

## Consultation on the closeout methodologies for RIIO-GT1

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We are consulting on the closeout methodologies for RIIO-GT1. This document outlines the scope and purpose of the consultation, asks the questions on which we are consulting and explains how you can get involved. Once the consultation is closed, we will consider all responses. We want the consultation process to be transparent.

We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential and, if possible, put the confidential material in separate appendices to your response.

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## Executive summary

The RIIO-GT1 price control ran from 1 April 2013 until 31 March 2021 (an 8-year period). The RIIO-GT1 licence (the GT1 Licence) makes provision in relation to several areas which, due to their uncertain nature, could only be settled once all costs and actual RIIO-GT1 performance are known. This means that some elements of the price control need to be subject to “closeout” once the price control has ended and all the relevant information is available or can be forecast with sufficient accuracy.

We are proposing methodologies to closeout a number of elements of the RIIO-GT1 price control in three broad areas:

- 1) The calculation of financial adjustments under the Incentives Framework<sup>1</sup> for National Grid Gas Transmission’s (NGGT) output delivery against the relevant performance targets, which it was funded to deliver in RIIO-GT1.
- 2) Adjustments to RIIO-GT1 allowances that can be calculated with reference to GT1 Licence definitions and price control algebra, but where final assessment of the relevant information (e.g., actual expenditure incurred) is required to calculate those adjustments.
- 3) Adjustments to RIIO-GT1 allowances to reflect projects that have been delivered without funding, or funded and not delivered, during RIIO-GT1.

We have based the methodologies on the approach and principles that we described in the GT1 Licence, the RIIO-GT1 Strategy Decision, RIIO-GT1 Final Proposals, relevant supplementary documents, and the Price Control Financial Handbook. We have also considered elements of the GT2 Final Determinations where appropriate. This document consults on the methodologies required to close out RIIO-GT1.

We have not included the closeout of Network Output Measures (NOMs) within the scope of this consultation exercise; NOMs closeout will be consulted upon separately due to its cross-sector scope.<sup>2</sup>

We have worked with NGGT to develop these proposed methodologies and, subject to the outcome of wider consultation, a final version will be included in the RIIO-GT2 Price Control Financial Handbook. We welcome views from stakeholders on our suggested approaches outlined in Chapters 2 to 8.

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<sup>1</sup> These are: Stakeholder Satisfaction Output; NTS Shrinkage; Residual Balancing; Demand Forecasting; GHG Emissions; Capacity Constraint Management

<sup>2</sup> <sup>2</sup> [NOMs Closeout Submission Instructions and Guidance](#) (May 21) and [Direction to changes to the NOMs Incentive Methodology](#) (Jun 21) have already been published.

## Related documents

RIIO-T1 Strategy Decision,

<https://www.ofgem.gov.uk/publications/decision-strategy-next-transmission-price-control-riio-t1>

RIIO-T1 Final Proposals for NGGT

<https://www.ofgem.gov.uk/publications/riio-t1-final-proposals-national-grid-electricity-transmission-and-national-grid-gas-overview>

Supplementary documents to the RIIO-T1 Final Proposals

[https://www.ofgem.gov.uk/sites/default/files/docs/2012/12/4\\_riiot1\\_fp\\_finance\\_dec12.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2012/12/4_riiot1_fp_finance_dec12.pdf)

Price Control Financial Handbook

[riio-qt1-price-control-financial-handbook\\_0.pdf](riio-qt1-price-control-financial-handbook_0.pdf) ([ofgem.gov.uk](http://ofgem.gov.uk))

RIIO-2 Final Determinations Transmission and Gas Distribution Network Companies

[www.ofgem.gov.uk/publications/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator](http://www.ofgem.gov.uk/publications/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator)

# 1. Background and overview

## Background

1.1. The RIIO-GT1 price control includes several areas of expenditure that require information on the actual efficient costs incurred, revenue received and/or whether an output is available before they can be settled (or “closed out”). These are compared with the costs, revenues and/or outputs that were assumed in the modelling of Final Proposals to determine the value of any adjustment required for closeout.

1.2. We are proposing methodologies to closeout elements of the RIIO-GT1 price control across three broad areas:

- 1) The calculation of financial adjustments under the Incentives Framework<sup>3</sup> for NGGT’s output delivery against the relevant performance target levels they were funded to deliver in RIIO-GT1. See chapter 2.
- 2) Adjustments to RIIO-GT1 allowances that can be calculated using existing licence definitions and price control algebra but where final assessment of the relevant information (e.g., actual expenditure incurred) is required to calculate those adjustments. This includes the following cost areas:
  - Enhanced Physical Site Security
  - Pipeline Diversions
- 3) Adjustments to RIIO-GT1 allowances to reflect projects that have been delivered without funding, or funded and not delivered, during RIIO-GT1. This includes the following areas:
  - South West Quadrant
  - Hatton compressor
  - Peterborough and Huntingdon compressors

1.3. We have based the methodologies on the approach and principles that we described in the RIIO-GT1 Strategy Decision, RIIO-GT1 Final Proposals, relevant supplementary documents, and the Price Control Financial Handbook.

