

# Decision

## **RIIO-GD1 Close out - Decision on proposed adjustments**

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The previous gas distribution price control (RIIO-GD1) ended on 31 March 2021. It had several elements which could not be settled until the price control had ended. We have now assessed company performance for these areas and have come to a decision on revenue adjustments.

We have made decisions on the adjustments required under each of the RIIO-GD1 Close out areas for each of the Gas Distribution Network operator (GDN) licensees. We received a number of responses to the consultation from stakeholders. Non-confidential responses have been published alongside this document.

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## **Executive Summary**

RIIO-GD1 made provision in relation to several areas which, due to their uncertain nature, could only be settled once all costs and RIIO-GD1 performance was known. This means that certain elements of the price control need to be subject to “closeout” once the price control has ended.

We received four responses to the consultation, including one which is classed as confidential. All responses have nonetheless been considered carefully. The remaining three responses have been published alongside this decision document.

### **To close out the RIIO-GD1 price control, the following areas were assessed:**

- Iron mains risk reduction programme (IMRRP)
- Fuel Poor Network Extension Scheme (FPNES)
- Reliability (Interruptions)
- Shrinkage and Environmental Emissions Incentives

We have assessed GDN’s performance against these areas and have come to a decision on revenue adjustments.

### **Summary of our assessment**

The result of our assessment of company performance under each mechanism is explained in more detail later in this document. In summary our decision is that:

**Overall, total revenue adjustments of (-£22.8m) (09/10 prices) against RIIO-GD1 allowances across all mechanisms and all licensees, as detailed in the table below. All adjustments will be made through the RIIO-GD2 revenues.**

**Table 1: RIIO-GD1 Closeout – total revenue adjustments (£m, 2009/10 prices)**

<b>Area</b>	<b>Value of adjustment across all licensees (£m)</b>
<b>Iron mains risk reduction</b>	0
<b>FPNES</b>	(-2.7)
<b>Reliability (Interruptions)</b>	N/A (Reputational only)
<b>Shrinkage and Environmental Incentives</b>	(-20.1)
<b>Total value of adjustment</b>	<b>(-22.8)</b>

## **Context and related publications**

RIIO-GD1 Close out – Consultation on proposed adjustments

[RIIO-GD1 Close out: Consultation on proposed adjustments \(ofgem.gov.uk\)](https://www.ofgem.gov.uk/publications/consultation-closeout-methodologies-riio-gd1)

Consultation on the methodologies to closeout RIIO-GD1

<https://www.ofgem.gov.uk/publications/consultation-closeout-methodologies-riio-gd1>

Decision on the methodologies to closeout RIIO-GD1

<https://www.ofgem.gov.uk/publications/decision-closeout-methodologies-riio-gd1>

RIIO-GD1 Strategy Decision

<https://www.ofgem.gov.uk/publications/decision-strategy-next-gas-distribution-price-control-riio-gd1>

RIIO-GD1 Final Proposals

<https://www.ofgem.gov.uk/publications/riio-gd1-final-proposals-overview>

Supplementary documents to the RIIO-GD1 Final Proposals

[https://www.ofgem.gov.uk/sites/default/files/docs/2012/12/3\\_riiogd1\\_fp\\_finance\\_and\\_uncertainty\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2012/12/3_riiogd1_fp_finance_and_uncertainty_0.pdf)

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[https://www.ofgem.gov.uk/sites/default/files/docs/2012/12/2\\_riiogd1\\_fp\\_outputsincentives\\_dec12\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2012/12/2_riiogd1_fp_outputsincentives_dec12_0.pdf)

Price Control Financial Handbook

<https://www.ofgem.gov.uk/publications/decision-modifications-riio-2-price-control-financial-instruments-and-licence-conditions-implement-closeout-riio-1>

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)

### **Our decision-making timeframe**

<b>Date</b>	<b>Stage description</b>
18/09/2023	Stage 1: Consultation open
16/10/2023	Stage 2: Consultation closes (awaiting decision), Deadline for responses
14/11/2023	Stage 3: Responses reviewed and published
14/11/2023	Stage 4: Consultation decision/policy statement

### **Next steps**

The final adjustments will be made through the RIIO-GD1 Legacy PCFM, which will be reflected in the RIIO-2 PCFM for the purpose of the 2023 Annual Iteration Process (AIP) via the closeout adjustment terms.

## **General feedback**

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this report. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
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. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments?

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

## 1. Iron Mains Risk Reduction Programme

### Summary

- 1.1 Iron mains risk reduction was one of the primary measures of the safety output category throughout RIIO-GD1. GDNs undertook the long-term programme of replacing iron mains (repex) on their networks on the basis of the Health and Safety Executive (HSE) iron mains policy.

