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Sent by email to: jon.sharvill@ofgem.gov.uk

Dear Jon,

Consultation on the closeout methodologies for RIIO-GD1

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group.

Sub-Deduct Networks and Enhanced Physical Site Security outputs:

It is appropriate for the Sub-Deduct Networks and Enhanced Physical Site Security outputs to be excluded from the scope of the RIIO-GD1 closeout since the delivery of these outputs has been delayed to RIIO-GD2. It is, therefore, appropriate that any over- or under-spend against expenditure allowances provided during RIIO-GD1 to fund the delivery of these outputs is treated as totex and subject to the Totex Incentive Mechanism (TIM) sharing factor.

The following are needed to ensure the network companies do not benefit financially by delivering outputs later than agreed:

- The relevant sharing factors that should be applied are those that were set for RIIO-GD1. The TIM sharing factors were reduced from an average of 63% for RIIO-GD1 to an average of 49% for RIIO-GD2.¹ Applying the RIIO-GD2 TIM sharing factors would result in the network companies benefiting financially because they are less exposed to over-spends.
- Any timing benefit that accrued to the GDNs because they received expenditure allowances before they were needed should be returned to consumers.

Ofgem should also confirm whether the GDNs received additional allowances as part of the RIIO-GD2 settlement to complete delivery of the outstanding outputs. If so, those allowances should be returned to consumers, to avoid consumers being required to 'double-fund' a portion of the outputs.

¹ RIIO-2 Final Determinations – GD Sector Annex paragraph 1.16.
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Capacity utilisation output:

We previously raised significant concerns about the rebasing of targets for the Network Outputs relating to the network asset health towards the end of the RIIO-GD1 price control and performance assessment based on the rebased targets². It is not in the interests of consumers that performance against yet another aspect of the RIIO-GD1 price control - the Capacity Utilisation output - will also be assessed on a different basis compared to for setting allowances. It is also not in the interests of consumers that stakeholders were not made aware of this issue when the asset health targets were rebased.

We continue to believe that assessing performance on a different basis compared to that for setting allowances could give rise to windfall gains or losses accruing to the network companies, neither of which is in consumers' interests. It is important that performance is assessed on the same basis as a 'sense-check', as Ofgem has agreed to do for the asset health outputs³. Both parallel performance assessments should be published.

It has not been explained in the consultation whether there is overlap in terms of activities needed to satisfy the iron mains risk reduction programme, capacity utilisation and asset health outputs. It has not been explained whether the scope of all three output types overlap. If there is overlap in terms of activities or the scope of all three output types, we recommend that the closeout of the iron mains risk reduction programme is conducted at the same time that performance against the asset health and capacity utilisation outputs is assessed.

We hope you find these comments helpful. Please contact me if you have any questions.

Yours sincerely,

Gregory Edwards
Network Regulation Manager
Centrica Regulatory Affairs & Policy

² For example, in our response to the RIIO-1 NOMs Incentive Mechanism Consultation.

³ See response log for the RIIO-1 NOMs Incentive Mechanism Consultation.