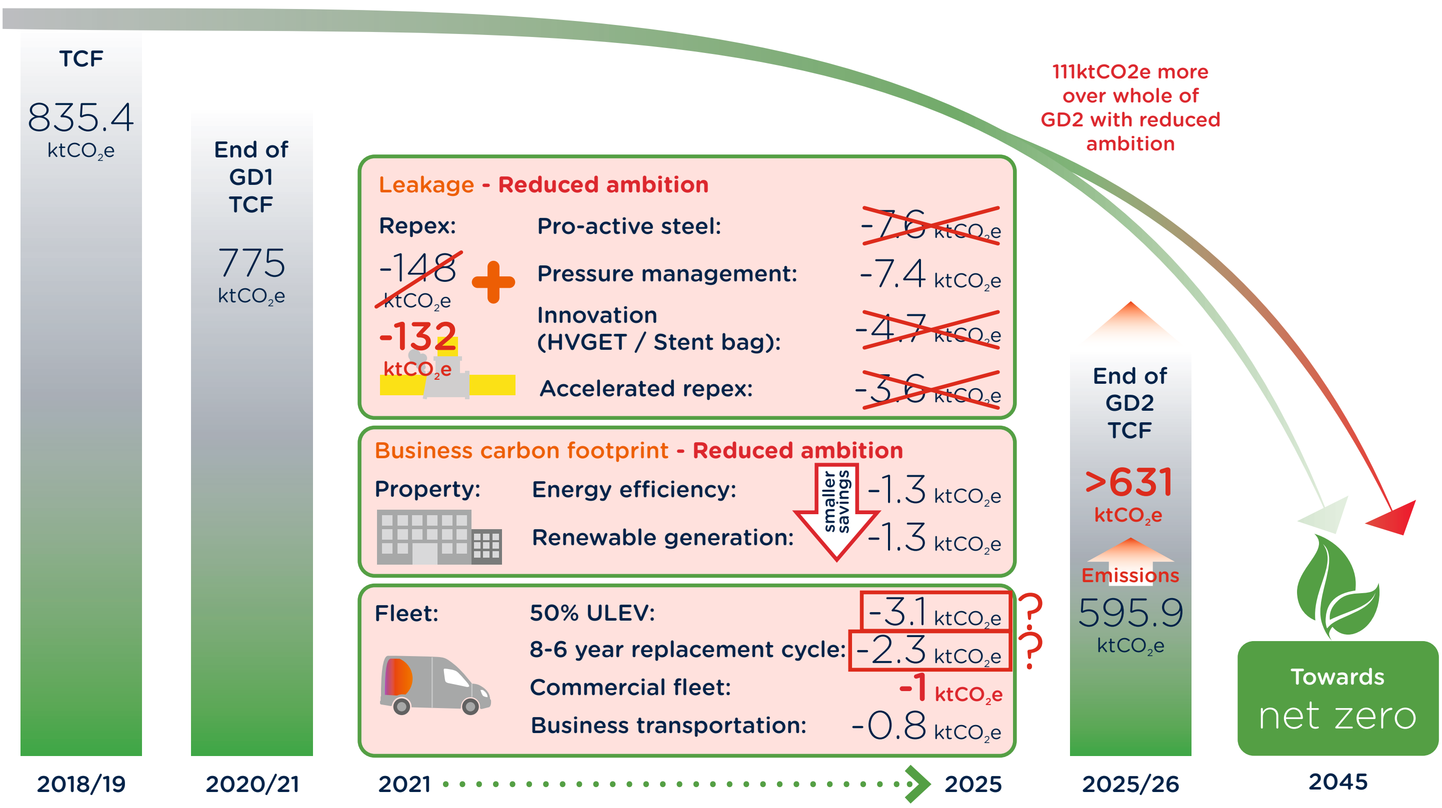
We support the focus on decarbonisation but ask that Ofgem recognises the immediate environmental benefits of the replacement programme and funds it appropriately.

Our customers wanted a more proactive path to be taken towards decarbonisation and net zero. This was a strong and clear message from our customer engagement and stakeholder workshops[5]. We therefore support the focus placed by Ofgem in the draft determination, deeming it as the most important challenge for networks to respond to in the next price control period. We encourage Ofgem to review the mechanisms supporting investment in decarbonisation to ensure they are appropriate given the complexity of the projects involved, support the partnerships that need to be formed and that the regulatory structures introduced do not create barriers that disincentivise proactivity and necessary investment. We also ask Ofgem recognises the importance of attracting long-term stable investors to support these ambitions.

Our customers and stakeholders also told us they wanted us to do more to reduce our emissions today. The high global warming potential of methane[6] was important to them and they asked us to invest in reducing leakage rates[7]. Given this strong feedback, and in light of Ofgem's environmental duties, we are disappointed that the decision taken in the draft determination is to minimise investment in the repex programme. This programme has proven to significantly reduce the levels of leakage and we now estimate emissions at the end of GD2 will be 35ktCO_2e/year[8] higher than they would have been under our proposed business plan. The impact of the draft determination on our business plan pathway to net zero is shown below.

> **"We've made great strides towards our net zero target over the last year, but it's more important than ever that we keep up the pace of change to fuel a green, sustainable recovery as we rebuild from the pandemic."**
>
> **Boris Johnson**
> **22nd July 2020**

Reduction in Total Carbon Footprint (TCF) following Draft Determination with reduced ambitions for EAP



We request Ofgem reconsider this decision, particularly for those steel pipes that have the highest leakage rates, and also create the greatest social disruption due to the need to return on a regular basis to the same location and effect a repair.

5 Future of heat specialist panels, Aug / Dec 18 (Appendix 022 – SGN – Enhanced engagement - ref 023, 024 and 090)
6 Methane has a 100 year global warming potential which is 28 time more powerful than CO2 and estimated to be 84 time more powerful over a 20 year period. https://www.ipcc.ch/site/assets/uploads/2018/02/WG1AR5_Chapter08_FINAL.pdf, pg 731
7 Shared Net Zero Future round table event – Scotland (Appendix 022 – SGN – Enhanced engagement - ref 090), Shaping the Business Plan Qualitative Workshops - Environmental Action Plan (Appendix 022 – SGN – Enhanced engagement ref 084)
8 SGN business plan pg 93 identifies the relative contribution of the accelerated repex and the proactive steel programme.

In the draft determination Ofgem point to uncertainty over the future of the gas networks to minimise investment today. This is sub-optimal. Whilst there is gas in our networks we have to ensure our assets are maintained and risk is appropriately managed. A key part of this is the HSE mandated replacement programme[9] for replacing iron pipes by March 2032 - if the pipes aren't completed in GD2, they will need to be completed in GD3 so there is no benefit in delay.

Following extensive discussion with our customers and stakeholders we also proposed **a more proactive replacement programme** to reduce leakage, deliver higher levels of safety, increase reliability, reduce traffic disruption, and reduce exposure to resource constraints at the end of the programme[10].

