



To generators, shippers,
suppliers, network companies,
consumers and their
representatives, investors and
other interested parties

*Promoting choice and value for
all gas and electricity customers*

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Dear colleague

RIIO-GD1: Gas Distribution Networks' (GDNs) business plans - publication and next steps

The next GDN price control (RIIO-GD1) along with the transmission price control (RIIO-T1) are the first price controls to be conducted under our new RIIO model (Revenue = Incentives + Innovation + Outputs). The objective of RIIO is to encourage network companies to play a full role in the delivery of a sustainable energy sector, and to do so in a way that delivers value for money for existing and future consumers.

A core component of the new process is the requirement on network companies to take into account the needs and views of their stakeholders in order to develop well-justified business plans. Each network company is required to develop and publish a detailed plan which demonstrates how they will deliver in the interests of both existing and future consumers and how they will meet the challenges associated with the transition to a low carbon energy sector.

In March 2011 we published our decision¹ on the key elements of the regulatory framework for RIIO-GD1, including the proposed outputs that we would require companies to deliver, the proposed incentive framework, and financial parameters. We also provided business plan guidance and the tools we would use for assessing network companies' plans. Under RIIO we are taking a proportionate approach to our scrutiny of companies' plans, i.e. that the level of our regulatory scrutiny will vary according to the quality of their plans. Companies that submit very high quality plans will also be offered the option of agreeing price controls early – fast-tracking. Proportionate treatment and fast-tracking provide strong incentives for companies to submit well-justified plans.

In June 2011 we revised the timetable for GDNs first business plan submission and our assessment of their plans. The revision to the timetable was to enable the GDNs adequate time to reflect in their plans important changes by the HSE to the iron mains replacement programme.² We set out the revised timetable in Annex 1.

¹ See Ofgem (31 March 2011) Decision on strategy for the next gas distribution price control – RIIO-GD1 <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=312&refer=Networks/GasDistr/RIIO-GD1/ConRes>

² See Ofgem (14 June 2011) Changes to the RIIO-GD1 timetable following the Health and Safety Executive (HSE) decision on iron mains replacement <http://www.ofgem.gov.uk/Networks/GasDistr/RIIO-GD1/ConRes/Documents1/Note%20on%20replex%20and%20RIIO-GD1%20timetable%20for%20website.pdf>

The four GDNs have now submitted and published their RIIO-GD1 business plans. These are available at the following links:

- National Grid Gas plc (NGG)
<http://www.talkingnetworksngd.com/>
- Scotia Gas Networks – Scotland
http://www.sgn.co.uk/index.aspx?id=6553&rightColHeader=87&rightColContent=15&rightColFooter=237&TierSlicer1_TSMenuTargetID=565&TierSlicer1_TSMenuTargetType=4&TierSlicer1_TSMenuID=6
- Scotia Gas Networks – Southern
http://www.sgn.co.uk/index.aspx?id=6557&rightColHeader=87&rightColContent=15&rightColFooter=237&TierSlicer1_TSMenuTargetID=565&TierSlicer1_TSMenuTargetType=4&TierSlicer1_TSMenuID=6
- Wales and West Utilities
<http://www.wuutilities.co.uk/stakeholders.aspx>
- Northern Gas Networks
<http://www.northerngasnetworks.co.uk/>

Effective stakeholder engagement is an important element of RIIO; and we are keen to provide stakeholders with greater opportunities to inform Ofgem and network company decision making. To improve transparency and assist our analysis, we are encouraging stakeholders to review these business plans and provide us with feedback.

Specific areas where we seek views

While we welcome views on any aspect of the companies' plans, there are a number of specific points on which we would particularly welcome feedback. These are set out below.

Overall quality of the plans

This is first time that the GDNs have been required to make public their business plans.

- Do you consider that the plans are comprehensive and well-justified? Do they provide a clear understanding of what the company will deliver over the price control period?
- Do the plans include all relevant information necessary for you to understand the impact of those plans on your interests?

Reflecting what customers value/ stakeholder engagement

Under RIIO stakeholders have a greater opportunity to inform our, and network companies' decisions during the price control review process.

- Have the views you provided to the network companies been reflected in their plans?
- Do you consider that the plans reflect the interests of both existing and future consumers?

Expenditure proposals

We require companies to set out the operating and capital investment expenditure they require to deliver the outputs required by customers.

- Do you consider that the companies have clearly identified and justified their operating and capital expenditure requirements to deliver the required outputs?

Financial proposals

We put forward proposals in our RIIO Strategy Decision to ensure efficient companies would be able to raise finance and to ensure they would be remunerated appropriately.

- Do you have any views on the package of finance measures proposed by the companies?

Uncertainty and risk

Companies are required to demonstrate that their proposals take account of the various risks and uncertainties they face and in light of these provide a strategy to deal with them efficiently.

- Do you consider that the plans present a comprehensive consideration of the sources of uncertainty they face, including uncertainty in relation to the future role of gas networks in a low carbon energy sector?³

Views welcome and next steps

We will publish our initial assessment of the business plans on 1st March 2012. We welcome views on these issues or any other aspects of the business plans to inform our initial assessment. We will consider views as part of our wider assessment of the companies' plans.

Please submit any written comments to RIIO.GD1@ofgem.gov.uk, by Friday 20 January 2012. Unless clearly marked as confidential, responses will be published on our web forum.

Yours sincerely

James Grayburn
Head of RIIO-GD1

³ For example, see Redpoint (2010) Gas Future Scenarios Project – Final report. This report shows that the potential to meet domestic heat and hot water energy needs through renewable electricity could lead to a reduction in the use of natural gas and in the utilisation of gas distribution networks. Equally, there are also future scenarios where natural gas, as well as biogas, could continue to play a major ongoing role in the UK energy mix.

Annex 1: Revised RIIO-GD1 price control review timetable

The revised RIIO-GD1 timetable is presented in the following table.

Date	Key Stage
30 November 2011	GDN business plans received
09 December 2011	Business plan letter seeking feedback published
20 January 2012	Business plan feedback consultation closes
1 March 2012	Initial assessment paper published
23 April 2012	GD1 fast-track Initial Proposals consultation (if required)
Late July 2012	GD1 fast-track Final Proposals decision (if required)
Late July 2012	GD1/T1 Initial Proposals (non fast-track)
December 2012	GD1/T1 Final Proposals (non fast-track)
1 April 2013	Price control commences