

Jon Sharvill
Ofgem
By email only

Tony Nixon
Regulation Director
National Grid

Tony.Nixon@nationalgrid.com
Direct Tel +44 07973 236122

11 February 2022

www.nationalgrid.com

Dear Jon,

Consultation on the closeout methodologies for RIIO-GT1

We welcome the opportunity to respond to the consultation on the closeout methodologies for RIIO-GT1. This response is made on behalf of National Grid Gas (NGG).

We support Ofgem's proposed methodologies and the scope defined in the consultation for RIIO-GT1 closeout. We welcome further engagement with Ofgem ahead of the final decision to establish the details around the requirements expected as part of our Regulatory Reporting Pack (RRP) submission in July 2022 as well as the process around the statutory licence modifications relating to the suggested Price Control Deliverable (PCD) in RIIO-GT2 for our Peterborough and Huntington compressor projects. In the appendix to this letter, we set out our detailed comments in relation to the proposed closeout methodologies.

We hope you find this response helpful. If you would like to discuss any of our response further, please do not hesitate to contact me or Barbara.Grabe-Yates@nationalgrid.com.

Yours sincerely,



Tony Nixon
Regulation Director

Appendix

Section	Comment
Executive summary	<p>We agree with the scope of the RIIO-GT1 closeout and the detail provided as part of the methodology consultation. Ofgem references three broad areas to which they are proposing closeout methodologies for. One of those is the calculation of financial adjustments under the Incentive Framework for NGG. The remaining consultation document does not give any further detail on this topic. We would therefore recommend excluding topic 1) from the consultation or referencing that the closeout calculation of the Incentive Framework have already been considered as part of the RIIO-GT2 Licence and Price Control Financial Model (PCFM).</p>
Chapter 1	<p>Paragraph 1.2(1) refers to Chapter 2 for further detail on the calculation of financial adjustments under the Incentives Framework but, as referred to above, Chapter 2 does not provide further detail.</p> <p>In paragraph 1.8. Ofgem details that NGG is to provide details of the RIIO-GT1 performance in relation to all areas within the scope of closeout through the 2021 RRP submission and the narrative document included as part of that submission. This is also detailed in paragraph 3.5 for pipeline diversions and paragraph 5.3 for Enhanced Physical Site Security (PSUP). Could Ofgem please clarify, if this is related to our upcoming RRP submission for the financial year 2021/22. If yes, (which is our assumption) please could the wording be adjusted to “2021/22 RRP submission” in these relevant paragraphs. We welcome Ofgem’s proposal to engage on this topic following this consultation to establish the additional information required for the July 2022 RRP submission.</p>
Chapter 2- Approach to financial methodologies	<p>Question 1: Do you agree with our proposed approach to financial methodologies?</p> <p>We agree with the proposed approach to the financial methodologies, we have the following comments:</p> <p>The section description box should refer to GT2 not GD2.</p> <p>Paragraph 2.14 details that legacy adjustments are to be divided over three years. Our assumption has always been that a network could choose to take the legacy revenue adjustment in one year or smooth over more years to reduce the impact on the consumer. We suggest rewording paragraph 2.14 to give NGG the option of dividing the adjustments or having a one year impact.</p>
Chapter 3 - Pipeline Diversions	<p>Question 2: Do you agree with our proposed methodology for pipeline diversions?</p> <p>We agree with the proposed methodology for pipeline diversions, we have the following comments:</p> <p>Paragraph 3.5: As detailed in our comment to chapter 1, we seek clarity from Ofgem and welcome further engagement on the information required on closeout areas such as legacy pipeline diversions as part of the 2021/22 RRP. The projects delivered under legacy pipeline diversions in RIIO-GT1 have been completed and there will be no further spend in RIIO-GT2. We would therefore</p>

not expect these to be reported as part of RRP 2022 submission. As reported as part of the RRP in RIIO-GT1, the costs for pipeline diversion projects delivered fall under the materiality threshold. Therefore, we would like to understand, if additional information (if any) to what we have already provided as part of RIIO-GT1 RRP, Ofgem would like us to submit as part of the July 2022 RRP submission (paragraph 3.8).

