

Smell gas?

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Michael Smith
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

14th May 2024

Dear Michael,

Proposal to modify the special conditions of the Gas Transporter, Electricity Distribution and Electricity Transmission licence and the Price Control Financial Instruments (PCFIs) for RIIO-GD2, RIIO-GT2, RIIO-ED2 and RIIO-ET2

Thank you for the opportunity to respond to this consultation. Northern Gas Networks (NGN) welcomes the opportunity to provide feedback on the proposed modifications to the Licence special conditions and RIIO-GD2 PCFIs.

Given the changes to the special conditions of the Gas Transporter, Electricity Distribution and Electricity Transmission licences are not directly relevant to NGN, we have not commented on those proposals. The rationale for amending the 'November run' wording in the GD PCFH is clear and we have no concerns with this.

We also note the proposal to correct a formula error in the 'Finance&Tax' tab of the PCFIs relating to adjustment to losses from the tax trigger. Having had the opportunity to discuss this change at a previous PCFM working group hosted by Ofgem, we would not raise any objections to this amendment being introduced.

However, whilst Ofgem has proposed to re-state non variant allowances in the RIIO-ET2 PCFM for NGET, no re-statements have been proposed for GDNs. We have raised concerns with Ofgem on several occasions since July 2023 with regards to the need to update GDN non-variant allowances. These are currently incorrect due to an error in the new Connections Design and Quotation fixed element, which was allocated on a gross basis instead of a net basis. The result is that there are skewed final allowances for those affected elements (connections, FPNES, other load capex).

For completeness, **Appendix One** contains details of NGN's current (incorrect) non-variant allowances as per the RIIO-GD2 PCFM, alongside the correct allowances. We have also attached previous correspondence on this matter for reference, which is not intended for publication alongside our response.

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We also note that the VCMA allowance currently provided to NGN through the PCFM is understated by just over £1m. The table below provides the allowances in the most recently published AIP in January 2024 and also in the GD2 PCFM C05 published alongside this consultation. Comparing these figures to the allowances confirmed during the statutory consultation for the RRP during the summer of 2023 shows that NGN's allowance should in fact be £19.67m over the GD2 period.

	31 Mar 2022	31 Mar 2023	31 Mar 2024	31 Mar 2025	31 Mar 2026	GD2 Total
VCMA per PCFM	0.5	1.5	3.8	7.0	5.6	18.54
VCMA per RRP	3.1	4.79	3.93	3.93	3.93	19.67
Differential						1.13

In order to ensure our reporting is as accurate as possible and to allow us to collect the correct revenues from customers, we would be appreciative of a correction to GDN's non-variant and VCMA allowances at the earliest opportunity, via an additional statutory consultation if necessary.

If you have any queries about this response, please contact Dean Pearson, Head of Regulation, (depearson@nothergas.co.uk) who will be able to deal with your query.

Yours sincerely



Greg Dodd | Regulation & Strategic Planning Director
Northern Gas Networks

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Appendix One – NGN / All GDN Non-Variant Allowances Issue

The allowances reported in table 1.01a for RRP 2022/23 do not reconcile to the allowances in the PCFM by c. £6m over GD2 for NGN. This is because in the March 23 update of allowance file for all GDNs, the new Connections Design and Quotation fixed element was allocated on a gross basis instead of a net basis. The result is that there are skewed final allowances for those affected elements (connections, FPNES, other load capex).

We raised the issue in July 2023 with the Ofgem team and several times subsequently (emails and files attached with this response for information). The gross / net allocation issue was acknowledged by Ofgem at the time and discussed at several working groups subsequently. It has also been raised on Gitlab as RII02_PCFI number 257.

The impact to NGN's allowances is as provided below. However, the correction would apply to and impact all GDNs.

As per PCFM Jan 24	31 Mar 2022	31 Mar 2023	31 Mar 2024	31 Mar 2025	31 Mar 2026	GD2
Non-variant allowed load related capex	8.3	9.5	10.1	9.7	9.9	47.5
Non-variant allowed non-load related capex - other	22.1	21.9	17.6	18.5	16.4	96.5
Non-variant allowed business support (opex)	22.8	22.5	22.3	22.1	21.9	111.6
Non-variant allowed directs opex	70.2	68.8	68.0	66.2	66.2	339.4
Non-variant allowed repex	9.5	9.4	4.1	4.1	4.1	31.0
Total	132.8	132.1	122.1	120.6	118.5	626.1
NGN proposed	31 Mar 2022	31 Mar 2023	31 Mar 2024	31 Mar 2025	31 Mar 2026	GD2
Non-variant allowed load related capex	9.5	10.7	11.4	11.0	10.7	53.5
Non-variant allowed non-load related capex - other	22.1	21.9	17.6	18.5	16.4	96.5
Non-variant allowed business support (opex)	22.8	22.5	22.3	22.1	21.9	111.6
Non-variant allowed directs opex	70.2	68.8	68.0	66.2	66.2	339.4
Non-variant allowed repex	9.5	9.4	4.1	4.1	4.1	31.0
Total	134.0	133.3	123.4	121.9	119.3	632.0
Difference	31 Mar 2022	31 Mar 2023	31 Mar 2024	31 Mar 2025	31 Mar 2026	GD2
Non-variant allowed load related capex	1.2	1.2	1.3	1.3	0.8	5.9
Non-variant allowed non-load related capex - other	-	-	-	-	-	-
Non-variant allowed business support (opex)	-	-	-	-	-	-
Non-variant allowed directs opex	-	-	-	-	-	-
Non-variant allowed repex	-	-	-	-	-	-
Total	1.2	1.2	1.3	1.3	0.8	5.9