We are disappointed the draft determination proposes to reduce expenditure to a minimum set out by Ofgem's consultants despite recognising safety benefits[11] and delivering an outcome which is the opposite of what our customers and stakeholders requested.

We believe that delivering the repex programme to reduce our environmental impacts, deliver the safety benefits and to bring forward investment to support the economic recovery is important, is supported by our customers, but the allowances and framework need to be set to enable this.

The balance of the package

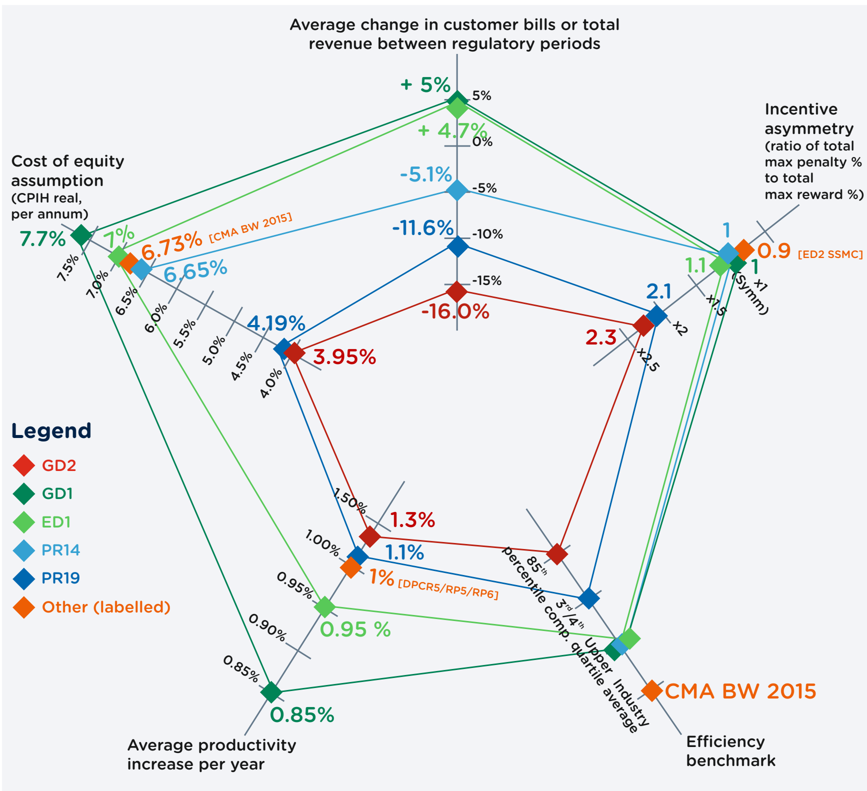
We ask that Ofgem recognises that it has more aggressive assumptions in all aspects of the price control which is undeliverable for the sector. This requires Ofgem to recalibrate the package as a whole.

The price control must be calibrated in a way that represents a balanced package 'in the round'. An aggressive approach to outputs, ODI calibration and cost allowances will increase the risks on network companies and should be reflected in the cost of equity to ensure that investors are appropriately remunerated for the risks that they must manage. In areas of uncertainty, Ofgem needs to use its regulatory discretion carefully to avoid an unrealistic, unachievable package as a whole.

While we reserve our position as to the nature and extent of any specific interlinkages between individual elements of the price control, which are necessarily case specific we do not think that the draft determination has appropriately considered the need for a balanced 'in the round' package, as well as being wrong on a number of key individual metrics. When we evaluate the package from a number of dimensions – the overall change in bills/revenues, the level of asymmetry in the ODI package, the strength of the efficiency benchmark, the ongoing productivity improvement assumptions, and the cost of equity and debt allowance – the RIIO-GD2 draft determination represents by far the most challenging review in recent times compared to other regulatory price controls.

This is illustrated clearly in the chart below, where we have plotted the five key dimensions and compared the draft determination against the most recent reviews in water (PR19 and PR14), electricity distribution (RIIO-ED1) and the previous gas distribution price control (RIIO-GD1).

Figure 1: Risk-return balance for RIIO-GD2 draft determination versus other comparative price controls



9 http://www.hse.gov.uk/gas/supply/mainsreplacement/enforcement-policy-2013-2021.htm explained in Appendix 019 – SGN – Repex – Dec 19, pg16
10 MFT Workshop January 2019 London (ref 016), MFT Workshop February 2019 Glasgow (ref 017), Shaping the Business Plan Qualitative workshops - Environmental Action Plan (ref 084), as set out in Appendix 019 – SGN – Repex – Dec 19
11 GD2 EJP Final Report, QEM solutions and ARV consulting appendix 1.2, pg 51

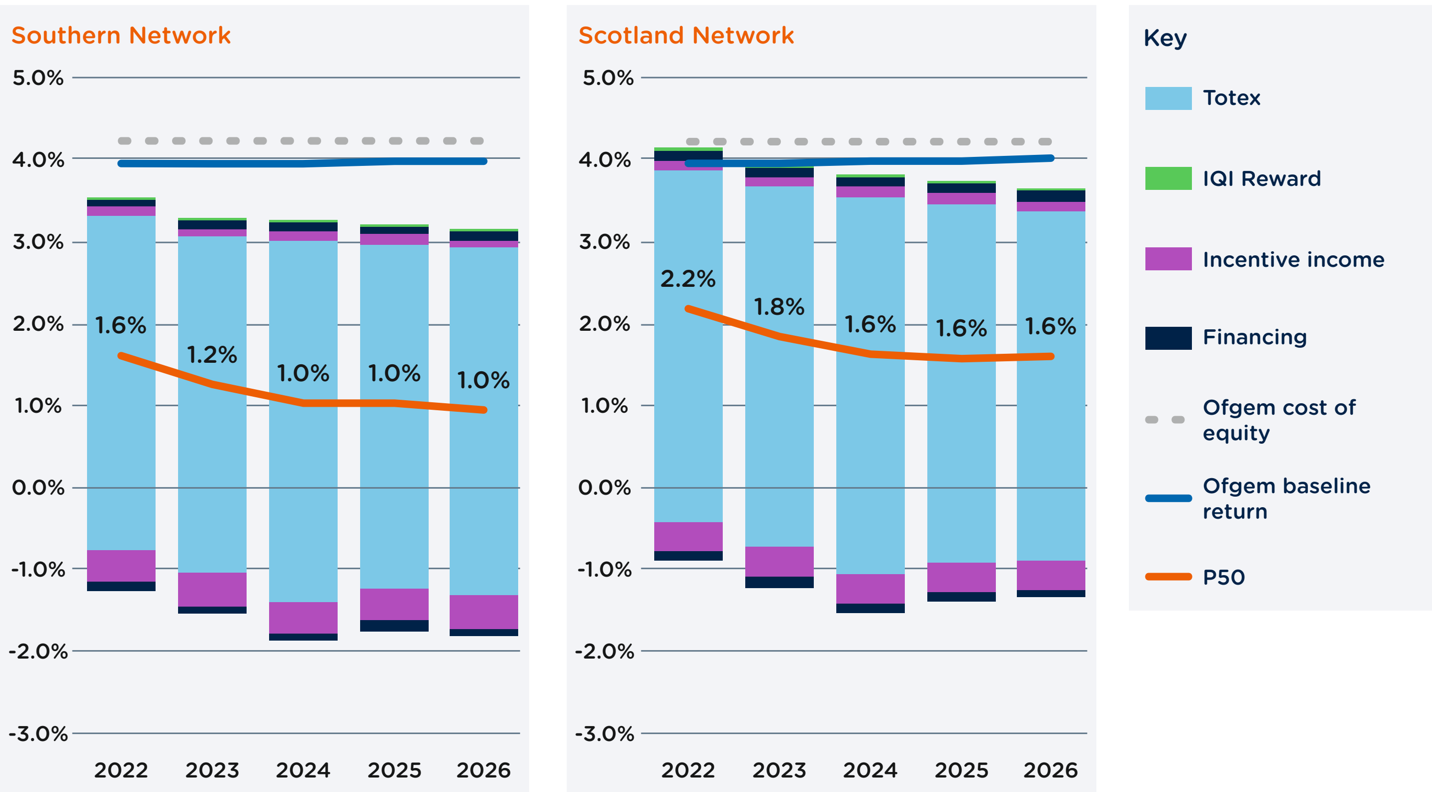
The RIIO-GD2 draft determination is not just the most challenging in one of these dimensions, but in all 5 simultaneously. This is a strong sign that the calibration of the RIIO-GD2 package is unbalanced and will not be deliverable or financeable.

