

**Smell gas?**

Call the National Gas Emergency Service  
on 0800 111 999

4<sup>th</sup> February 2022

Jon Sharvill  
Network Price Controls  
Ofgem  
10 South Colonnade  
Canary Wharf  
London  
E14 4PU

Dear Jon

**Northern Gas Networks response to Ofgem Consultation on the closeout methodologies for RIIO-GD1**

Thank you for the opportunity to respond to this consultation. Northern Gas Networks (NGN) welcomes the opportunity to provide feedback on the proposed closeout methodologies for RIIO-GD1. We recognise that these methodologies have taken into account much of the Gas Distribution Network (GDN) feedback provided during the development phase over the last year. Our responses to the specific questions is detailed below:

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

We agree with the proposed approach to financial methodologies.

**Question 2: Do you agree with our proposed methodology for the iron mains risk reduction programme?**

We agree with the proposed methodology, namely that:

- Any over or under spend against the allowances is treated as Totex and subject to the Totex Incentive Mechanism sharing factor;
- No adjustments are made to either RIIO-GD1 allowances or RIIO-GD2 workload or expenditure targets.

**we are  
the network**

Northern Gas Networks Limited is registered in England and Wales, no. 5167070.  
Registered office: 1100 Century Way, Thorpe Park Business Park, Colton, Leeds LS15 8TU



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For the avoidance of doubt NGN intend to deliver the remaining Tier 1 workload as evenly as possible over the remaining 11 years of the iron mains risk reduction programme i.e. until 2032. This means an increase of c8km (1.8%) workload per annum, to be funded through the existing Tier 1 Mains and Services volume drivers.

### Question 3: Do you agree with our proposed methodology for the FPNES?

We agree with the proposed methodology to make allowance adjustments for over or under delivery against RIIO-GD1 targets through the legacy RIIO-GD1 PCFM.

### Question 4: Do you agree with our proposed methodology for capacity utilisation?

We agree that there is no requirement for a separate capacity utilisation close out methodology, and it should be included within the wider NOMs methodology.

### Question 5: Do you agree with our proposed methodology for the reliability output?

We agree that the performance data should be analysed and discussed within the 2020/21 annual report on a reputational basis.

### Question 6: Do you agree with our proposed methodology for the Shrinkage and Environmental Emissions Incentive?

We agree that Option B is the best option for RIIO-GD1 close out, namely that the methodology remains as per the current RIIO-GD1 licence mechanism. Regarding the RIIO-GD2 incentive, we will continue to engage with Ofgem in 2022 in order to develop an appropriate incentive mechanism that supports the outputs from COP26.

### Question 7: Do you agree with our minded-to position in respect of the pre-RIIO-GD1 period, i.e., to correct the provisional adjustment and align the treatment of net interest on derivatives with the policy intent of the clawback mechanism as set out in the 2009 Open Letter? If not, please explain why.

Not applicable.

### Question 8: As regards clawback during RIIO-GD1, which of options one and two do you consider to be more appropriate? Please explain why.

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Not applicable.

**Question 9: Do you agree with our proposed methodology for disposals?**

We agree with the proposed methodology, namely that the assumed disposals within the PCFM are true-up to the actual disposals reported within the RIIO-GD1 RRP to ensure that these actual values are deducted from the RAV with a five-year lag.

Please contact me should you have any queries about this response.

Yours sincerely

*By email*

David Pearson  
Head of Regulation

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