1.4. We have worked with NGGT to develop the proposed methodologies and are now consulting more widely with all stakeholders. Following a decision on these methodologies, we will engage with NGGT to implement the methodologies and, if necessary, then consult on any required modifications to the RIIO-GT2 gas transmission licence (“the GT2 Licence”).

1.5. We will assess all information provided by NGGT in relation to its RIIO-GT1 performance and consider whether it has delivered on its commitments and taken investment decisions which will provide long term benefits to customers. The onus will

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<sup>3</sup> RIIO-GT1 incentives: Stakeholder Satisfaction Output; Residual Balancing; Demand Forecasting; Shrinkage; Capacity Constraint Management; Maintenance; GHG Emissions (venting)

be upon NGGT to demonstrate that it has efficiently incurred expenditure to deliver consumer benefits.

## Overview of closeout scope

1.6. The majority of the closeout areas are related to adjusting allowances to reflect delivery/non-delivery of funded or unfunded RIIO-GT1 work.

1.7. Table 1 below provides a description of the areas of the RIIO-GT1 price control that require a methodology for closeout.

**Table 1: Cost areas for GT1 closeout**

Area	Description	Approach and proposed timing	Chapter
Pipeline diversions	A "true up" is required if material costs have been incurred during RIIO-GT1.	Closeout will assess efficiently incurred costs within RIIO-GT1 to divert pipelines as a result of legacy obligations and adjust allowances if costs incurred are in excess of RIIO-GT1 materiality threshold.	3
South West Quadrant	A mechanism is required to return allowances to consumers following cancellation of incremental capacity project.	Closeout will enable a PCFM adjustment to ensure RIIO-GT1 allowances and any unearned benefit is returned to consumers and the forecast capital expenditure is removed from NGGT's RAV.	4
Enhanced Physical Site Security	A "true up" is required if material costs have been incurred or avoided due to changes to PSUP requirements during RIIO-GT1.	Closeout will assess efficiently incurred costs within RIIO-GT1 required to progress and implement physical enhancements, verify output delivery, and make relevant adjustment to allowances if costs incurred or avoided are in excess of the RIIO-GT1 materiality threshold.	5
Peterborough and Huntingdon compressors	A mechanism is required to ensure delivery of GT1 compressor projects in GT2 and clawback allowances in the event of non-delivery.	Closeout will create the hooks that ensure this delayed RIIO-GT1 work is delivered in RIIO-GT2.	6
Hatton compressor	An allowance adjustment is required for RIIO-GT1 Non-load capex to give effect to RIIO-GT2 Final Determination decision to fund elements of the Hatton compressor project in GT1.	Closeout will increase NGGT's 2021 Non-load capex allowance through the PCFM for work undertaken developing the Hatton compressor replacement project	7
Disposals	Disposed assets are to be removed from the Regulated Asset Value (RAV).	Closeout will establish the value of the proceeds of disposal and make related RAV adjustments.	8

## Performance assessment submission

1.8. NGGT is to provide details of its RIIIO-GT1 performance in relation to all areas within the scope of closeout (as per Table 1 above) through its 2021 RRP submission and the narrative document included as part of that submission. Ofgem will engage with NGGT following this consultation if any additional information is required.

## Next Steps

1.9. We will review all responses to the consultation, requesting further evidence if necessary. Based on the information received we will update the proposed methodologies, where appropriate.

1.10. We expect to publish our final determination on closeout in early 2022.

1.11. When implementing the methodologies, we will assess the evidence and explanation provided, requesting further evidence if necessary, and determine the value of any adjustment that should be made.

1.12. We expect to follow this with a consultation on any required modifications to the RIIIO-GT2 Licence. We will make any adjustments to NGGT's RIIIO-GT1 allowances as part of the 2022 Annual Iteration Process.

## Your response, data and confidentiality

1.13. You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose.

1.14. If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we will get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

1.15. If the information you give in your response contains personal data under the General Data Protection Regulation 2016/379 (GDPR) and domestic legislation on data protection, the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 2.