When compared with the PR19 settlement, which is itself considered very stretching and which four networks are appealing, the draft determination squeezes the GDNs even tighter in these five important measures. Given the higher risk profile of the gas sector, and additional risks associated with COVID, it is clear that the draft determination simply does not represent an acceptable package. Without any changes there will be detrimental impacts on consumers from unfunded key deliverables and a severe worsening in the financial resilience of the company.

Reflecting the impact of this, we have commissioned an independent assessment of the overall risk profile of the draft determination on SGN's likely return to equity in GD2 and the potential upside and downside impacts on RORE. A well calibrated package should provide a balance of upside and downside risk around a CAPM generated allowed cost of equity, as well ensuring financeability by providing headroom for the notional company to absorb shocks. This assessment has identified 30 areas of the draft determination which add downside risks on top of the inherent risk within networks businesses. What is clear from the draft determination package is that the risks are therefore extremely asymmetric and that this generates a substantial downside risk: expected returns are substantially below Ofgem's target allowed return and the downside balance of risks result in the possibility of RORE being substantially negative. In this situation shareholders would have to fund negative returns to meet debt interest payments. The impact on RORE and the credit metrics, most notably AICR, mean that there are plausible scenarios where SGN risks breaching its licence obligation of maintaining an investment grade rating. This is not just a problem for SGN; Ofgem's proposed approach would significantly undermine the ability of the sector as a whole to attract debt and equity finance at an efficient cost.

The assessment of the risk of the whole package for each of the networks is shown below and is heavily skewed to the downside because of the totex risk, the penalty focused ODI package and the downside on financing costs. In figure 2, the blue line (Baseline/P50 RORE) represents the expected returns with the coloured blocks showing the risk range around the expected return. The draft determination makes it highly unlikely that the Southern network will achieve the allowed equity return Ofgem has set, let alone generate outperformance, or achieve the allowed returns SGN considers a reasonable interpretation of financial market data.

Figure 2: RIIO-2 Annual RORE Range



It should be noted that Southern RAV is approximately double the RAV of the Scotland licence area, and therefore SGN at a group level is more heavily exposed to financial challenges in Southern.

Underfunded outputs

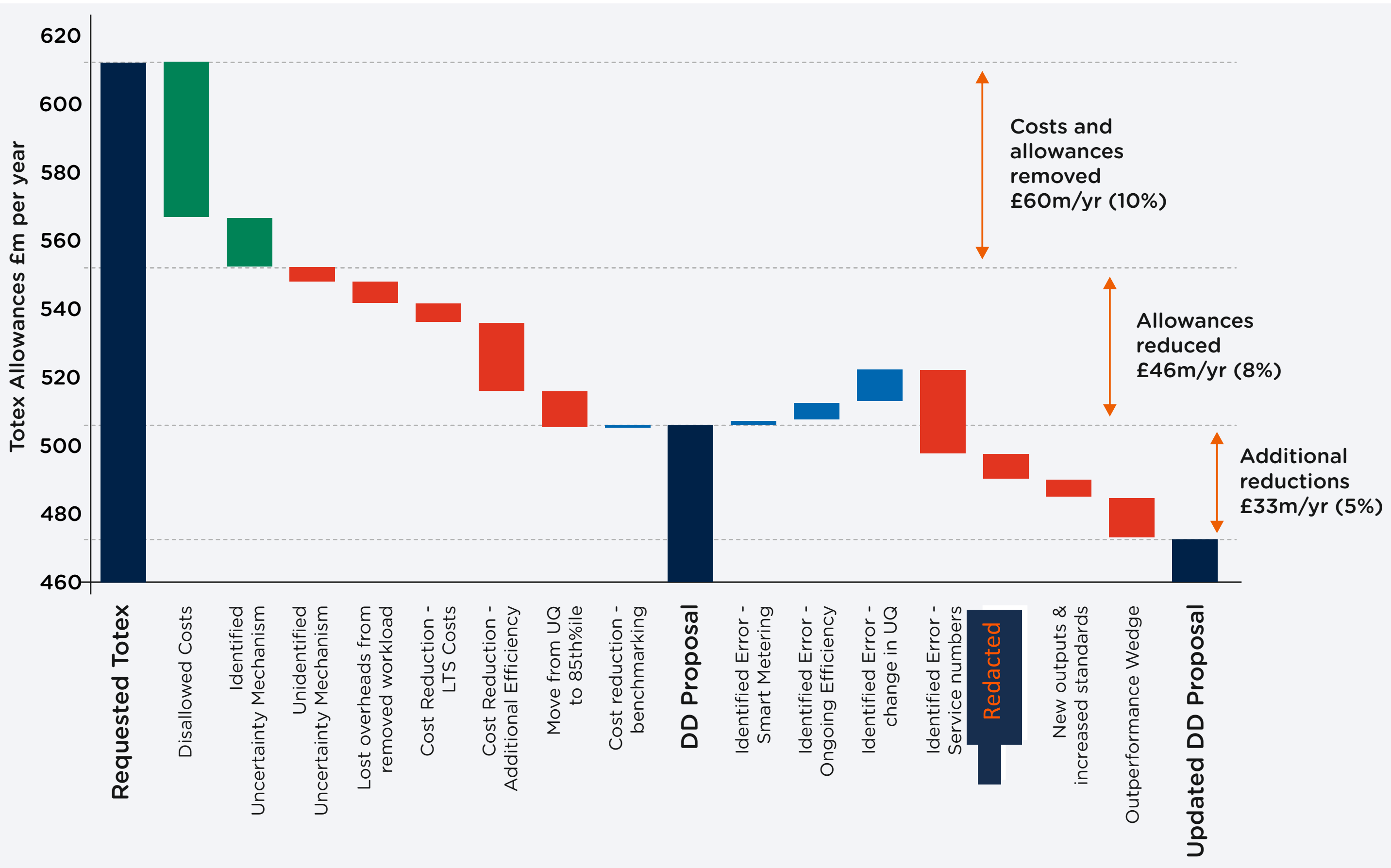
The draft determination significantly underfunds SGN due to the overlapping impact of an extreme efficiency challenge, errors in the model, errors in the assessment process and unreliable assumptions. This needs to be addressed before the final determination. In specific areas, where workload has been disallowed, there is a direct impact on our safety case and we need Ofgem to raise this directly with the HSE.

