

RIO-3 Sector Specific Methodology Consultation

Cadent Response to Ofgem GT Annex

March 2024



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Note: We have provided responses to the questions where we feel most able to be helpful to Ofgem in reaching its methodology decision, and where there are points of particular relevance to us as a gas distributor.

Infrastructure fit for a low-cost transition to net zero

GTQ1. Do you agree with our proposal to include a re-opener to manage the impact of introduction of the CSNP and gas strategic planning processes, with annual windows starting from the first year of the price control?

We agree with the proposals for re-openers to enable infrastructure developments arising from the impact of the introduction of the Centralised Strategic Network Plan and gas strategic planning processes, with annual windows. However, alternative, more flexible funding mechanisms may be required to enable organisational, process and systems changes to enable potential effective new working arrangements with the National Energy System Operator (NESO). A similar flexible funding route, such as those suggested elsewhere in our response could be deployed and may be needed for Gas Distribution Networks as well as the National Transmission System (NTS).

GTQ3. What are your views on what the overall focus of the RIIO-GT3 environmental package should be, and should any additional areas be incentivised?

The environmental package forms a significantly important aspect of the RIIO-GT3 and RIIO-GD3 price controls, as it is crucial that networks are effectively incentivised, monitored, and funded to reduce the environmental impacts of their activities.

We believe that many of the proposals within the SSMC – GT Annex give the correct focus to elements that should form part of the RIIO-GT3 environmental package. For instance, we support the proposal to introduce a common report structure across networks' Annual Environmental Reports (AER). This support echoes the views of our stakeholders who placed value on comparability and transparency. Additionally, we support the continuation of the requirement for network companies to develop an Environmental Action Plan (EAP) as part of the business planning process.

With regards to the Green House Gas Emissions ODI-F, we recognise the importance of continued monitoring of methane emissions caused by activities such as venting etc., and we support the retainment of an output with targets that reflect the compressor upgrades delivered in RIIO-GT2. However, it is our view that the use of compression across both gas transmission and distribution is likely to increase in RIIO-3 due to factors such as networks looking to create additional capacity for entry connections of greener gas such as biomethane. As such, we would encourage Ofgem to consider the likely increased use of compression when developing and finalising relevant incentives and Price Control Deliverables (PCDs) across transmission and distribution.

GTQ4. What are your views on each of the current individual environmental outputs presented in this section and the Overview Document?

As referenced in the answer to GT Annex Q3, we are supportive of the retention of both the EAP and AER outputs for RIIO-GT3. Furthermore, we believe the proposal to introduce a consistent report structure across networks reflects the views of stakeholders and promotes transparency, comparability, and identification of positive performance.

With regards to the Environmental Scorecard ODI-F, we support the proposal to remove the incentive from the RIIO-GT3 price control and support the appropriate streamlining of network reporting (in this case through consolidated reporting in the AER).

We are supportive of positive incentives for emissions to encourage step-change improvements and innovation approaches to reducing emissions, rather than penalty-avoidance activities. This is in keeping with the overall objectives set out in the SMCC.

Concerning the Green House Gas Emissions ODI-F and as mentioned above, we believe that careful thought needs to be given to the balance between monitoring, incentivising, and penalising rates of methane emissions attributable to compressor operation, and the direction of travel in terms of use of compressors by networks to meet changes in demand. It may be helpful for National Gas Transmission to include evidence of compression depressurisation and how benefits/risk analysis is undertaken when electing to operate compressors as part of its AER.

We think it would be appropriate to consider the reintroduction of a financial cap/collar incentive for NTS Shrinkage, as although some sources of NTS Shrinkage are influenced by external factors, we believe that a stronger regulatory incentive would drive investigation and reduction of transmission shrinkage to same extent as gas distribution (e.g. Digital Leakage Platform Analytics and a potential UIOLI allowance within NZARD etc.).

With regards to the proposed Redundant Assets Price Control Deliverable (PCD), we agree with the assessment in the SMCC that material decommissioning is unlikely to take place during the RIIO-3 period. We support the intent to create a funding route for any costs associated with redundant assets. We note that in the Gas Distribution RIIO-2 control there is no specific ex ante PCDs to cover this. There may be PCDs defined off the back of a Net Zero or Heat Policy reopener application. We assume that this PCD will only be used if the ex-ante business plan determines there is work to do on redundant assets or that it is to be switched on if there is a policy change or reopener which triggers the work. Hence, we support its intent as it provides National Gas Transmission with the flexibility to respond to any significant government policy decisions during the business planning process and early years of the price control and note that this logic may equally apply to the Gas Distribution control.

Finally, we are supportive of the proposal to include compressor upgrade costs in baseline allowances where possible, providing greater visibility of NGT's costs as part of the business planning process.

GTQ5. What are your views on the above two options for the GHG emissions incentive?

Funding has been granted to install additional recompression machines and so any target that is implemented should be in line with the new equipment baseline, as well as reflecting the current operating environment. The capping mechanism for incentive and penalty is low and so step change improvements are unlikely to be realised.

Of the two options, we are more supportive of Option 1. This retains an element of positive incentivisation for GHG emissions, which is consistent with the duty on the Authority to promote Net Zero, the SMCC's overall approach its application to other environmental outcomes. We note that too tight a collar would not drive NGT to "optimise the venting processes to the fullest extent possible" in the event the collar is reached.