1.16. If you wish to respond confidentially, we will keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We will not link responses to respondents if we publish a



summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

## General feedback

1.17. We believe that consultation is at the heart of good policy development. We welcome any comments about how we have run this consultation. We would also like to get your answers to these questions:


1. Do you have any comments about the overall consultation process?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send any general feedback comments to [stakeholders@ofgem.gov.uk](mailto:stakeholders@ofgem.gov.uk)

## How to track the progress of the consultation

[You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. \[Ofgem.gov.uk/consultations\]\(https://www.ofgem.gov.uk/consultations\).](#)


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## 2. Approach to financial methodologies

This section describes the process which the Authority proposes to follow in determining any revisions to the licensees' RIIO-2 RAV balances and revenue for the GD2 Price Control Period.

The section employs the following terms:

- **The RIIO-2 PCFM:** the RIIO-GT2 Price Control Financial Model
- **The Legacy PCFM:** the RIIO-GT1 Price Control Financial Model
- **Revenue RRP:** The GT1 Revenue Regulatory Reporting Pack
- **AIP:** Annual Iteration Process
- **TPCR4:** Transmission Price Control Review 4
- **RAV:** Regulated Asset Value

### Background

2.1. To closeout TPCR4, the RIIO-1 model contained "legacy" adjustments to RAV (LRAV) and revenue (LAR) in the 2013/14 regulatory year. For NGGT, the LAR value was spread over the 8 years of RIIO-1.

2.2. In contrast, the RIIO-1 licence introduced mechanisms that automatically true up revenue for outturn data on an annual basis. Therefore, the RIIO-2 PCFM does not need the same catch-all legacy terms used for TPCR4 closeout. Instead, the LAR term is the sum of the pre-existing true-up mechanisms introduced in RIIO-1 (licence terms MOD, PT, TRU, for example).

2.3. Rather than make a one-off adjustment to RAV at the start of RIIO-2, we now import the final RIIO-1 values into the RIIO-2 PCFM; this reflects the historical adjustments more transparently. Accordingly, the LRAV term has been repurposed to refer to the "outturn" (or ex-post) RAV additions in RIIO-1, rather than a one-off adjustment.

2.4. The revenue adjustment (LAR) in RIIO-2 is the sum of existing true-up mechanisms, which have been extended into RIIO-2 to cover the closeout of RIIO-1.

2.5. One component of the LAR term is "MOD", which is calculated by the RIIO-1 PCFM on an annual basis. The MOD term calculates an appropriate revenue adjustment for a future year, given a set of changes in historical years. MOD has been calculated annually as part of the AIP, and we continue to calculate it.

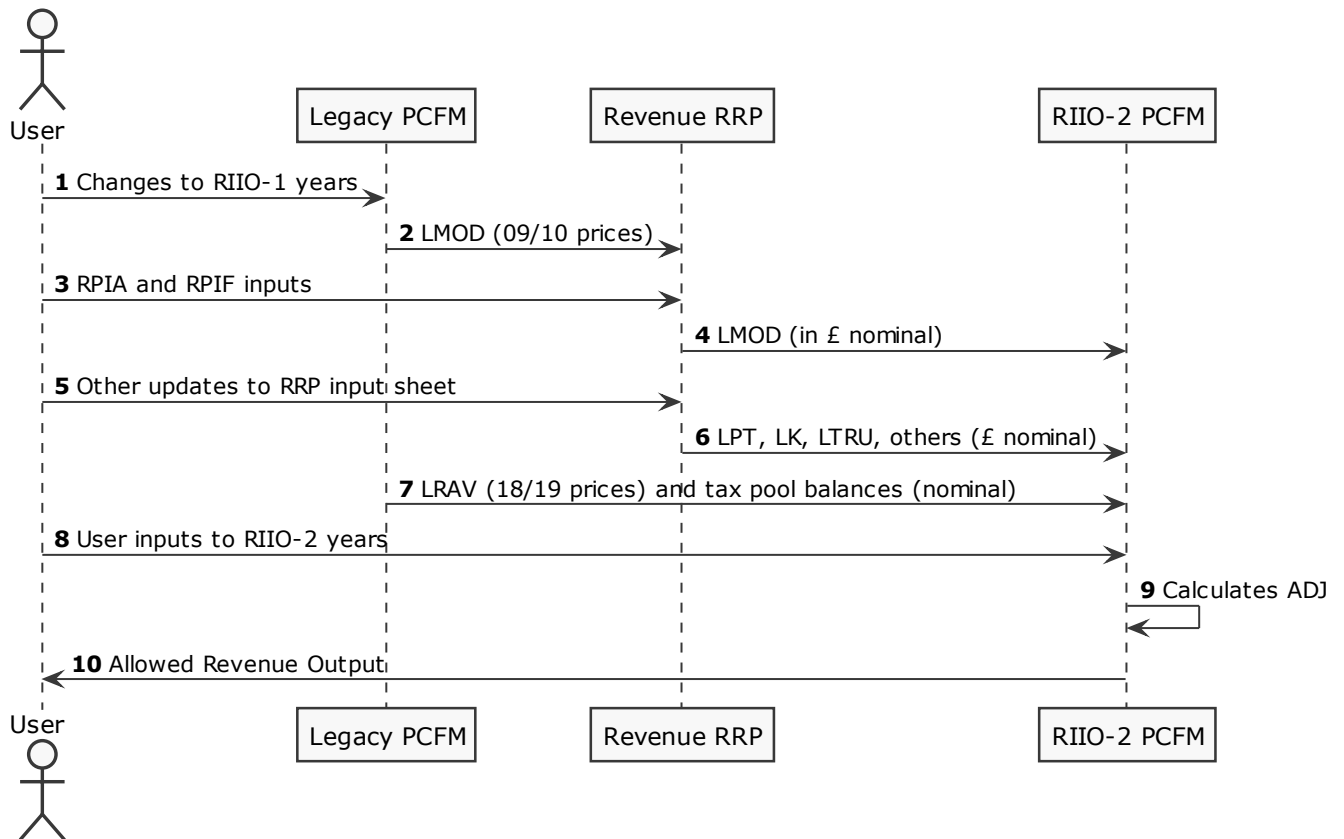
2.6. In the typical RIIO-1 process, the MOD term only reflects changes to pre-defined "variable values", and other values remain fixed through the price control. However, we propose to broaden the scope of historical changes we implement in the RIIO-1 PCFM, and thus extend the function of MOD to capture the effect of RIIO-GT1 closeout.