Ofgem has cut £60m p.a. of outputs out of our plan and we consider some of this to be essential for our safety case. Notwithstanding this, in order to deliver the outputs that are set out in the draft determination, we have a cost reduction of £80m p.a. (£400m over GD2) compared to the funding requested in our business plan which already had ambitious savings applied on an already efficient track record. This unjustified and unrealistic efficiency stretch means that, by the end of GD2, our expenditure will need to be 25% less than it is today as a result of efficiency savings.

In practice this requires us to deliver an annual efficiency improvement in the region of 5%[12] in each of the 5 years of GD2[13]. This is a staggering 17 times higher than the national average productivity gain forecast by the Bank of England (as of February 2019). After removing the £60m p.a. of cost allowances associated with disallowed outputs and uncertainty mechanisms the remaining £80m p.a. of excess efficiency challenges are set out below:

- £46m p.a. of further efficiency challenge through aggressive benchmarking and overstating ongoing efficiency on top of our business plan – a reduction of a further 8% against our business plan.
- £33m p.a. additional reductions as a result of correcting the known errors in the benchmarking model, underfunding due to shortcomings in the bench-marking models particularly on repex works Redacted the assumed outperformance in the cost of equity - a further reduction of 5%.

Figure 3: Totex trace from business plan to draft determination



12 Appendix 022 – SGN – Enhanced Engagement – Dec 19, section 4.3, pg 91 - As a part to the business plan submission process the RIIO Challenge Group requested that we submitted a scenario alongside our October plan of the impacts of a 4% per annum reduction in costs This scenario required us removing all of our enhanced outputs, reduce levels of customer service and started to undermine core services. On an equivalent basis this challenge is now 7% per annum.

13 This is the combined impact of benchmarking, annual efficiency and reduction in the allowances for large capital cost projects.

The totex efficiency challenge applied by Ofgem through the choice of benchmark (85th percentile) and ongoing efficiency assumption (1.3%) both go beyond regulatory precedent and is not supported by the underlying evidence. Compared to more typical and reasonable regulatory assumptions supported by independent evidence (e.g. at most the upper quartile and a 0.65% ongoing efficiency assumption) these two items alone form a substantial part of this disallowance. We discuss these two issues further in this section.

Use of the 85th percentile to set the efficiency benchmark

It is a widely established principle that econometric benchmarking models employed in UK regulated energy sectors are not perfect. All of the relevant cost drivers cannot be appropriately captured by the model; and the small sample size creates inherent limitations[14]. The choice of the benchmark therefore needs to be contingent on the overall confidence in the model. This principle was endorsed by the CMA in the 2015[15] Bristol Water redetermination[16] where the CMA considered the use of the industry average to be appropriate.

Using the 85th percentile benchmark risks setting an efficiency challenge that is not achievable in practice due to a lack of robustness in the underlying benchmarking model. Particular issues include the fact that data is provided only by 4 independent entities, the breadth of data sources feeding into the CSV, the number of errors and their materiality that have been identified during the consultation period.

We are particularly concerned that the modelling does not appear to produce stable and intuitive results. When identified errors in the model are addressed the outcomes for SGN's 2 networks are vastly different driven predominantly by repex inputs into the benchmarking model [redacted] Given that we deploy the same operational and procurement strategies across both networks it is counter-intuitive that the model should produce such drastically different results. Given the insufficient confidence in the models and errors identified, Ofgem would be wrong to adopt an overly aggressive assumption. **An appropriate repex regional factor for our Southern network (which includes half of London) or separate technical assessment of the programme may help address this issue.**

It should not be forgotten that the use of an upper quartile still represents a challenging benchmarking assumption as it still requires three-quarters of the sector to make significant efficiency improvements in order to operate within their cost allowances. We therefore urge Ofgem to revert to the (still challenging) upper quartile which would be more consistent with regulatory precedent and would reflect the confidence that can be placed on the models.

Ongoing efficiency

We completely disagree with the ongoing efficiency challenge proposed in Ofgem's draft determination, of 1.4% for opex and 1.2% for capex and repex. No balanced assessment of the available evidence on economy-wide productivity and the specifics of the gas distribution sector could reach the level of efficiency challenge proposed by Ofgem. In this response we provide an overview of the key issues with Ofgem's ongoing efficiency challenge and set out more detail on these points. To address the concerns raised, Ofgem should:

- remove the part of the efficiency challenge that pertains to innovation funding as it is not justified - the comparator sectors considered by Ofgem also engage in innovation and there is no evidence that gas distribution networks will be expected to outperform them on this front over RIIO-GD2;
- choose an ongoing efficiency challenge for GD2 that takes into account the extensive evidence that ongoing efficiency will be lower, as presented by Ofgem's own consultants, CEPA;
- use 2019/20 actuals in its updated regression analysis, and therefore only start the application of the ongoing efficiency challenge from 2020/21, with a significantly lower assumption in that year to reflect the impact of COVID in a year that will be largely finished by the time of the FD[17]; and
- recognise that COVID can only have an ongoing negative impact on productivity levels for our own workforce and our contractors due to constant variation[18] in working practices that will permeate across the early years of GD2.

In addition to having a significantly more challenging price control allowance target than any comparable price control period, there has been a significant movement from an 'outcomes and incentive' based regulatory framework to an 'inputs and rate-of-return' based regime[19]. This unduly restricts our ability to bring forward design improvements and innovations that may lead to a lower overall cost of delivery and deliver a better customer outcome.

We believe that an appropriate outcome is at most the upper quartile and a 0.65% ongoing efficiency.

14 For the GD sector there are only 8 licensees and, importantly, only 4 ownership groups. Even with a longer time series, this limited cross-section within the panel dataset means there are statistical limitations on what can be estimated. There will also be measurement error or inconsistencies in data reporting between companies.

15 https://assets.publishing.service.gov.uk/media/56279924ed915d194b000001/Bristol_Water_plc_final_determination.pdf page 117, paragraph 4.222

16 CMA, Bristol Water Final determination (2015), paragraph 4.222 "The regulatory precedent from Ofgem and the CC has also recognised that a less demanding benchmark than the upper quartile may be appropriate in cases where there was less confidence in the modelling results. The effect of modelling error and limitations will tend to mean that an upper quartile benchmark will require levels of efficiency that are, in practice, greater than the upper quartile."

