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Dear Hannah

We welcome the opportunity to comment on Ofgem's RIIO-GD1 Initial Assessment letter of 17th February 2012.

This letter summarises our views on the assessment overall, some specific observations with regard to new policy decisions made in the assessment and the process to April resubmission. Attached to this letter is our response to the more detailed feedback on our business plan contained within Ofgem's supporting annex.

We appreciate Ofgem's early publication of this initial assessment and look forward to working closely with Ofgem to resolve any outstanding issues such that our April plan re-submission is of the highest quality.

Overall Assessment

Overall we are pleased with Ofgem's comments on the merits of our business plan. We welcome the recognition of the efforts we have made to ensure that our plan was shaped by the discussions we have had with our stakeholders, and consideration of the strategic issues that will face us over the next eight years and beyond.

Ofgem have provided detailed guidance on what constitutes a well justified business plan and confirmed this guidance in the March 2011 Decision document. This guidance outlined 15 assessment criteria which have evolved to five broad categories. We have had the opportunity to discuss and debate the criteria and categories with Ofgem and remain of the view that these provide an appropriate framework to broadly assess quality. It appears that Ofgem have applied the framework they set out. We note that the only area in the criteria that is not highlighted in the assessment is the degree of redaction in the companies' plans. We sought to ensure we could publish comprehensive information on our plan at a level of detail appropriate for our stakeholders, but this is not commented on in the assessment.

From what is visible in the other companies' plans, it also appears we have proposed the most stretching set of primary output commitments. Hence we might have expected further differentiation in this assessment category given that the key feedback appears to be on less material items in terms of our stakeholder priorities. We will work to understand Ofgem's feedback such that we can further enhance the output section of our plan for our April resubmission.

We acknowledge the positive feedback on the strategy underpinning our plan and the way our plan linked our expenditure through to our primary output commitments. In particular we welcome the recognition that we have demonstrated the greatest commitment to embracing the HSE new three tier policy, our approach to setting risk thresholds and undertaking cost benefit analysis.

We are also encouraged to see that we have provided the highest value for money plan in terms of cost per customer whilst committing to the most stretching set of primary output commitments. Our view is that if the cost efficiency assessment had been broken down into our four networks, we would have seen a Green assessment for three of our networks. Consequently, and especially in the light of Ofgem's positive view of our business plan in general, we would expect that East of England, West Midlands and North West networks should be subject to light touch review going forward.

Our London network faces particular costs and cost pressures, the latter from externally driven Streetworks legislation, and the repex programme both of which are explained in our business plan. We acknowledge that the scale and complexity of these issues is such that Ofgem needs to review them further.

In terms of the assessment of the efficiency of our financial proposals, we look forward to working with Ofgem further to understand what concerns they have on the cost of equity as it is not clear to us from the assessment why they do not believe we have justified our proposals especially given our proposals fall within Ofgem's own range. In addition, we will look to explore the use of different levers to ensure our key credit metrics can be met in the most efficient way.

Assessment process

We note that in the summary sections there are a number of broad statements made which do not reflect the differentiation made in the detailed assessment. Whilst we recognise the need to identify key themes, some of the broad statements can be misleading if not read in conjunction with the detailed feedback. In addition, some of them are factually incorrect.

For example, the statement that all GDNs propose double digit increases is factually incorrect. As stated by Ofgem in paragraph 4.34 of the Annex three of our four GDNs do not propose double digit increases, indeed two propose reductions.

IQI incentive for accurate forecasting

Ofgem proposed a number of tools in addition to business plan guidance, designed to incentivise GDNs to produce high quality business plans. These included fast track and proportionate treatment, and an IQI mechanism to incentivise companies to submit robust cost forecasts in their first business plan submission.

We have been puzzled by the proposed change of policy from the March 2011 Strategy document to use the second business plan costs as the basis for the benchmarking analysis and particularly in terms of determining the reward/penalty GDNs will receive as part of the IQI framework. The March strategy stressed the importance of providing incentives to companies to submit robust cost forecasts in their initial plans and stated the intent to use companies' first business plan submission and Ofgem's final cost assessment to determine the reward/penalty and the marginal incentive rate. By moving straight to the second plans and not acknowledging the quality of the first plan at all, this potentially discriminates against networks that have made the most efficient and best justified first business plan submissions.