2.7. For illustration, Figure 1 is a sequence diagram, showing how the Legacy PCFM, Revenue RRP, and RIIO-2 PCFM interact and produce an allowed revenue value for the next regulatory year. Figure 1 should be read from top to bottom (the steps are numbered), while the arrows show where components come from and feed into.

2.8. For example, steps 2 to 4 show the LMOD value is calculated in the Legacy PCFM, converted to nominal prices in the Revenue RRP, and input into the RIIO-2 PCFM, while step 7 shows LRAV inputs come from the Legacy PCFM directly.

2.9. This process is set out in the Price Control Financial Handbook and the network licence special conditions.

**Figure 1: Sequence Diagram of the RIIO-2 AIP with Legacy Adjustments**



## Proposed approach to closeout

2.10. The RIIO-1 AIP updated only “variable values”, unless a modification was made by statutory consultation; however, in principle any ex-post change to RIIO-1 base revenue can be reflected through the MOD process and legacy net RAV additions.

2.11. Therefore, we propose to implement closeout methodologies via the Legacy PCFM by revising “yellow box” (non-variable) values as well as variable values or modifying the Legacy PCFM as necessary. This provides the greatest transparency about the nature of the ex-post adjustment, a reliable way of calculating the impact of changes, and provide a useful data source for the final RIIO-1 performance in the future.

2.12. We propose to implement the methodologies in the November 2022 AIP, though note that corrections can be made in subsequent AIPs if necessary. We have also given the network operator the option to reflect a provisional closing position for RIIO-GT1

through the November 2021 AIP, making clear that any adjustments made in 2021 will be subject to our close-out methodologies and further true-up<sup>4</sup>.

2.13. We note that the RIIO-GT2 Price Control Financial Handbook already posits adjusting the Legacy PCFM to accommodate closeout methodologies, however, we welcome views on what should or should not be finally incorporated into the handbook.

### **Phasing of the impact of closeout**

2.14. In the current AIP process, the cumulative impact of all changes is included in the next MOD value. However, we propose to smooth the impact of the November 2022 AIP legacy adjustments over the remaining three years of RIIO-2 by dividing the LMOD value by three.

### **Question 1: Do you agree with our proposed approach to financial methodologies?**

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<sup>4</sup> In the interim period between the beginning of RIIO-2 and the completion of the RIIO-1 close-out process, we use provisional, estimated values for the RIIO-2 PCFM that are subject to "true-up" following the final decision on our closeout methodologies. See our consultation position on close-out values in the table on page 155 of our [Draft Determinations](#) and see also our [Final Determinations](#) on close-out values in the table on page 119. This is also in line with the process as set out in the RIIO-2 Price Control Financial Handbook, paragraph 8.10, [here](#).

## 3. Pipeline Diversions

This section explains our proposed methodology for closing out the pipeline diversions cost category.

