

# Decision

## **RIIO-GT1 Close out - Decision on proposed adjustments**

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The previous gas transmission price control (RIIO-GT1) 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 view on whether we will be making any revenue adjustments.

We have made decisions on the adjustments required under each of the RIIO-GT1 Close out areas for National Gas Transmission (NGT). We received a response from NGT on the consultation which has been published alongside this document.

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# Decision

## Executive Summary

The previous gas transmission price control (RIIO-GT1) ended on 31 March 2021. The RIIO-GT1 (the 'GT1 licence') made provision in relation to several areas which, due to their uncertain nature, could only be settled once all costs and RIIO-GT1 performance was known. This means that certain elements of the price control need to be subject to "closeout" once the price control has ended.

**To close out the RIIO-GT1 price control, the following areas were assessed:**

- Pipeline diversions
- South West Quadrant
- Enhanced Physical Site Security
- Peterborough and Huntingdon compressors
- Hatton compressor

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

### Summary of our assessment

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

**Overall, total revenue adjustments of (-£36.6m) (09/10 prices) against RIIO-GT1 allowances across all mechanisms, as detailed in the table below.**

**Table 1: RIIO-GT1 Closeout – total adjustments (£m, 2009/10 prices)**

Area	Value of adjustment (£m)
<b>Pipeline diversions</b>	N/A – did not meet materiality threshold
<b>South West Quadrant</b>	(-40.7)
<b>Enhanced Physical Site Security</b>	N/A – did not meet materiality threshold

<b>Peterborough and Huntingdon compressors</b>	N/A
<b>Hatton compressor</b>	4.1*
<b>Total value of adjustment</b>	<b>(-36.6)</b>

## Context and related publications

Consultation on the methodologies to closeout RIIO-GT1

[Consultation on the closeout methodologies for RIIO-GT1 | Ofgem](#)

Decision on methodologies to closeout RIIO-GT1

[Decision on the methodologies to closeout RIIO-GT1 | Ofgem](#)

RIIO-GT1 Strategy Decision

[Decision on strategy for the next transmission price control - RIIO-T1 | Ofgem](#)

RIIO-GT1 Final Proposals

[RIIO-T1: Final Proposals for National Grid Electricity Transmission and National Grid Gas – Overview | Ofgem](#)

Supplementary documents to the RIIO-GT1 Final Proposals

[https://www.ofgem.gov.uk/sites/default/files/docs/2012/12/2\\_riiot1\\_fp\\_outputsincentives\\_dec12.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2012/12/2_riiot1_fp_outputsincentives_dec12.pdf)

[https://www.ofgem.gov.uk/sites/default/files/docs/2012/12/3\\_riiot1\\_fp\\_uncertainty\\_dec12.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2012/12/3_riiot1_fp_uncertainty_dec12.pdf)

[https://www.ofgem.gov.uk/sites/default/files/docs/2012/12/riio\\_gt1\\_fp\\_financialmodel\\_dec12.xlsm](https://www.ofgem.gov.uk/sites/default/files/docs/2012/12/riio_gt1_fp_financialmodel_dec12.xlsm)

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 process

Date	Stage description
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-GT1 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. Pipeline Diversions**

### **Summary**

- 1.1 Pipeline Diversion costs are those incurred by NGT in relation to extant liabilities or other obligations to divert existing pipelines. These are costs incurred as a result of existing obligations/liabilities taken on by the Gas Council/British Gas, for which NGT is now responsible, and where NGT can demonstrate it has done everything in its powers to recover costs from the relevant party requesting the pipeline diversion.
- 1.2 Due to the uncertain nature of this work no baseline allowance was provided at Final Proposals and we stated that work would instead be funded through an uncertainty mechanism.
- 1.3 NGT did not trigger the Pipeline Diversion re-opener during RIIO-GT1 and therefore received no allowances for pipeline diversion work, however assessment of previous annual reports demonstrates that it did incur costs in this area during the price control.
- 1.4 Under the methodology, if costs incurred are material, we would implement a licence modification to enable an upwards revenue adjustment to true-up all efficiently incurred costs.
- 1.5 If costs are immaterial, we would make no revenue adjustment, and expenditure will be treated as totex and subject to the Totex Incentive Mechanism (TIM) sharing factor.

### **Closeout Assessment**

- 1.6 Based on the information NGT has provided as part of their Regulatory Reporting Pack (RRP) submissions, Pipeline diversion costs totalled £8.53m over RIIO-GT1.
- 1.7 As per the Closeout Methodology Decision Document, Pipeline diversions is an area where a materiality threshold would be used to distinguish between material and immaterial costs.