17 If Ofgem retains a starting point of 2019/20, it needs to lower its own estimate of productivity to reflect that these are past years in which benchmark productivity has been lower. Alternatively, Ofgem could simply start its productivity assumption from the start of GD2, consistent with the calculation of efficiency scores for the GD2 period. Ofgem must also commit to the future indexing of RPEs being based at the same starting point as the year from which productivity is rolled forward, to ensure consistent application of frontier shift.

18 The impact of COVID is on the direct costs that are incurred, but it is the variation in working practices, local lockdowns, changing guidance from local authorities and regular updates to processes and procedures that undermines productivity on an ongoing basis.

19 Examples include: Repex workloads where any variation that generates more than a 2% change in workload or mix in the diameter pipes replaced is now subject to clawback and potentially penalty. NARMS workloads with the introduction of a complex adjustment mechanism to negate value from trading risk alongside clawbacks and penalties. PCDs where late delivery or variation in preferred solution introduces the risk that allowances will be returned in full. IT and cyber reopeners which look as though they will be subject to extensive ex-post adjustment.

Accuracy of benchmarking models

[redacted]

There are a number of areas within the cost assessment where we do not think that SGN's specific circumstances and the evidence provided have been properly reflected. [redacted]

Working in London and the Southeast. For a correctly calibrated benchmarking model the regional cost of doing business has to be adjusted to enable a true and fair comparison across companies. Operating in London carries significant additional costs as recognised by Ofgem in making its regional adjustment. However, the repex cost drivers and the regional normalisations adopted by Ofgem do not capture the full cost impact of working in London and across the Southeast. **Our Southern network imports repex resource from across the British Isles and Europe and the extra costs associated with this need to be fully taken into account.**

[redacted]

[redacted]

Real Price Effects (RPEs) underestimate cost changes. Ofgem has maintained the RPEs from GD1 that we have demonstrated to be a poor reflection of the cost pressures that we have faced as gas networks in recent years. In our business plan we assessed indices against key principles to put forward more relevant indices but this work has not been assessed by Ofgem. It is important that Ofgem sets out its justification for keeping the inferior GD1 indices. RPE indexation must also start from the same year as the productivity assumption start point.

Errors in the modelling. In the table below we show how correcting some process errors and formula mistakes changes the allowances awarded to the industry in GD2 by over £320m, leading to dramatic swings in efficiency scores and allowances between networks. For example, on an error-corrected basis, East of England (EoE) allowances are £125m higher than in the draft determination, whilst Southern allowances are over £50m lower. This illustrates that the errors are material, and the draft determination numbers are simply an incorrect starting point – no conclusions can be drawn with reference to the draft determination numbers as published. It is quite possible this is not the final 'error corrected' position as models continue to be issued late in the process[20]. We are still receiving important models from Ofgem and are undertaking a full review of all the models provided. We will continue to report identified errors and issues to support their rapid correction, but given the limited time available to review, we fully reserve our position as to the existence of additional errors.

20 The full macros to run the models were only circulated on the 5th of August and important data files were still being released on the 20th of August

Draft Determination

	Efficiency scores	GD2 allowances
EoE	1.10	1,284
Lon	1.17	1,039
NW	1.04	970
WM	1.04	779
NGN	0.89	1,076
Sc	0.95	840
So	0.98	1,687
WWU	1.00	998
SGN		**2,527**
Industry		**8,673**
85th percentile:	**0.95**	

Correction of c.50 errors, including formula mistakes and incorrect data, gives > £320m increase in industry allowances (3.7%) and major swings for several GDNs.

Error-corrected DD

	Efficiency scores	GD2 allowances
EoE	1.03	1,409
Lon	1.16	1,083
NW	1.01	1,028
WM	1.04	802
NGN	0.87	1,140
Sc	0.98	852
So	1.08	1,634
WWU	1.00	1,046
SGN		**2,486**
Industry		**8,994**
85th percentile:	**0.98**	

All figures in £m (2018/19) prices

Figure 4: Error corrections as of the 22nd Aug.

We recognise the challenges of pulling together an effective cost assessment model, particularly given the complexity of the business plans that were submitted, the lack of transparency in some of the data provided and the upheaval of COVID at the time when the models were being consolidated and error checked. We therefore support Ofgem's strategic choice to use totex models and use both historical and forecast data. However, these sound strategic choices are undermined by the subsequent implementation in assessing the relationship between costs and drivers, the normalisations applied and choice of benchmark. The efficiency scores still show an inherent bias away from London and the South East of England and display unacceptable volatility in which to base unprecedented 85th percentile targets and ongoing efficiency at the top end of Ofgem's consultant's range.

Any confidence in the benchmarking is further undermined when considering the geographical spread of networks in the regression analysis. This shows that the two networks dominated by London and the south east (Lon and So) are both coming out as the least efficient companies (7th and 8th in the ranking), and are by quite some distance separated from efficiency scores of all the other GDNs. This suggests that the model and/or the regional adjustments are not appropriately capturing London and South East cost pressures. For the two SGN networks, the contrast is stark as they are the same company with the same senior management team, the same work procedures and similar contracting and procurement strategies[21] but the corrected modelling counterintuitively suggests that one is 2nd and the other is 7th in the rankings.

Given the clear misalignment between the result of the benchmarking model [redacted], updated models need to be published (and consulted on) in time to complete a full assessment of regional factors and bias that may be incorporated in the regression models. Alternatively, it may be that there is insufficient time to complete this and it may be necessary either to separate out repex from the rest of the benchmarking process in order to carry out a technical assessment [redacted]; or to ensure that SGN Southern-specific adjustments are made within the repex driver to address a clear identifiable underfunding issue that the current model has not captured.

21 [redacted]

