



To NGG NTS

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Decision under Gas Transmission Special Licence Condition C13 Network Output Measures, Part B

Under Gas Transmission Special Licence Condition C13 the licensee NGG is required to develop a methodology designed to produce measures that evaluate:

- Network condition
- Network risk
- Network performance; and
- Network capability and utilisation

The licensee must develop these output measures to facilitate the objectives specified in the licence condition. These objectives are:

- to enable monitoring of the licensee's performance as transmission asset owners;
- to enable the assessment of historic and forecast capital expenditure;
- to enable comparative analysis between UK transmission and distribution and with international networks;
- to provide relevant information on the transmission system to the authority and the wider industry in a transparent form; and.
- to enable the assessment of consumer satisfaction from services provided by the transmission licensees.

The measures of network condition, risk and performance are intended to help Ofgem better assess the efficacy and efficiency of historic replacement capital expenditure (non-load capex) and the need for future investment. The measures should also provide a more constructive basis for discussion on network investment requirements with NGG in the future.

The licensees' proposed network output measures methodologies

As required under C13 paragraph 2, NGG submitted its methodology to the Authority for approval on 31 May 2008. As part of the process of developing the methodology NGG held a workshop to receive views from interested parties on 3 April 2008.

As required under C13 paragraph 6 the Authority must review NGG's submitted methodology and where appropriate consult other interested parties. We appointed consultants (TPA) to assist the Authority with this review. Their key conclusions were:

- NGG should rank secondary assets depending on their criticality in terms of impact on supply of gas to NTS exit points. This will allow condition measures to be focussed on the most critical assets. NGG should also separately identify planned and unplanned maintenance expenditure; as the latter may provide another indicator of asset reliability.
- NGG should disaggregate the measure of network risk so that it is transparent which factor(s) is driving a particular asset's risk score and why.
- NGG should further analyse performance measures i.e. unplanned events, to provide the duration and downtime to enable the calculation of reliability and availability measures.
- NGG's measures of capability and utilisation are incomplete and should include the baseline capacity of each entry/exit point. NGG should then report actual capacity against each node on an ex-post basis.

On 17 October 2008 Ofgem published an open letter¹ seeking views on the gas and electricity transmission licensees' proposed methodologies². A copy of TPA's report³ of their findings was made available with the letter. The consultation closed on 26 November 2008.

Views of respondents

In all, four responses were received with two solely commenting on the electricity transmission output measures. The other two respondents focussed on measures of capability and utilisation. Both respondents felt that the data provided by NGG should be broken down further to entry and exit point level. One of the respondents acknowledged this information would be commercially sensitive and have to be provided to Ofgem only.

Ofgem's views

We believe NGG has accomplished a great deal in terms of developing the network output measures methodology. Nevertheless there are some areas for further development and more generally we would expect all the measures to be continually refined as the underlying data and our understanding of it improve over time and NGG is obliged under special condition C13 to keep its methodology under review.

We note the respondents' view regarding capability/utilisation information. We have discussed obtaining more detailed information including at a nodal level with NGG. As one of the respondents noted such information could be commercially sensitive and at present we would not envisage publishing such information. Nevertheless we intend to keep the situation under review to assess whether more information can be disclosed in light of further developments in entry and capacity arrangements.

Paragraphs 7 to 9 of C13 set out the options for the Authority with regards to approval of the proposed outputs measures methodology. The Authority has the choice of approving the methodology, approving the methodology provided the licensees make amendments specified by the Authority (conditional approval), or disapproving the methodology. Taking into account the respondents' views and TPA's findings the Authority has decided to grant a "conditional approval" of the methodology

Way forward

¹ Transmission Network Output Measures – Open Letter (144/08)

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=17&refer=Networks/Trans/RegReporting>

²<http://www.ofgem.gov.uk/Networks/Trans/RegReporting/Documents1/Licensees%20proposed%20joint%20NOM%20methodology.pdf>

³ <http://www.ofgem.gov.uk/Networks/Trans/RegReporting/Documents1/PB%20Power%20Review.pdf>

In accordance with the Authority's conditional approval (see below) NGG will work on the specified amendments and will be expected to have completed them to Ofgem's satisfaction all changes will be incorporated into the regulatory reporting arrangements. We will meet with NGG at regular intervals to discuss progress.

Based on our discussion with with NGG we expect that all the specified amendments (see below) will be completed by January 2009 where appropriate these will be incorporated into the Transmission Regulatory Reporting Packs (TRRP) which the licensees will record against from 1 April 2009. NGG will submit its report on 2009/10 output measures to the Authority in July 2010 (and every July thereafter).

The Authority's decision

For the purposes of Special Condition C13 Part B paragraph 9 the Authority approves the transmission network output measures methodology NGG subject to the following amendments being made

- i. NGG should rank secondary assets depending on their criticality in terms of impact on supply of gas to NTS exit points
- ii. NGG should provide worked examples for individual asset categories that illustrate how the remaining life categorisation has been derived for the population of the given asset categories including the underlying drivers e.g. expected deterioration in condition and performance etc.
- iii. NGG should disaggregate the measure of network risk so that it is that is transparent which factor(s) is driving a particular asset's risk score and why
- iv. NGG should provide more information on disruptions/near misses including cause, duration, location and indicate where planned disruptions/restrictions have overrun or led to follow up planned disruptions/restrictions to the network.
- v. NGG should provide capability and utilisation information broken down by entry and exit point and include details of individual compressor unit utilisation

Yours sincerely



Stuart Cook
Director of Transmission

Signed on behalf of the Authority and authorised for that purpose by the Authority