### Closeout Assessment

- 1.2 All GDNs met/exceeded their targets for RIIO-GD1 and therefore delivered the Primary Output. We did not propose any revenue adjustment nor revision of RIIO-GD2 targets. We decided<sup>1</sup> that any over or underspend against allowances will be treated as totex and subject to the RIIO-GD1 Totex Incentive Mechanism (TIM) sharing factor.
- 1.3 We have reviewed the RRP the GDNs submitted throughout the price control and have summarised company performance against their respective commitments below:

Table A1.1 IMRRP RIIO-GD1 Performance

<b>GDN</b>	<b>Risk Reduction 8 Year commitment</b>	<b>Actual Risk Reduction Achieved (RIIO-GD1)</b>	<b>% of the 8 year commitment removed (RIIO-GD1)</b>
EoE	192,567	242,767	126%
Lon	102,281	102,552	100%
NW	154,428	200,262	130%
WM	131,394	141,872	108%
NGN	111,191	219,404	197%
Sc	44,277	87,711	198%
So	137,287	204,271	149%
WWU	98,727	112,129	114%

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<sup>1</sup> RIIO-GD1 Closeout decision: <https://www.ofgem.gov.uk/sites/default/files/2022-04/Decision%20on%20the%20closeout%20methodologies%20for%20RIIO-GD1.pdf>

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## **Consultation Responses**

- 1.4 We received three responses in relation to the Iron mains risk reduction programme closeout. All three GDNs agreed with Ofgem’s assessment of the figures, and that any over or underspend against allowances should be treated as totex and subject to the RIIO-GD1 Totex Incentive Mechanism (TIM) sharing factor.

## **Decision**

- 1.5 As there were no objections to our proposal, as set out in the consultation, we will not make any revenue adjustment nor revision of RIIO-GD2 targets.

## **2. Fuel Poor Network Extension Scheme (FPNES)**

### **Summary**

- 2.1 The Fuel Poor Network Extension Scheme (FPNES) is a scheme to help tackle fuel poverty by supporting off grid, fuel poor households to connect to the gas network.
- 2.2 RIIO-GD1 Final Proposals provided baseline funding for the GDNs to deliver 77,450 connections to fuel poor customers collectively. Following a review of the FPNES in 2015, the GDNs’ target was increased to 91,203 connections.

### **Over-delivery**

- 2.3 All over-delivery that met the criteria will be considered justified and a reward of 2.5% of the efficient costs of delivering the work will be provided. Additionally, an upward revenue adjustment will be made to account for the further work completed above the target.

### **Under-delivery**

- 2.4 The penalty for under-delivery is 2.5% of avoided costs. Where a GDN has underperformed its targets, we changed the methodology that we proposed for calculation of the allowance adjustment.
- 2.5 This means that, for GDNs that had their connection targets adjusted by the 2015 FPNES Decision we used the 2015 unit cost, while for GDNs that did not have targets adjusted in 2015 we used the unit cost determined at Final Proposals.

Table A2.1 RIIO-GD1 FPNES Volumes Review

GDN	Target Volume (#s)	Actual Volume Delivered (#s)	Variance (#s)
EoE*	12046	12757	711
Lon	2880	2813	-67
NW	13330	11623	-1707
WM	8360	7482	-878
NGN*	14500	15621	1121
Sc*	17130	20847	3717
So*	10367	8929	-1438
WWU*	12590	11865	-725

\* Companies who has their fuel poor connection targets revised as part of the FPNES 2015 decision document<sup>2</sup>

Table A2.2 RIIO-GD1 FPNES Closeout Proposed Adjustment

GDN	Over/Under Delivery	Efficient Over delivery (#s)	Outturn Unit Cost (£)	Reward (£m)	Allowance Adjustment (£m)
EoE	Over	711	1661.3	0.03	1.18
Lon	Under	N/A	2313.7	N/A	-0.10
NW	Under	N/A	1535.6	N/A	-1.62
WM	Under	N/A	1673.9	N/A	-1.19
NGN	Over	1121	1534.3	0.04	1.72
Sc	Over	3717	1289.0	0.12	4.79*
So	Under	N/A	1560.9	N/A	-2.24
WWU	Under	N/A	1457.6	N/A	-0.63

\*SGN will not claim any allowances for over-delivery in the Scotland network<sup>3</sup> as such is excluded from adjustments total.

## Consultation Responses

2.6 We received four responses in relation to FPNES closeout. All four GDNs agreed with our assessment with regards to performance against target.

<sup>2</sup> [Fuel Poor Network Extension Scheme final decision document | Ofgem](#)

<sup>3</sup> As part of the agreement made in its Voluntary contribution in [November 2017](#)

- 2.7 NGN however highlighted a correction that was required in our calculations resulting in minor change to outturn unit cost values used.
- 2.8 One GDN disagreed with the application of the allowance adjustment calculation. Whilst we understand their concern, we believe our application to be pragmatic, and smoothing the allowance adjustment across the full eight year RIIO-1 period remains consistent with the RIIO-GD1 Closeout methodology decision.