Industry level issues to resolve

Ofgem have arrived at a series of industry level issues which it wishes to address through further Working Groups. It remains unclear how the intent of proportionate treatment is being applied; given all networks appear now to be subject to the same process despite there being clear differentiation in some of these areas.

Ofgem have outlined the approach to repex and wider cost benefit analysis and refining the comparative efficiency analysis as being the key issues to resolve prior to resubmission. We note that repex and the new HSE framework has been subject to considerable industry discussions and stakeholder engagement to date, and indeed is an area of the assessment where our plan has been assessed as Green. Early feedback from Ofgem on where we are not aligned and the robustness of companies reasons for any departure would help focus networks attention and better respond to any concerns Ofgem may have on the plans submitted. It will also enable us to make best use of the limited timescales to resubmission.

We are keen for Ofgem to clarify its cost assessment approach as soon as possible and have provided feedback on Ofgem's methodology both in the Working Group discussions prior to the November business plan submissions, and subsequently. This is a key tool to enable the network companies to focus on their areas of relative inefficiency and therefore further dialogue is now urgent. We note from more recent dialogue that Ofgem have stated that their policy on assessment will not be complete prior to the April resubmissions and this will be a key area to progress prior to Initial Proposals.

In addition, a key area that will need to be progressed prior to Initial Proposals is development of the range of incentives such that double digit returns are plausible for well performing networks. The current proposed incentive package does not enable this and was an issue that is highlighted in all the GDNs plans, but we note was not covered in the Initial Assessment. This has a key interaction with assessment of the efficiency of financial proposals.

NGGD level issues to resolve

Ofgem have raised a number of specific issues for us to consider in updating our plan such as including the priority of tools we use to achieve financeability, cost efficiency in our London network including efficient management of Streetworks costs and our real price effect assumptions. We are confident that we can address these points and we look forward to working with Ofgem in the coming weeks towards resubmission to clarify the specific points that have been raised.

Yours Sincerely

Helen Campbell

Initial Assessment Response Detailed Annex

The following contains our specific comments on the Initial Assessment and follows Ofgem's structure document for ease of reference.

SECTION 2 - Summary of Assessment

Our comments on this section relate to the clarity of Ofgem guidance of how it would compare companies' plans and Ofgem's general assessment of relative compliance.

1. Assessment Process

We believe that the assessment criteria areas were well signposted by Ofgem through the process. However, there has been a degree of evolution of these criteria over the process which has made relative assessment of their importance more complicated. Indeed the assessment is largely subjective and we have found it difficult in some areas to match some of the traffic light scoring in the letter to the detailed commentary on the plans. In addition, it has not been made clear whether the assessment is made at a company level or at an individual network level.

We observe that 2.5 months from November submission to Initial Assessment is a very tight timeline for Ofgem to form detailed views, particularly given the comprehensiveness of the information submitted within business plans. We believe that this is evident in the generic nature of a large proportion of the feedback received in the Initial Assessment.

We note that there were very few written responses to the GDN plans received by Ofgem, representing only a small part of the stakeholder base. This small sample size needs to be taken account of in the weight attached to drawing conclusions from these comments particularly in light of the considerable stakeholder engagement and feedback networks have received through our respective stakeholder engagement processes (which have all been assessed as robust by Ofgem).

2. Process

We concur with Ofgem that all the GDNs have clearly followed an enhanced process in this business plan submission. We are pleased that Ofgem have recognised that NGGD provided the most detailed plan on areas of key content. Accessibility of our plan was important to us and we sought to provide a range of materials at different levels of detail for our stakeholders to access.

We note that no comment is made on the level of publication of the respective plans, something that was clearly stated as part of the assessment criteria on process and commented on in the RIIO-T1 assessments. Transparency and visibility of our plan was an area we considered very carefully, in addition to its accessibility.

We believe we took a proportionate approach to ensuring key content within our plan was covered at appropriate levels of detail. Unfortunately, we feel that not all feedback received has fully considered this depth of information provided within our plan, including a number of our Appendix documents which appear to have been overlooked by Ofgem.