GTQ6. What improvements to the incentive would continue to minimise NGT's impact on the environment from venting?

The intent of the SSMC GT Annex relating to GHG emissions primarily relates to emissions caused by compressor depressurisation. Although a material source of emissions, solely focussing on compressors could result in limited environmental benefits. Contrastingly, the Cadent sponsored DPLA programme is assessing the suitability of real air technology to understand granular leakage data from a wider range of distribution assets. We believe there would be value in considering a wider range of emissions sources within the GHG emissions incentive reporting.

GTQ9. What are your views on including NTS Shrinkage costs within NGT's baseline totex allowance?

Including shrinkage costs in baseline allowances would create a risk of a windfall gain, or loss, as gas prices change. As NTS has some role to play in energy transactions to balance the network, they may therefore feel better placed to take such risks. Other Gas Transporters are not active energy traders and are not best placed to manage gas price risk.

Secure and resilient supplies

GTQ13. Do you have any views on whether the ANCAR will still be required as an output in RIIO-GT3 and on its need for RIIO-GT2 business planning?

From an operational perspective, our energy control centre functions do not rely on data provided by National Gas's ANCAR for the purpose of ensuring accurate and efficient NTS Exit Capacity booking. Therefore, we do not believe there to be any unintended consequences through removing the ANCAR price control output from a gas distribution network process viewpoint.

With regards to the new role of the NESO and the continued necessity of the ANCAR, we believe the views of the NESO should be sought, particularly on whether the production of an ANCAR would aid their function as a system operator or would be a potentially duplicate new activities to be undertaken directly by the NESO.

GTQ14. Do you have any views on the effectiveness of this PCD?

We do not hold a view on the specific details of this PCD. We are supportive of the principle underpinning this PCD of funding and protecting customers from non-delivery of essential safety work. Additionally, we are supportive of Ofgem's proposals to assess the necessity of this PCD alongside any changes to the NARM methodology in RIIO-GT3.

High quality of service

GTQ17. Do you have any views on our options for the Customer Satisfaction Survey Incentive? In particular, do you see merit in recalibrating target performance to NGT's most recent performance?

We would support continuing with the principle of providing a static target by which to assess NGT's performance over the control with both a positive reward and penalty around the target (Option 1). Our experience is that customers' expectations of service constantly increase and hence companies need to evolve and improve service just to standstill on a satisfaction score. This should be taken into account when considering any re-setting of targets.

GTQ18. Do you have any ideas how the strength of the incentive and the range between capped and collared outcomes should be set?

The strength of the incentive should be considered in the round against the overall range of incentivisation on NGT that Ofgem believe is valuable to consumers and reflecting the importance of customer satisfaction relative to other incentives being considered. RIIO-2 saw significant constraining of the use of positive incentivisation and we continue to believe that positive incentivisation is a strong tool to change behaviours and deliver step changes in service as illustrated by new incentives such as the streetworks collaboration incentive in Gas Distribution and the Stakeholder Engagement incentives in RIIO-1. Hence, we would caution against constraining the caps on incentives too strongly and not to encourage symmetric incentives where possible.

GTQ21. Do you have any views on how positive changes in NGT's behaviour and customer service could be incentivised?

As noted in our answer to Q17 we support the continuance of positive financial incentivisation to encourage changes in behaviours and service levels/

GTQ22. What are your views on our proposal to remove the Stakeholder Satisfaction Survey reputational incentive?

We would support the removal of the reputational incentive and whether any of the elements could be combined into the customer satisfaction survey incentive to bring clarity and avoid duplication.

GTQ23. What are your views on our minded-to proposal to retain D-1 Quality of Demand Forecasting incentive as a financial incentive with a tighter target?

We support Ofgem's proposed minded-to-position to retain the D-1 Quality of Demand Forecasting incentive as a financial incentive with a tighter target. As mentioned in the GT Annex document, the accuracy of National Gas's D-1 Demand Forecast has the potential to impact the operational and commercial activities of industry dependents such as smaller shippers etc. Incentives to pursue greater accuracy should support other stakeholders to achieve economic and efficient operation of their respective organisations.

GTQ26. Does NGT's D-2 to D-5 forecasts of demand provide a service that is valued by consumers and network users? Please explain why.

From a gas distribution network standpoint (where we are best placed to comment), D-2 to D-5 Demand Forecasting provides limited value to Cadent. In order to meet our 1 in 20 peak demand licence conditions, we procure long term NTS exit capacity via the annual application window. However, we recognise that industry parties with differing activities and of smaller scale may place added value in the D-2 to D-5 Demand Forecasting output, and as such, a range of stakeholder views should be considered.

GTQ27. Should the Quality of Demand Forecasting incentive be widened to include other areas of demand forecasts? If yes, which ones?

In general, we do not hold strong views on forecast incentives for gas transmission. Our one note of caution is that, in the event the Gas National Control Centre were very strongly incentivised to improve demand forecast accuracy, it could negatively impact its operational decisions, e.g. offering less flexibility to GDNs when they face real-time operational issues or significant demand changes, to ensure its demand meets forecast accuracy requirements.