### **Decision**

- 2.9 After careful review of the proposed amendment highlighted by NGN, Ofgem has agreed that this correction is required to the calculation. The amended allowance adjustment is shown in table A2.2, above.
- 2.10 As there were no further objections, the overall rewards and downward adjustments for all GDNs, after the correction has been made, is: [ $£0.19m + £2.9m + (-£5.8) = (-£2.7m)$ ].

## **3. Reliability (Interruptions)**

### **Summary**

- 3.1 Maintaining low levels of unplanned interruptions is a key output requirement for customers. At RIIO-GD1 Final Proposals we set the GDNs target levels for both the number and duration of interruptions on the networks.
- 3.2 The output was reputational only with no provision in the licence for any reward or penalty, or upward/downward adjustment to the GDNs' revenues. Therefore, any failure by any GDN to meet its RIIO-GD1 Reliability targets, we required the GDN to explain the reason for underperformance.
- 3.3 In March 2018, we amended the targets for both the number and duration of planned and unplanned interruptions. In Final Proposals we stated that we would assess the GDNs' performance against the interruptions targets as part of the end of period review.

### **GDN Performance over RIIO-GD1**

- 3.4 GDN performance was assessed against two targets - number of interruptions and duration of interruptions.

- 3.5 All GDNs exceeded their target for the number of interruptions and as such no further actions were required. All GDNs, with the exception of Cadent London, exceeded their performance target for the duration of interruptions.
- 3.6 Cadent provided an explanation for not meeting the duration of interruptions target in London. Cadent explained that due to the density and number of multiple occupancy buildings (MOBs), this resulted in challenges such as engineering complexities; access to individual properties & delays in local authority sign off all impacted their ability to meet their target.
- 3.7 During the price control, Cadent adapted processes and procedures to help mitigate against these types of issue in future. We are satisfied with Cadent's explanation, and the new procedures put in place to mitigate against this occurring again.

### **Consultation Responses**

- 3.8 We received three responses in relation to Reliability. All three GDNs agreed with Ofgem's assessment of performance against the two target measures.

### **Decision**

- 3.9 As there were no objections raised, Ofgem will implement the decision as set out in the consultation on proposed adjustments for reliability.

## **4. Shrinkage and Environmental Emissions Incentive**

### **Summary**

- 4.1 Shrinkage refers to gas which is lost from the transportation network and is the dominant element of the GDNs' Business Carbon Footprint (BCF).
- 4.2 RIIO-GD1 included both a shrinkage allowance and an Environmental Emissions Incentive (EEI). These provided enhanced incentives to reduce gas transport losses and network emissions, based on over or underperformance against performance targets.

### **Closeout Assessment**

- 4.3 We decided to close out the Shrinkage and Environmental Emissions incentive schemes based on the established mechanistic formulae in the licence (Special Condition 7.10 & 7.11, respectively).

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- 4.4 We are still considering the requirement to modify the RIIO-GD2 targets to give effect to the policy intent stated at Final Determinations, however we will engage on this as a separate RIIO-GD2 issue outside of RIIO-GD1 closeout.
- 4.5 All GDNs exceeded their target under the shrinkage performance element and the environmental emissions element.
- 4.6 Under the Shrinkage and EEI the total mechanistic adjustment for all GDNs is - £20.1m. Please see table 4.1 below which gives a breakdown of mechanistic adjustments, in line with the respective licences discussed above.

Table 4.1 Mechanistic adjustments to Shrinkage and EEI

GDN	Shrinkage adjustment (£m)	EEI adjustment (£m)	Net Adjustment (£m)
EoE	-8.0	6.8	-1.1
Lon	-4.3	5.4	1.0
NW	-5.4	7.3	1.9
WM	-5.0	5.3	0.4
NGN	-11.7	6.1	-5.6
Sc	-5.8	0.7	-5.1
So	-16.1	6.9	-9.2
WWU	-10.2	7.8	-2.3
Total	-66.4	46.3	-20.1

## Consultation responses

- 4.7 We received four responses from the GDNs in relation to Shrinkage and Environmental Emissions Incentive. All four agreed with Ofgem's assessment of GDN performance against targets for both components. All GDNs also agree with the consultation position with regards to associated adjustments.
- 4.8 NGN however asked for further clarity with regards to the statement as set out in section 4.4 above. NGN explained that they would like to know what aspects of the target there could be modification to, and on what basis they could be adjusted. They explained that this was to allow GDNs to assess the potential impact and options to support Ofgem's decision making.

## Decision

- 4.9 With regards to the assessment against targets and the associated adjustments, Ofgem will retain our position as set out in the consultation, given that there were no objections.

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- 4.10 As per paragraph 4.4 with regards to the point raised by NGN, Ofgem will engage with GDNs on this specific GD2 issue outside of the GD1 Closeout.