To respond to Ofgem's specific points:

<u>Cost Benefit Analysis (CBA)</u> - We set out in considerable detail the methodology we have used for cost benefit analysis in our Asset Management chapter (Chapter 8) and supporting information[1] and this has been the subject of much discussion and dialogue with Ofgem and the other GDNs over the last few months. We welcome the acknowledgment in paragraph

[1] Appendix A8.4

2.27 that our submission most clearly rises to the challenge of the new HSE policy and that we have provided detailed CBA analysis to support investment in Tiers 2 and 3. We will continue to work with Ofgem to discuss our approach further and understand why Ofgem's assessment was that none of the GDNs provided detailed CBA.

Uncertainty - We disagree that none of the companies' plans considered the implications of uncertainty both in relation to future demand and asset data. We identified this uncertainty as one of the key issues in our External Context for RIIO-GD1 chapter 3. We outlined how we had taken account of this uncertainty in considering the future energy pathways in developing a range of scenarios for demand and potential renewable gas developments over RIIO-GD1 and the longer term. This was set out in our supporting information on our demand and supply assumptions and summarised in our Asset Management chapter. It should be noted that our forecast has been supported by stakeholders through our engagement process (and incidentally appears to be the lowest peak demand forecast across all the GDN plans). We also set out a future projection of how our networks might need to develop against this backdrop of uncertainty in our approach to asset management and summarised this in our Total Expenditure chapter (Chapter 7). We also noted in some detail in our supporting information on Asset Health Assessment the status of our asset health data, our plans for evolving this data and how we have identified what risks we needed to manage over the RIIO-GD1 period.

Stakeholder Engagement

We welcome the acknowledgement that all plans have been informed by greater degrees of engagement with stakeholders and NGGD have carefully considered how to ensure stakeholder views are fully reflected in our plans.

To respond to Ofgem's specific points:

Future customers: - we agree it is difficult to fully take into account the interests of future customers. Throughout our engagement, we have been mindful of the need to consider this stakeholder group and our engagement has included discussions around future opportunities and challenges that both the energy industry, and more specifically NGGD faces, the future role of energy up to 2050, the role of and connections charging for renewable gas, demand for gas and likely demand for future customer connections.

Our financial package also considered the impacts on customers' bills up to 2031, so as to limit the exposure of bill increases for future and current customers' beyond 2021.

Intergenerational fairness has been a key consideration when developing our submission and we continue in discussions with organisations such as the Intergenerational Foundation, DECC Youth Panel and Think 2050 to ensure they play a key role in our enduring stakeholder engagement activities.

3. Outputs

Ofgem provided guidance in the March 2011 Strategy document on the outputs it expected networks to propose based on the industry discussion that had taken place. However, not all of the Working Groups were able to arrive at final policy guidance for reasons including lack of time available, complexity and the need to conduct further trials or analysis before confirming policy (e.g. CO output measures and proposals for risk removed incentives). Further development of the outputs and incentive package was therefore expected post March 2011.

Absolute compliance with output guidelines even where policy was agreed was also not a requirement given that Ofgem have stated in an outputs based regime, well justified departures to accommodate differing stakeholder views was valuable.

Further we are surprised at the reference to output baselines being justified in terms of cost benefit analysis. We have taken a pragmatic approach to considering sensitivities on output baselines after testing stakeholder feedback on acceptability of current levels. For safety and reliability we believe the stakeholder feedback for all companies was that no deterioration in standards, on which our safety case is based, was acceptable and that our current levels of performance were considered appropriate.

In this light we are pleased that Ofgem have recognised all the companies' proposals, including ours, on customer, social and environmental outputs are generally acceptable.

In our November plan, we provided a specific outputs data table to help Ofgem with their analysis in this area[2]. We believe our output commitments significantly differentiate us from the other networks (from what is visible in the published plans) and hence would have expected some differentiation in the Initial Assessment, including a comparison of companies' plans on key output measures.