### Background

3.1. Pipeline Diversion costs are those incurred by NGGT in relation to extant liabilities or other obligations to divert existing pipelines. These costs can arise as a result of (i) existing obligations/liabilities taken on by the Gas Council/ British Gas for which NGGT is now responsible, and (ii) where NGGT can demonstrate it has done everything in its powers to recover costs from the relevant party requesting the pipeline diversion.

3.2. Due to the uncertain nature of this work no baseline allowance was provided at RIIO-GT1 Final Proposals and work would instead be funded through an uncertainty mechanism. GT1 Licence Special Condition 5E<sup>5</sup> made provision for two re-opener windows in 2015 and 2018 where NGGT could apply for allowances if it incurred, or expected to incur, costs in excess of the materiality threshold.<sup>6</sup>

3.3. At RIIO-T1 Final Proposals we stated that if costs have not reached the materiality threshold by the second reopener window, we would assess additional costs as part of the next price control review<sup>7</sup>. However, the RIIO-GT1 licence<sup>8</sup> includes no provision to make any revenue adjustment, whether material or immaterial, outside of the two re-opener windows.

3.4. NGGT did not trigger the pipeline diversion re-opener during RIIO-GT1, however assessment of previous annual reports demonstrates that it has incurred costs diverting pipelines during the price control.

### Proposed Approach

3.5. NGGT is to provide information in its 2021 RRP and RRP narrative submissions explaining where costs have been incurred and demonstrating that these costs are efficient.

3.6. If material<sup>9</sup> costs have been incurred, then we propose making an upward revenue adjustment. This will require a licence modification to give effect, however we consider it unreasonable for NGGT to incur material costs delivering work without any allowance when the needs case to do the work is outside of its direct control.

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<sup>5</sup> National Grid Gas Plc (NTS) Gas Transporter Licence Special Conditions, 5E.9, p149-153

<sup>6</sup> The materiality threshold for this condition was 1 percent of average annual forecast revenue following application of the totex incentive mechanism sharing factor.

<sup>7</sup> RIIO-T1: Final Proposals for NGET and NGGT - Cost assessment and uncertainty annex, para 3.41

<sup>8</sup> National Grid Gas Plc (NTS) Gas Transporter Licence Special Conditions, p149-153

<sup>9</sup> NGGT materiality threshold is 1 per cent of average annual forecast revenue after the application of the totex efficiency incentive rate (RIIO-GT1 Final Proposals, Overview, para 4.48)

Therefore, we consider a licence modification would be appropriate in these circumstances.

3.7. If costs incurred are immaterial then we propose that there is no revenue adjustment made at closeout and that expenditure is treated as totex and subject to the Totex Incentive Mechanism (TIM) sharing factor. We consider this approach protects both NGGT and consumers.

3.8. Ofgem will assess the information provided by NGGT and determine whether efficient costs have been incurred above/below the materiality threshold, and if necessary, adjust allowances as per paragraphs 3.6-3.7.

**Question 2: Do you agree with our proposed methodology for pipeline diversions?**

## 4. South West Quadrant

This section explains our proposed methodology for closing out the South West Quadrant incremental capacity project.

### Background

4.1. At RIIO-GT1 Final Proposals we allowed NGGT baseline funding to deliver an incremental capacity project in the South West Quadrant<sup>10</sup> that had been signalled ahead of the price control. However, the project was cancelled prior to construction with no costs incurred.

4.2. The forecast capital expenditure for this project was added to NGGT's RAV and NGGT has made returns on this project throughout RIIO-GT1. NGGT has committed to returning the allowance and any unearned RAV returns in relation to the South West Quadrant project to consumers in full.

### Proposed approach

4.3. We intend for the full allowance for the South West Quadrant project, as well as any additional unearned benefit NGGT has received by way of RAV returns throughout RIIO-GT1, to be returned to consumers through an adjustment to the legacy PCFM.

4.4. We propose to use the same methodology as was adopted following the cancellation of the incremental capacity project at Fleetwood, which was funded via the same mechanism as the South West Quadrant project and also cancelled prior to any project costs being incurred.<sup>11</sup>

4.5. This involves adjusting the allowance values that were reflected in the GT1 PCFM input sheet for NGGT to reflect that no expenditure was actually incurred by NGGT in relation to this project. These values are shown in cells AH265:AN266 of the NGGT TO sheet of the GT1 Legacy PCFM and will be replaced by zeroes.

4.6. This adjustment will then automatically correct the RAV and base revenue values for the RIIO-GT1 period and will feed through to the RIIO-GT2 LRAV and LMOD variable values.

4.7. A similar adjustment will be made to remove the revenue relating to the South West Quadrant project that was still reflected at the end of the RIIO-GT1 price control.

