



Gas distribution networks, other regulated networks, consumer groups, shippers/suppliers, other interested parties

Promoting choice and value for all gas and electricity customers

Your Ref:
Our Ref:
Direct Dial: 020 7901 7194
Email: rachel.fletcher@ofgem.gov.uk

Date: 3 February 2012

Dear Colleague

RIIO-GD1: Decision on fast-track process

This letter sets out our decision not to retain any gas distribution network (GDN) within the RIIO-GD1 fast-track process.

The GDNs submitted their business plans to us on 30 November 2011. We have completed our initial assessment of their plans. The purpose of the initial assessment is to identify those GDNs' plans which we consider sufficiently well-justified to retain them within the fast-track process, and for those GDNs not retained within the fast-track process, our proposed level of regulatory scrutiny for the different areas of their plans.¹

In June 2012 we announced a delay to the GDNs' business plan submissions following a change to the Health and Safety Executive (HSE) policy on iron mains replacement (or replex).² In this decision, we stated that given the compressed time available for the RIIO-GD1 fast-track process (eg relative to RIIO-T1) we would require GDNs to achieve a very high-hurdle for their plans to be considered for fast-tracking.³

As part of our initial assessment process, the Committee of the Authority (Committee) met with the GDNs and the Consumer Challenge Group (CCG) to discuss the GDNs' plans. Following this meeting, the Committee considered the prospects for fast-tracking for each GDN. The Committee noted that the GDNs' plans were much more comprehensive and higher quality relative to previous price control submissions, and the plans were informed by a much greater degree of stakeholder engagement. In general, the Committee considered that the GDNs had demonstrated strong commitment to the implementation of the new RIIO framework, and considered there were key areas in each individual plan that we could broadly agree to (ie where we could apply lighter-touch regulation).

However, the Committee also considered that there were material issues with all GDNs' plans that would be difficult to resolve in the consumer interest within the restricted RIIO-

¹ Under the fast-track approach, we would have published initial proposals and final proposals for companies in April 2012 and July 2012 respectively. Under the non fast-track approach, the equivalent dates are July 2012 and December 2012. See Annex 1 for timetable.

² See; <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=322&refer=Networks/GasDistr/RIIO-GD1/ConRes>

³ The fast-track timetable for GDNs is more compressed than for the transmission owners (TOs) given the delay in the submission of GDNs plans. For example, the TOs submitted their plans in July 2011, with our initial assessment in mid-October and the fast-track initial proposals (IP) is expected end January 2012, an elapsed time of 3.5 months between initial assessment and IP. This 3.5 month period allowed for further substantive submissions by TOs. By contrast, the GDNs submitted their plans 30 November 2011, initial assessment is expected 1 March 2012, and fast-track IP (if required) is expected end April, an elapsed time of 1.5 months between initial assessment and IP.

GD1 fast-track timetable (i.e. by the end of April 2012), notably in relation to asset investment plans and overall costs. The Committee considered that the consumer interest would be better served by resolving such issues on an industry-wide basis, and over a longer time-frame than afforded by the fast-track process. The Committee therefore recommended to the Authority that no GDN should be retained within the fast-track process. The Committee also recommended that the decision not to retain any GDN within the fast-track process should be made immediately to allow a greater period of time to resolve the key issues we have identified as part of our initial assessment. Finally, the Committee also recommended the application of lighter-touch regulation to those areas of GDNs' plans which were acceptable.

The Authority has considered the recommendation of the Committee and has decided that no GDN should be retained within the fast-track process.

Next steps

We will work with the GDNs and other stakeholders to resolve the issues we have identified with their plans. The primary issues that we need to address include ensuring a common approach to the implementation of the HSE policy on iron mains replacement (or repex), for example, to setting the tier 2 risk-threshold and the cost benefit analysis (cba) supporting the prioritisation of mains replacement.⁴ We also intend to work with the GDNs to ensure a common approach to investment planning for other asset categories and investment drivers (eg condition-based expenditure). Other priority areas include cost assessment, the implications of smart-metering on GDNs' costs, and traffic management act (TMA) costs.

We will publish our initial assessment of GDNs' business plans earlier than planned, on 17 February 2012. This is to allow us to start resolving the issues we have identified with the plans as soon as possible. Our initial assessment document will identify the set of issues that we intend to discuss and resolve with the GDNs and other stakeholders prior to GDNs' second business plan submissions on 27 April 2012. The document will also set out our proposed level of regulatory scrutiny for each area of GDNs' plans, ie those areas which we consider sufficiently well-justified that they can be subject to lighter-touch regulation. Our overall objective between now and the second business plan submission is to reach a common understanding with the industry on the key issues to enable GDNs to submit a plan in April which is acceptable to us, and which we could potentially adopt as the basis for our initial proposals document to be published in July 2012.⁵

If you have any questions about this letter please contact James Grayburn (by e-mail: james.grayburn@ofgem.co.uk or tel: 020 7901 7483).

Regards



Rachel Fletcher
Acting Senior Partner: SG&G - Distribution

⁴ Under its new policy, the HSE has identified three tiers of mains Tier 1 (iron mains less than or equal to 8" nominal diameter) ; tier 2 (iron mains greater than 8" and less than 18" nominal diameter); and, tier 3 (iron mains equal to or greater than 18" nominal diameter). The new policy provides GDNs with greater flexibility in relation to the prioritisation of mains replaced subject to specific rules for each tier. For example, for a description of NGN's approach to the new repex policy, see: <http://www.northerngasnetworks.co.uk/documents/a10.pdf> .

⁵ See Annex 1 for the RIIO-GD1 timetable.

Annex 1: RIIO-GD1 Timetable

The following Table sets out the RIIO-GD1 timetable.

	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Dec-12
Business Plans Received	30-Nov									
Initial fast-track assessment published				17-Feb						
Non fast-track process										
2nd business plan submission						27-Apr				
Initial proposals									26-Jul	
Final Proposals										Dec