- 1.8 The materiality threshold has not been met in this instance. Therefore, as Pipeline diversions is not eligible for a revenue adjustment, we did not propose any adjustment. Any expenditure will be treated as totex and subject to the TIM sharing factor.

### **Consultation Responses**

- 1.9 We received one response from NGT with regards to pipeline diversions. NGT agreed with Ofgem's calculation of £8.53m and that this figure does not meet the materiality threshold and as such pipeline diversions is not eligible for a revenue adjustment.

### **Decision**

- 1.10 We have therefore decided to implement our proposal, as set out in the consultation, without modification.



## **2. South West Quadrant**

### **Summary**

- 2.1 At Final Proposals we allowed NGT baseline funding to deliver an incremental capacity project in the South West Quadrant that had been signalled ahead of the price control. However, the project was cancelled prior to construction with no costs incurred.
- 2.2 The forecast capital expenditure for this project was added to NGT's RAV and NGT has made returns on this project throughout RIIO-GT1. NGT has committed to returning the allowance and any unearned RAV returns in relation to the South West Quadrant project to consumers in full.
- 2.3 Under the closeout methodology, we would adjust the allowance values reflected in the Price Control Financial Model (PCFM) to show that no expenditure was incurred by NGT in relation to this project. The adjustment automatically corrects the RAV and base revenue values for the RIIO-GT1 period and feeds through to the RIIO-GT2 LRAV and LMOD variable values.
- 2.4 A similar adjustment would be made to remove revenue relating to the South West Quadrant project that was still reflected in the legacy PCFM at the end of the RIIO-GT1 price control period.

### **Closeout Assessment**

- 2.5 It remains our decision that all allowances and revenues associated with this cancelled project are returned to consumers in full.
- 2.6 NGT originally had an allowance of £40.7m (09/10 prices) for South West Quadrant. In line with the closeout methodology decision, we will make a downward adjustment equal to the allowance of £40.7m. This adjustment would be reflected in the Legacy PCFM to show no expenditure was incurred by NGT in relation to this project.
- 2.7 The adjustment automatically corrects the RAV and base revenue values for the RIIO-GT1 period and feeds through to the RIIO-GT2 LRAV and LMOD variable values.

## **Consultation Responses**

- 2.8 We received one response, with regards to South West Quadrant, from NGT. NGT agree with the adjustment of £40.7m (09/10 prices) for South West Quadrant, which is in line with their original allowance.

## **Decision**

- 2.9 We have therefore decided to implement our proposal, as set out in the consultation, without modification.

## **3. Enhanced Physical Site Security**

### **Summary**

- 3.1 As part of the 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).
- 3.2 PSUP is a cross-sector programme. At RIIO-GT1 Final Proposals network companies were provided baseline funding for known PSUP projects, and PSUP outputs and allowances were adjusted following re-openers in 2015 and 2018. However, Special Condition 3F of the GT1 licence made no explicit provision to either (i) true up immaterial costs, or (ii) make allowance adjustments for material costs as part of RIIO-GT1 closeout.
- 3.3 Under the closeout methodology, if NGT incurred efficient costs in excess of the RIIO-GT1 materiality threshold for which it was not funded, or if NGT has been funded a material amount to deliver projects that were later cancelled, we proposed a licence modification to enable an allowance adjustment to true up those net costs.

- 3.4 If the net costs incurred or avoided by NGT fall beneath the materiality threshold, we decided that there is no revenue adjustment made at closeout and that expenditure is treated as totex and subject to the TIM sharing factor.

### **Closeout Assessment**

- 3.5 Based on the information NGT has provided as part of their RRP submissions across RIIO-GT1, the materiality threshold has not been met in this instance. Therefore, as Enhanced Physical Site Security is not eligible for a revenue adjustment, we are not proposing any adjustment. Any expenditure will be treated as totex and subject to the TIM sharing factor.

### **Consultation Responses**

- 3.6 We received one response (NGT) with regards to Enhanced Physical Site Security. NGT agreed with our assessment on spend for this area and agreed that the materiality threshold was not met and as such is not eligible for a revenue adjustment.

### **Decision**

- 3.7 We have therefore decided to implement our proposal, as set out in the consultation, without modification.

## **4. Peterborough and Huntingdon compressors**

### **Summary**

- 4.1 At Final Proposals, we set ex-ante baseline funding for Peterborough, Huntingdon and Aylesbury compressor sites to achieve compressor emissions compliance with Integrated Pollution and Prevention Control Directive (IPPCD)13 Phase 3 and Industrial Emissions Directive (IED) phase 1.
- 4.2 These projects were originally due to be delivered in 2020. Although the project at Aylesbury has been completed, the completion of the Peterborough and Huntingdon projects was impacted by Covid and issues with the Main Works Contractor (MWC).