A transparency penalty on technically assessed costs

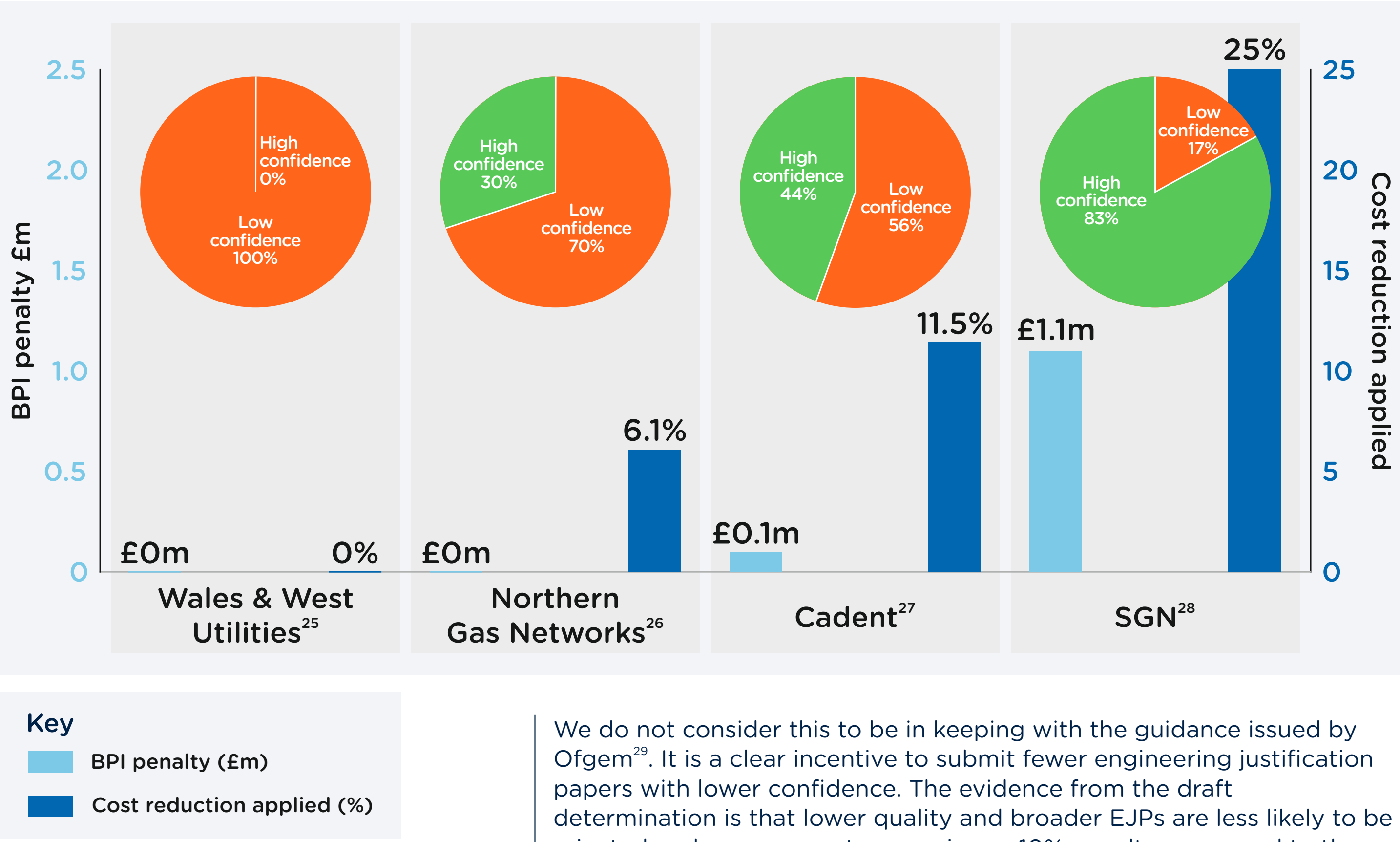
There appears to be a penalty applied to technically assessed costs that have been identified as having 'high confidence' compared to those that were granted 'low confidence' that urgently needs to be addressed.

We are proud that as a part of our business plan we made more information available to the public than any other network. This allowed all stakeholders and customers to form a view on the priorities and cost effectiveness of our plan and the importance of transparency was made clear by Ofgem on multiple occasions[22, 23, 24].

We submitted 53 detailed engineering justification papers that were considered for technical assessment (146 for all projects or programmes) with an investment value of greater than £0.5m. We are proud that of the technically assessed costs, our business plan was rated with a higher cost confidence than any other plan. Projects that were assessed as high confidence covered 85% of the value of projects above Ofgem's £2m threshold. We also had significantly lower amounts reassigned to uncertainty mechanism or experiencing a cut in volume compared to any other network. This confidence level is an order above that achieved by the other networks.

However, rather than being rewarded for providing additional information (as was indicated by Ofgem), the figure below illustrates that high confidence also clearly correlated with higher penalties and disallowances. It is notable that a network with 100% low confidence has a higher sharing factor, no cost reduction applied and no penalties, and as the level of confidence increases the penalty exposure increases, the cost reduction increases and the sharing factor decreases.

Figure 5: Transparency penalty for well justified EJPs



We do not consider this to be in keeping with the guidance issued by Ofgem[29]. It is a clear incentive to submit fewer engineering justification papers with lower confidence. The evidence from the draft determination is that lower quality and broader EJPs are less likely to be rejected and expose you to a maximum 10% penalty compared to the 25% cost reduction, lower sharing factor and business plan penalty for a high confidence plan. We do not believe that a transparency penalty is in line with business plan guidance or in customers' interests and it needs to be either clearly explained or addressed.

22 Ofgem workshop, RIIO-2 Business Plan Incentive Workshop, 18th June 2019.
23 Ofgem workshop, RIIO-2 outputs, totex and business plan incentives workshop, 26th September 2018.
24 RIIO-2 Sector Specific methodology 18 Dec 2018. 9.10 "We want companies to provide us with high quality information in their Business Plan. We may reward companies if they provide us with information that is not available to us, that helps us set a more accurate control that delivers greater benefits than would otherwise be the case. If companies do not provide us with the information that we ask for, or provide us unambitious, poor quality information, then financial penalties may be appropriate."
25 RIIO-2 Draft determinations – Wales and West Utilities, Table 6 & 7, Table 21, Table 41,
26 RIIO-2 Draft determinations – Northern Gas Networks, Table 6 & 7, Table 21, Table 43 & 44
27 RIIO-2 Draft determinations – Cadent, Table 6 & 7, Table 21, Table 49 & 50,
28 RIIO-2 Draft determinations – SGN, Table 6 & 7, Table 21, Table 48 & 49,
29 RIIO-2 Sector Specific methodology 18 Dec 2018. 9.10 "We want companies to provide us with high quality information in their Business Plan. We may reward companies if they provide us with information that is not available to us, that helps us set a more accurate control that delivers greater benefits than would otherwise be the case. If companies do not provide us with the information that we ask for, or provide us unambitious, poor quality information, then financial penalties may be appropriate."

Finance issues

We have some significant concerns over the finance package outlined in the draft determination:

- The proposed cost of equity falls significantly short of the rates of return commensurate with the risks in the sector and the rate required to attract equity capital.
- The cost of debt needed to appropriately take account of borrowing costs, derivatives and small company infrequent issuance costs.
- Combined with the risk analysis presented above, the credit metrics implied by the draft determination mean that the notional company struggles to achieve an investment grade credit rating suggesting the package is not financeable in the way that Ofgem suggests as there is insufficient headroom to manage shocks.

Appropriate return to equity

Equity investors need a rate of return that is commensurate with the risk that they are exposed to by investing in the gas networks relative to other equivalent sectors. Notwithstanding our views on the PR19 settlement as it stands in the draft determination, gas network investors will receive the lowest return of any regulated network in the UK. This is due to a number of methodological errors and assumptions that have not previously been adopted by regulators. In each instance the market evidence that supports the new approach is questionable and, coupled with the lack of regulatory precedent, increases the risk of it being wrong. These assumptions include;

- A perception that gas is not riskier than Water – an assumption we challenge as it does not reflect the substantial risks of customer safety, and the risk of decarbonising heat.
- Moving to spot yields on government bonds to set the RFR.
- Using reconstructed and experimental historical CPIH estimates to restate the historical evidence on real TMR.
- Inappropriate use of averaging.
- Increases in debt beta.
- Adding European comparators to the asset beta calculation that are not good matches based on liquidity characteristics.
- Changing the methodology for some of the cross-checks, such as further deflating infrastructure funds to calculating implied IRRs and ignoring more relevant cross checks.
- Maintaining an outperformance wedge when as a company the draft determination presents us with an absolute shortfall.