### Question 3: Do you agree with our proposed methodology for the South West Quadrant project?

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<sup>10</sup> [RIIO-T1 Final Proposals, Cost assessment & uncertainty Annex](#), para 7.65

<sup>11</sup> [Fleetwood Decision 2017](#)

## 5. Enhanced Physical Site Security (PSUP)

This section explains our proposed methodology for closing out the PSUP cost category.

### Background

5.1. As part of the UK government's Physical Security Upgrade Programme (PSUP), networks are required to implement physical security enhancements at sites listed as Critical National Infrastructure (CNI). The Department for Business, Energy and Industrial Strategy (BEIS) determines which sites require upgrades, and the design specification at each site must meet the requirements of the Centre for the Protection of National Infrastructure (CPNI)<sup>12</sup>.

5.2. PSUP is a cross-sector programme. At RIIO-GT1 Final Proposals network companies were provided baseline funding for known PSUP projects, and Special Condition 3F of the RIIO-GT1 licence makes provision for allowance adjustments following re-opener applications in 2015 and 2018. However, it includes no explicit provision to either (i) true-up immaterial costs or (ii) make allowance adjustments for material costs as part of RIIO-GT1 closeout.

### Proposed approach

5.3. NGGT is to provide evidence demonstrating delivery of funded PSUP work through the 2021 RRP and RRP Commentary and by providing relevant Tech Audits detailing the work undertaken and Government sign-off on the project(s).

5.4. Ofgem acknowledge that project construction can span a considerable amount of time and it may not be feasible to complete all PSUP projects that began towards the end of RIIO-GT1 before the price control ends. Delivery of these projects may also have been impacted by the Covid-19 restrictions.

5.5. NGGT is to identify any such projects, inform Ofgem of the expected completion date, and submit a Tech Audit to Ofgem upon completion of the project(s).

5.6. NGGT is also to provide details of any PSUP work undertaken for which it has not received an allowance in RIIO-GT1 and provide evidence as appropriate to demonstrate that the costs incurred on these projects are efficient.

5.7. Furthermore, NGGT is also to provide details of any PSUP projects that it has received funded for in RIIO-GT1 which were not required to be delivered following changes to the Government's CNI list.

#### *Methodology*

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<sup>12</sup> [CPNI: Centre for the Protection of National Infrastructure](#)



5.8. It is BEIS, rather than Ofgem, that ensures work undertaken has been done to the requisite specification and therefore Ofgem propose to undertake only a light-touch assessment to understand any variance between allowances and actual costs in order to inform any future PSUP cost assessment.

5.9. If NGGT has incurred efficient costs in excess of the RIIO-GT1 materiality threshold for which it has not been funded, or if NGGT has been funded a material amount to deliver projects that were later cancelled, Ofgem proposes to make an allowance adjustment to true-up those costs.

5.10. Ofgem propose to net off the costs incurred against the costs avoided when determining whether the costs are in excess of the materiality threshold and if an allowance adjustment is required. If the net costs incurred or avoided fall beneath the materiality threshold, we propose that there is no revenue adjustment made at closeout and that expenditure is treated as totex and subject to the TIM sharing factor.

#### *Licence modification*

5.11. The RIIO-GT1 licence makes no provision to make an allowance adjustment outside of the two re-opener windows and therefore a statutory consultation will be required to modify the licence and give effect to the proposed methodology above, in the event that the net costs are in excess of NGGT's materiality threshold.

5.12. We consider it necessary to protect both consumers and network companies by ensuring that networks are not exposed to material costs for which they have not been funded, and that consumers do not provide material revenues for which no output is delivered.

#### **Question 4: Do you agree with our proposed methodology for PSUP?**

## 6. Peterborough & Huntingdon compressors

This section explains our proposed methodology for closing out the Peterborough and Huntingdon compressor replacement projects.

### Background

6.1. NGGT operates a number of gas-fired compressor units across the gas transmission network. These compressors maintain the required pressure of gas on the network and help ensure that gas is transported across the network to where it is needed. The operation of gas fired compressor units results in the emission of air pollutants, such as carbon monoxide and nitrous oxides, and NGGT is obliged under law to control and manage the release of these air pollutants.

6.2. At RIIO-GT1 Final Proposals<sup>13</sup> Ofgem confirmed its intention to set ex-ante baseline funding for Peterborough & Huntingdon and Aylesbury to achieve compressor emissions compliance to comply with IPPCD Phase 3<sup>14</sup> and IED phase 1<sup>15</sup>. A total of £142.7m<sup>16</sup> (09/10 prices) of allowances was provided across the three sites.