Chapter 4 - South West Quadrant

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

We agree with the proposed methodology for the South West Quadrant project and we have calculated the revenue impact within the RIIO-GT1 PCFM and included the value in LMOD2 for the November 2021 Annual Iteration Process (AIP).

Chapter 5 - Enhanced Physical Site Security (PSUP)

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

We agree with the proposed methodology for PSUP, we have the following comments:

Paragraph 5.3 and 5.6: As detailed in our comment to chapter 1, we seek clarity from Ofgem and welcome further engagement on the information required on closeout areas such as PSUP as part of the 2021/22 RRP. With regard to PSUP, could Ofgem please specify, if the proposed Tech Audit(s) for completed sites would need to be provided for all PSUP sites delivered in RIIO-GT1 or only for the sites where the completion has been delayed into RIIO-GT2. Additionally, we would welcome clarification from Ofgem at which stage of the project we would provide these audits.

Paragraph 5.5: We have identified projects being delayed into RIIO-GT2 as part of our RRP submission for the financial year 2020/21 and we will include an update and costs as part of our 2021/22 RRP submission, where we will provide an update on the expected completion dates.

Paragraph 5.7: Could Ofgem please detail, if we would need to submit any further evidence of the information provided regarding the Governance's mandate on the list CNI sites above and beyond what we have provided as part of the May 2015 and May 2018 reopeners.

Paragraph 5.10 details that expenditure is treated as totex and is subject to the TIM sharing factor. As we highlighted as part of our 2020/21 RRP submission, we will incur spend in RIIO-GT2 on sites to be completed in RIIO-GT2. We would like to include in paragraph 5.10 the same wording as detailed for the Peterborough and Huntingdon compressor closeout methodology (paragraph 6.13): *"We propose that incurred costs in RIIO-GT2 are to be reported as a specific project under the PSUP cost category as non-load capex in RIIO-GT2 RRP and treated as totex, therefore all RIIO-GT2 expenditure will be subject to the TIM."*

Please see our response from 24th January 2022 to Ofgem's Consultation for the Standard Special Condition A40 for the RIIO-GT2 draft annual reporting data templates and associated regulatory instructions and guidance for our proposed way to report costs as part of the RIIO-GT2 RRP associated to those projects.

**Chapter 6 –
Peterborough &
Huntingdon
compressors**

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

We agree with the proposed methodology for the Peterborough and Huntingdon compressor projects. We would like to work with Ofgem to understand, if this would mean an additional Special Condition as part of the NGG licence or if the proposed PCD would be included as part of the existing Special Condition 3.11 Compressor emissions Re-opener and Price Control Deliverable.

As this PCD will not adjust any allowances (paragraph 6.6), we would like further clarity from a PCFM point of view, if Ofgem are proposing to include a line in the PCFM with the other PCD project's, but with zero allowances for consistency.

**Chapter 7 – Hatton
Compressors**

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

We agree with the proposed methodology for the Hatton compressor project.

**Chapter 8 –
Disposals**

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

We agree with the proposed methodology for disposals, we have the following comments:

As per paragraph 8.3. Ofgem are planning to undertake a light touch assessment of the disposal of any network assets to ensure the sale price reflects true market value. Given the materiality of the NGGT disposals, we would welcome further clarity, if we would provide any additional information, we have not already provided as part of the RIIO-GT1 RRP.

Paragraph 8.4 states the proposed methodology would entail netting off the proceeds of disposals from RAV additions. Currently the additions in the RIIO-GT2 PCFM the RIIO-1 LRAV are hardcoded numbers, could Ofgem confirm how we are going to show the deductions. This comment also applies to chapter 4 and the treatment of the South West Quadrant project.