When combined these changes have a significant impact of 259 bps compared to assessments put forward by the ENA on behalf of Energy companies. Given the significant challenges facing the gas sector to deliver net zero, such a major change in finance assumptions needs to be supported by a substantial body of evidence given the impact that it will have on investor confidence if they are incorrect. The evidence presented so far falls well short of this high bar. Therefore we believe that the cost of equity is significantly understated by Ofgem.

Each of these changes reduces the cost of equity and the attractiveness of the sector to such an extent that, when combined with the expected outperformance wedge, an investor in water will receive a higher return than the investor in a gas network that faces the 'existential issue'[30] of net zero. This does not appear to be a credible outcome and Ofgem's approach is wrong. Empirical assessment of the betas of companies positively benefitting from net zero trends suggests they have lower systematic risk compared to those companies more detrimentally exposed to net zero trends. Investors are now commanding a higher risk premium for investments in high carbon industries.

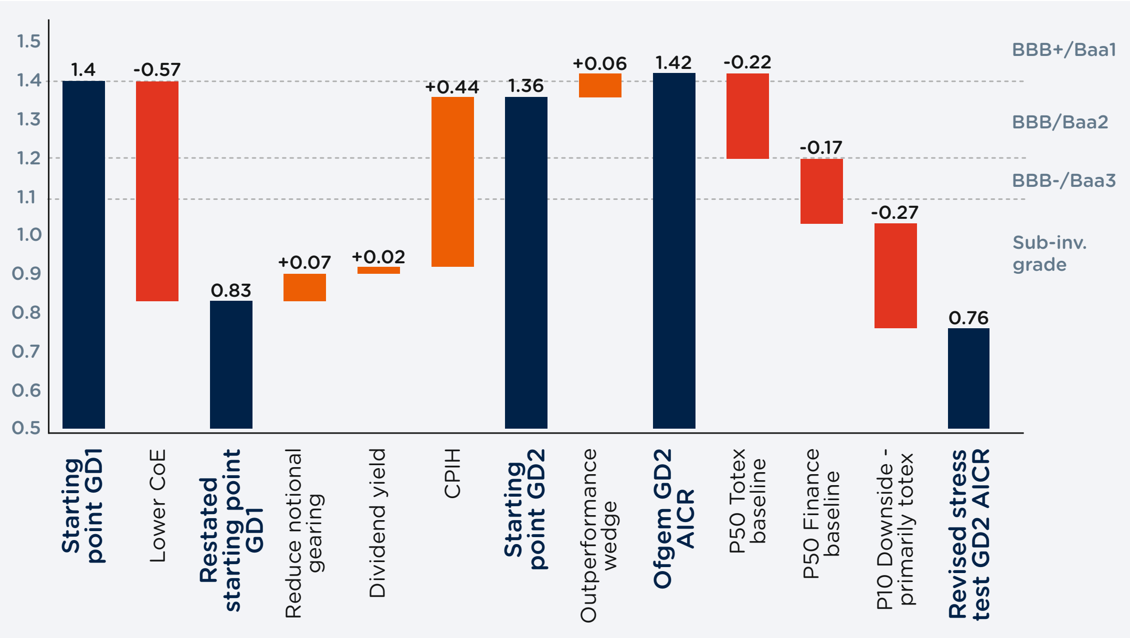
Appropriate debt funding.

SGN accepts the approach of estimating efficient debt costs using a trailing average plus an additional borrowing costs allowance, to cover an appropriately calibrated average cost of debt at a sector level. However, we believe that a 0.17% additional borrowing cost proposed by Ofgem does not adequately cover borrowing costs, in particular costs associated with new issuance and index linked debt. We have also provided further evidence supporting a small company infrequent issuance allowance and set out proposals to deal with, on a case by case basis, derivatives that can be demonstrated to have been efficiently incurred to deliver a company's stated finance strategy. Putting all these items together justifies additional financing costs of 41 – 45 bps above Ofgem's proposal.

30 As described by the Ofgem RIIO Challenge Group. RIIO-2 Challenge Group Report for Ofgem, Jan 2020, pg5

Maintaining financial stability

Figure 6: Adjusted Interest Cover Ratio for SGN (combined Scotland and Southern)



We submitted a business plan that was assured by the board as being financeable as the actual and the notional company[31]. This was based on the working assumptions that were specified by Ofgem. Following our review of the draft determination, we do not consider the notional company is financeable.

It is instructive to review the changes to financeability through the primary credit metric of the Adjusted Interest Cover Ratio (AICR) used by Ofgem, Moody's and with a similar ratio used by Fitch (PMICR). The evolution of this metric is presented in Figure 6. Taking the position at the end of GD1 (with 65% notional gearing), after adopting Ofgem's significantly lower cost of equity assumption, the notional company would likely have an AICR of 0.83. Without changes this would be below the threshold for investment grade. The draft determination restores financeability through a series of adjustments and assumptions to achieve ratios consistent with an investment grade credit rating in the current regulatory period[32].

Firstly, Ofgem reduce the notional gearing assumption by requiring a 5% equity injection into the notional company which reduces notional debt interest costs; secondly, the GD2 dividend yield assumption is reduced to 3%, far below the level of the broader equity market, which defers equity distributions; and thirdly the immediate switch to CPIH indexation throughout the price control increases short-term cash returns in place of longer-term indexation to the RAV. Each of these actions improve the credit metrics in GD2 without improving the underlying risk of the companies. The resultant AICR metric of 1.36x requires careful interpretation as to credit quality which depends upon the sustainability of these regulatory decisions.

This produces a notional company credit metric of BBB/Baa2 which is clearly a significant weakening of credit quality from GD1 and relies on an assumption of outperformance to just pass into the BBB+/Baa1 range of 1.4x. It is therefore Ofgem's inappropriate and unjustified draft determination finance assumptions that drive the national company's assessed financeability rather than true measures of its financial resilience. We believe this undermines whether the test is meaningful and robustly tests whether the draft determination package is appropriately calibrated.

As set out in this summary, the draft determination contains many areas where the risks are skewed to the downside through errors, omissions, excessively challenging targets and downside skewed incentives. The independent risk analysis conducted for SGN shows both lower expected returns and a more adverse stress test results. On an expected or P50 basis, the AICR ratio drops below sub-investment grade to 1.03x and under a cumulative P10 stress test falls to 0.76x. This clearly demonstrates that the draft determination package, despite substantial short term and flattering mitigations, does not provide adequate headroom to absorb even a fair balance of P50 risks. As Ofgem has already used reduced notional gearing, dividend yield and indexation to CPIH, there are no other levers able to restore the credit ratios to levels consistent with a strong credit rating. Any further mitigations in terms of accelerating cashflows are not acceptable as this is pushing the underlying credit quality problems into RIIO-GD3 and beyond and will not be acceptable to credit rating agencies. Recalibration of all areas of the package, as justified by evidence set out in this document, is the only remedy.