6.3. These projects were all originally due to be delivered by 2020. The project at Aylesbury has been completed, however the projects at Peterborough and Huntingdon were delayed, due to Covid and other factors impacting NGGT's ability to deliver the work. Completion is now expected by 2023 (in line with emissions compliance requirements).

6.4. Assessment of information previously submitted by NGGT indicates that NGGT has overspent its RIIO-GT1 allowance for both the Peterborough and Huntingdon compressor projects and no additional allowance was provided at RIIO-GT2 Final Determinations to complete the undelivered projects.

6.5. In bilateral discussions to date NGGT has committed to delivering these projects in RIIO-2 from its existing totex allowances and does not intend to request any additional funding at close out for either RIIO-GT1 costs incurred in excess of the allowance or for RIIO-GT2 forecast costs to project completion.

### Proposed approach

6.6. Ofgem determined the allowance for these compressor projects based on the information provided by NGGT and following a robust cost assessment process. This best view of efficient costs has not changed and Ofgem does not propose to adjust allowances for the projects in response to any challenges NGGT has encountered delivering the work in RIIO-GT1.

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<sup>13</sup> RIIO-T1: Final Proposals for NGET and NGGT – Cost assessment and uncertainty, p98, 7.93-7.95

<sup>14</sup> As above

<sup>15</sup> As above

<sup>16</sup> As above

6.7. We intend to ensure the closeout methodology protects consumers from the risk of non-delivery of these RIIO-GT1 outputs in RIIO-GT2.

6.8. As NGGT has already overspent its allowance to deliver the projects and Ofgem do not propose to make any additional allowance adjustments at closeout, we propose that any RIIO-GT1 allowance overspend is treated as totex and subject to the TIM.

6.9. Ofgem proposes to consider these outputs delivered upon commissioning of each unit. NGGT is to provide a copy of the commissioning certificates at RIIO-GT2 close out for review and once these have been reviewed and assessed Ofgem will inform NGGT in writing that we are satisfied that these outputs have been delivered.

6.10. Until such times as these outputs are delivered to Ofgem's satisfaction as set out above Ofgem will not consider this aspect of the RIIO-GT1 package to be delivered. We may re-assess the work done and costs incurred to determine if, and to what extent, non-delivery may have resulted in consumer detriment.

6.11. As such, Ofgem propose attaching a Price Control Deliverable (PCD) to these projects in NGGT's GT2 Licence to ensure that if the projects are not delivered consumers are not exposed to the cost of non-delivery.

6.12. We acknowledge that this will require a licence modification to give the PCD effect, however given the materiality of the investments Ofgem considers this necessary in order to protect consumers' interests.

6.13. We propose that incurred costs in RIIO-GT2 are to be reported as a specific project under the compressor emissions cost category as non-load capex in RIIO-GT2 RRs and treated as totex, therefore all RIIO-GT2 expenditure will be subject to the TIM.

**Question 5: Do you agree with our proposed methodology for the Peterborough and Huntingdon compressor projects?**

## 7. Hatton compressor

This section explains our proposed methodology for closing out the RIIO-GT1 element of the Hatton compressor replacement project.

### Background

7.1. The Industrial Emissions Directive (IED) is one of the three main Directives influencing NGGT's compressor operations. Under this directive NGGT were required to decommission two IED non-compliant RB211 compressor units at Hatton<sup>17</sup>.

7.2. In May 2018, NGGT submitted a reopener application for an allowance to deliver the work. We stated in our RIIO-T1 2018 reopener Decision that there remained uncertainty about the best solution and the costs associated to the Hatton Compressor and that we would consider funding at a later date when there was greater certainty on both.

7.3. In June 2019, NGGT submitted an updated needs case assessment. We agreed the need to build a single new compressor unit at Hatton and agreed that funding would be assessed as part of the RIIO-GT2 price control settlement.

7.4. However, we also recognised that NGGT may need to incur expenditure at Hatton relating to compliance with emissions control legislation during the RIIO-GT1 period (i.e., before April 2021), and if so, we said that we would consider providing appropriate funding as part of the close out process for RIIO-GT1, provided NGGT was able to demonstrate that the expenditure was necessary, proportionate, and efficient<sup>18</sup>.

7.5. In its RIIO-GT2 Business Plan submission, NGGT requested funding for the full project costs including Front-End Engineering Design (FEED). However, it forecast some initial spend in RIIO-GT1 to develop the project, with the actual construction costs then going into RIIO-GT2<sup>19</sup>.