- 4.3 NGT has committed to delivering these projects in RIIO-GT2 from its existing totex allowances and has not requested 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.
- 4.4 Under the methodology, we decided that any RIIO-GT1 allowance overspend is treated as totex and subject to the TIM.

### **Closeout Assessment**

- 4.5 Due to the challenges NGT has encountered delivering these projects, we propose not to adjust allowances as NGT has committed to delivering these projects during RIIO-GT2 from existing totex allowances.
- 4.6 In line with the closeout methodology decision, we intend on adding this specific output to NGT's licence to ensure its delivery. We will consult on adding a special condition to NGT's licence that makes provision to assess delivery of this project at RIIO-GT2 closeout.
- 4.7 If the project is not delivered, or not delivered to the funded specification, we will also include provision for an adjustment to NGT's RIIO-GT2 totex allowance not in excess of the allowance NGT received for the project in RIIO-GT1.
- 4.8 We will rely on the GT2 Licence to reserve the right to clawback allowances at RIIO-GT2 closeout in the event these delayed RIIO-GT1 projects are not delivered, or not delivered to the funded specification, in RIIO-GT2.
- 4.9 NGT is to report expenditure for Peterborough and Huntingdon as specific projects in the RIIO-GT2 RRs, reported under the compressor emissions cost category as non-load capex. All RIIO-GT2 expenditure on these projects will be treated as totex and be subject to the RIIO-GT2 TIM.

### **Consultation Response**

- 4.10 We received one response from NGT regarding Peterborough and Huntingdon compressors. NGT agreed with our approach and the addition of a special condition to NGT's licence to enable an assessment on the delivery of this project at RIIO-GT2 Closeout.

## **Decision**

- 4.11 We have therefore decided to implement our proposal, as set out in the consultation, without modification.
- 4.12 Ofgem will engage with NGT ahead of any consultation to add a special condition to enable the assessment of this project's delivery at RIIO-GT2 Closeout.

## **5. Hatton Compressor**

### **Summary**

- 5.1 All figures quoted in section 5 are in 2018/19 price base as per RIIO-GT2 Final proposals, unless stated otherwise.
- 5.2 The Industrial Emissions Directive (IED) is one of three main Directives influencing NGT's compressor emissions. Under this directive NGT were required to decommission two IED non-compliant RB211 compressor units at Hatton.
- 5.3 At RIIO-GT2 Final Determinations we set NGT an allowance of £74.51m to replace one compressor unit at Hatton to achieve compliance with IED legislation, which included £5.38m for Year 8 in RIIO-GT1 for project development costs. To date, NGT has received no allowance to deliver the RIIO-GT1 element of this work.

### **Closeout Assessment**

- 5.4 As stated in our Closeout Methodology Decision document, we decided to increase NGT's RIIO-GT1 allowance by £5.38m (£4.1m 2009/10 prices) to cover project development costs already incurred within the RIIO-GT1 price control.
- 5.5 Additionally, we will adjust the PCFM Variable Value 'IAEIE' (Uncertain costs – Industrial Emissions) in the GT1 Legacy PCFM and re-run the legacy PCFM to

calculate revised LMOD and LRAV variable values, which then feed into the RIIO-GT2 PCFM per the process described in Chapter 2 of the decision document<sup>1</sup>.

- 5.6 We decided that when assessing the RIIO-GT2 PCD we will assess the delivery of the whole project, making any adjustment as necessary to account for the costs provided for at RIIO-GT1 closeout.
- 5.7 We also decided that any over- or under-spend against the 2020/21 RIIO-GT1 allowance is treated as totex and subject to the TIM sharing factor.
- 5.8 As per the GT Closeout Decision document this gives effect to our Decision on the Hatton compressor project at RIIO-GT2 Final Determinations<sup>2</sup>.

### **Consultation Response**

- 5.9 We received one response from NGT in relation to the Hatton Compressor. NGT agreed with the adjustment which is in line with the allowance set as part of Ofgem's RIIO-GT2 Final Determinations.

### **Decision**

- 5.10 We have therefore decided to implement our proposal, as set out in the consultation, without modification.

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<sup>1</sup> GT Closeout Decision Document: [Decision on the methodologies to closeout RIIO-GT1 | Ofgem](#)

<sup>2</sup> [RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem](#)