We believe a short-term focus on delivering unprecedented bill reductions creates intergenerational risk as assumptions made to deliver this do not deliver the sustainability and resilience our stakeholders request. We have shown in our business plan that meaningful bill reductions can be achieved by recalibrating the draft determination package without compromising the future.

31 SGN business plan, Dec 2019, Chapter 18, table 18-4
32 Appendix 004i – SGN – financeability – Alternative cost of capital assumption, table 1

Conclusions

Based on the draft determination, SGN will not be able to comply with its licence obligation to maintain the investment grade credit rating in plausible downside scenarios, and deliver all the outputs set out in the draft determination for the allowances that have been determined. Our board opinion is that the draft determination is not deliverable or financeable.

Our customers have confirmed:[33] that they would prefer a lower reduction in their bills today to avoid a reduction in the company's credit rating that might increase the risk of a larger bill increase in the future; that current and future customer should both pay a fair share of the cost of providing services; and that they would prefer stability over bills. We think that it is important that we work together to provide this, and to provide the outputs that they have clearly directed us to deliver.

To achieve this we think that Ofgem needs to correct the following errors in the draft determination:

- The ongoing efficiency challenge is reduced to a realistic and plausible level, and the 85th percentile is replaced with (at most) an upper quartile.
- The benchmarking models are tested against [redacted] and appropriately reflect the efficient costs required to undertake work.
- In particular there is a clear concern with the ability to accurately reflect repex costs in London and the South East of England. Ofgem should either technically assess the programme or give an appropriate repex regional factor.
- The technically assessed projects are judged on a fair basis that reflects the higher quality justification we provided, and they are not penalised relative to benchmarked models.
- Time is allowed to correct, reissue and consult on the benchmarking models so that we can have greater confidence in their accuracy and appropriateness.
- That all the core costs are covered in an appropriate manner through an ex ante allowance, and that uncertainty mechanisms are sufficiently clearly specified and decisions are made in a timely manner to minimise barriers to investment and reduce costs.
- That customer supported workloads with an immediate safety requirement or where investment generates an immediate and substantial environmental benefit should be reinstated alongside their efficient costs of delivery.
- That returns on equity are appropriately calibrated, including to reflect the particular risks of gas networks.
- That the cost of debt allowance provides appropriately for borrowing costs incurred.
- That we work together to remove errors, inconsistencies, double counts and misunderstandings. The scale of these factors is material and considerably more extensive when compared to previous price controls.

We believe that achieving this in time to deliver the final determination will be immensely challenging for Ofgem and that to do so will risk introducing new errors into the assessment. We would encourage Ofgem to take the time necessary to come to a robust answer that is in customers' interests and will endure for the five-year period of RIIO-GD2 and the unanticipated changes that will inevitably occur.

Given the errors identified since the draft determination was published, we request that Ofgem publish an updated draft determination documentation and models shortly to allow for an appropriate level of scrutiny and consultation on models that will ultimately feed into the final determination. We think this is important so that the broader customer and stakeholder community has an opportunity to reconsider their consultation responses given the scale of the changes, and to provide further opportunity for independent scrutiny and validation.

Finally, we need to ensure the package as a whole supports investor confidence, gives a fair chance to deliver the outputs set and achieve an appropriate level of return on both equity and debt. To achieve this, we need to have confidence that the notional company is appropriately financeable and has the headroom to absorb plausible downside risks.

33 Shaping the Business Plan Qualitative Workshops - Sharing Financial Risk. Innovation Investment (ref 083); Business Plan Acceptability Testing Phase 1 and 2 (ref 078, 079); Stage 3: Conjoint & WtP summary reports (Valuation Phase) wave 1 and 2 (ref 005, 094), Business Plan Acceptability Testing Phase 1 and 2 (ref 078, 079), Shaping the Business Plan Qualitative Workshops - Sharing Financial Risk. Innovation Investment (ref 083)

Structure of the document

Our response to the draft determination is split over six sections for ease of reference:

Section A: Executive Summary and Introduction.

Section B: Embedding the customer voice. This covers embedding the consumer voice, the CEG, and Ofgem's three consumer facing output categories - meeting the needs of consumers, an environmentally sustainable network, and maintaining a safe and resilient network. This section also covers cross-sector, sector-specific and bespoke outputs, ODIs and the CVP.

Here you will find answers to the following consultation questions;

- Core Questions (Q1 to Q9)
- Gas Distribution Sector Questions (GDQ1 to GDQ25),
- SGN Questions (SGNQ1 to SGNQ7) and
- NARMs Questions (NARMQ1 to NARMQ4).

Section C: Ensuring efficient cost of service. This covers the efficiency expectations approach to cost assessment, normalisation, regressions analysis, technically assessed cost and the business plan incentive. In this section we also provide our views on how COVID should be accounted for in the GD2 plan.

Here you will find answers to the following consultation questions;

- Core Questions (Q10 to Q11) and
- Gas Distribution Sector Questions (GDQ26 to GDQ41).

Section D: Ensuring efficient financing. This covers allowed return to debt, return on equity, the weighted average cost of capital and other finance issues such as tax.

Here you will find answers to all of the Finance consultation questions (FQ1 to Fq38).

Section E: Managing uncertainty and the move to net zero. This covers both cross sector, sector specific and bespoke uncertainty mechanisms, the approach to innovation and the move to net zero.

Here you will find answers to the following consultation questions;

- Core Questions (Q12 to Q33),
- Gas Distribution Sector Questions (GDQ42 to GDQ53) and
- SGN Questions (SGNQ8).

Section F: Totex incentive mechanism, process concerns, interlinkages and appeals.

Here you will find answers to the following consultation questions;

- Core Questions (Q34 to Q43)
- SGN Questions (SGNQ9)

These sections incorporate our responses to the questions set out in the draft determination appendices. Responses are denoted by: 'Q' for questions from the core document; 'GDQ' for questions from the gas distribution annex; 'FQ' for questions from the Finance annex; 'NARMQ' for questions from the NARMs Annex, and 'SGNQ' for questions from the SGN Annex.

For each substantive point we have then applied the following nomenclature;

Type 1. Factual or computational errors.

Type 2. Inconsistencies in stated approach or in the application of a methodology.

Type 3. Disagreement as to how the methodology should be applied.

Type 4. New evidence presented to respond to a point.

Type 5. Evidence that SGN has provided but hasn't been taken into account or given sufficient weight or given sufficient weight or given sufficient weight (i.e. SQs responses etc).

Type 6. Broad agreement with position put forward in draft determination.

Where substantial new evidence is provided, or there is a high level of confidentiality associated with the information provided, we have included this as an appendix and referenced it.

SGN

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