7.6. At RIIO-GT2 Final Determinations we set NGGT an allowance of £74.51m to replace one compressor unit at Hatton to achieve compliance with environmental legislation (Industrial Emissions Directive (IED)). This allowance included £5.38m of funding in RIIO-GT1 for project development costs.<sup>20</sup> To date, NGGT has received no allowance to deliver the RIIO-GT1 element of this work.

### Proposed approach

7.7. We intend to give effect to our RIIO-GT2 Final Determinations decision and increase NGGT's RIIO-GT1 allowance by £5.38m. The funding adjustment at RIIO-GT1

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<sup>17</sup> [National Grid Gas Transmission's compressor investment needs case at St Fergus and Hatton decision letter](#)

<sup>18</sup> RIIO-T1: 2018 reopener decision letter

<sup>19</sup> [National Grid Gas Transmission's compressor investment needs case at St Fergus and Hatton decision letter](#)

<sup>20</sup> RIIO-2 Final Determinations, NGGT Annex, para 3.48

close out is intended to cover costs already incurred, which includes FEED and the machine deposit.

7.8. When we assess the RIIO-GT2 PCD, we will assess the delivery of the whole project, making any adjustment as necessary to account for efficient costs provided for at RIIO-GT1 closeout.

7.9. We propose that any over or under-spend against the 2020/2021 RIIO-GT1 allowance is treated as totex and subject to the TIM sharing factor.

#### *Proposed Methodology*

7.10. We propose to adjust the PCFM input and increase NGGT's 2020/2021 non-load related capex allowance by £5.38m<sup>21</sup>.

7.11. We propose that this methodology will be implemented by adjusting the PCFM Variable Value IAEIE (Uncertain costs – Industrial Emissions) in the GT1 Legacy PCFM and re-running the legacy PCFM to calculate revised LMOD and LRAV variable values, which will feed into the RIIO-GT2 PCFM per the process described in Chapter 2 of this document.

#### **Question 6: Do you agree with our proposed methodology for the Hatton compressor project?**

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<sup>21</sup> This is the figure published in RIIO-GT2 Final Determinations, and is therefore in the 2018/19 price base

## 8. Disposals

This section explains our proposed methodology for closing out NGGT's RIIO-GT1 disposals.

### Background

8.1. When a licensee sells an asset that was originally funded by consumers, we think the proceeds of that asset sale should be passed to consumers.

8.2. Where network assets are no longer required, NGGT may dispose of such assets or relinquish operational control of them, subject to the consent of stakeholders (e.g., landowners). Some of these transactions may include the disposal of land.

### Proposed approach

8.3. NGGT is to provide Ofgem with details of any assets or land disposals in RIIO-GT1. Ofgem will undertake a light touch assessment of the disposal of any network assets to ensure the sale price reflects true market value.

8.4. For asset and related land disposed of in RIIO-GT1, we propose that RAV is adjusted to reflect the net sale proceeds. The proposed methodology would entail netting off the proceeds of disposals from RAV additions, with tax implications also considered. The proposed formula for this true-up is:

true-up value = (proceeds of disposal - costs of disposal) x (1- tax rate)

8.5. Any disposals will be included within the year the disposal took place, thus considering the time value of money. This will remove any residual asset value from the RAV.

**Question 7: Do you agree with our proposed methodology for disposals?**

## **Appendix 1 – Consultation questions**

Question 1: Do you agree with our proposed approach to financial methodologies?

Question 2: Do you agree with our proposed methodology for pipeline diversions?

Question 3: Do you agree with our proposed methodology for South West Quadrant?

Question 4: Do you agree with our proposed methodology for PSUP?

Question 5: Do you agree with our proposed methodology for the Peterborough & Huntingdon compressor projects?

Question 6: Do you agree with our proposed methodology for the Hatton compressor project?

Question 7: Do you agree with our proposed methodology for disposals?

## Appendix 2 – Privacy notice on consultations

### Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

### 1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at [dpo@ofgem.gov.uk](mailto:dpo@ofgem.gov.uk)

### 2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

### 3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

### 3. With whom we will be sharing your personal data

***(Include here all organisations outside Ofgem who will be given all or some of the data. There is no need to include organisations that will only receive anonymised data. If different organisations see different set of data then make this clear. Be as specific as possible.)***

### 4. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for ***(be as clear as possible but allow room for changes to programmes or policy. It is acceptable to give a relative time e.g. 'six months after the project is closed')***

### 5. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3<sup>rd</sup> parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.



**6. Your personal data will not be sent overseas** (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use “the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this”.

**7. Your personal data will not be used for any automated decision making.**

**8. Your personal data will be stored in a secure government IT system.** (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

**9. More information** For more information on how Ofgem processes your data, click on the link to our [“Ofgem privacy promise”](#).