On the specific comments made:

Carbon Monoxide Awareness - from the discussions at the Customer and Social Issues Working Group and the comments in the Initial Assessment, we understand Ofgem's desire for commonality and indeed we have been working towards this with Ofgem, GDNs and stakeholders in a working group over the last 12 months. There is however a wide variety of views over what role GDNs should play on CO awareness. We have proposed in our current plan an approach to CO awareness that best fits with the feedback we have received from our stakeholders. However we also noted we were seeking further stakeholder views on the merits of providing CO alarms. Our proposed programme sees a significant new commitment to make 2.1 million carbon monoxide contacts utilising some of the standby time inherent in our emergency response activity.

Fuel poor connections, we would like to understand what further information Ofgem will require and how this interacts with their planned review in 2014.

Replacement outputs - we welcome the acknowledgement that our plan most clearly aligns to the challenge of the new HSE policy and that we have tracked through the impact of our mains replacement programme into other primary outputs such as repair risk, shrinkage and unplanned interruptions. We also welcome the comments on the detailed CBA analysis we have provided for Tiers 2 and 3 Repex.

Asset Health - Ofgem state there is insufficient detail to understand the robustness of the asset health information. All the GDNs have acknowledged the need to continually review and improve our asset condition data and we have set out a clear plan to do this. We are concerned however on the implications of the statements made in 2.29 that allowances may be withheld pending further asset health data. We have taken account of the quality of our data and the other information upon which we draw to put our asset integrity proposals forward. Our plan sees a significantly lower spend on asset health compared to the other GDNs which mirrors the situation for GDPCR1, hence we believe our framework is robust to target the high priority assets and ensure value for money for customers.

4. Resources - Value for Money in Delivering Outputs

We agree with the requirements for well justified business plan including evidence that networks deliver outputs at value for money over the longer term. We have been supportive of using a range of processes and tools to determine efficiency including benchmarking. NGGD has provided significant analysis in this area and we are keen to engage further with Ofgem and with industry on how efficiency can be assessed.

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[2] Appendix A6.1

On the specific points raised:

Total cost projections - In providing an overview of companies performance, paragraph 2.32 states that *“All of the companies have much higher cost projections than we expected, with all GDNs proposing double digit increases for RIIO-GD1 relative to GDPCR1)…..in general we do not consider that the evidence is sufficiently robust to justify the extent of the proposed increases in expenditure.”*

The statement that all GDNs propose double digit increases is factually incorrect. This general statement is very misleading particularly to those who might just read the summary at the front of the document and not read the individual company feedback. As stated by Ofgem in paragraph 4.34 three of our four GDNs do not proposes double digit increases – indeed two propose reductions – as shown below

- minus 5.3% for the North West;
- minus 2.9% for West Midlands;
- plus 1.6% for East of England; and
- plus 19.1 for London.

We have been clear with our customers surrounding price increases and discussed openly with them the expectation of no increases in three of our networks and discussed the reasons why our London network sees higher cost pressures.

Our London network faces particular costs and cost pressures, from externally driven Streetworks legislation, and the repex programme both of which are explained further in the business plan. We acknowledge that the scale and complexity of these issues is such that Ofgem needs to review them further. We welcome therefore, Ofgem’s comment in paragraphs 2.32 and 2.33 that it proposes to carry out further work on cost drivers, company specific costs, differences in assumptions on smart metering, loss of metering and streetworks. This is in addition to the further work on cost benefit analysis such as for holder demolition and Tiers 2 and 3 replacement. Further work in many of these areas should be especially useful in understanding the costs and pressures we face operating in London and aid our plan resubmission in April.

Real Price Effect assumptions (RPEs) - the range of RPE assumptions noted by Ofgem is perhaps not that surprising in that, as set out in our submission, there is a plausible range of forecasts for major items such a labour and oil. In these areas we set out alternative sources and submitted a mid range forecast.

Paragraph 2.34 continues *“There is however a lack of evidence provided by all as to why, over RIIO-GD1, they will no longer be able to achieve the cost savings they are achieving currently”.* As demonstrated above, this statement is incorrect because two of our GDNs exhibit cost reductions, and one shows just a marginal increase.

5. Resources - Efficient Financial Costs

Ofgem’s financial policies in relation to technical accounting, corporate finance costs and key content have been discussed and laid out in the business plan guidance. It seems that on technical accounting there are minimal issues to address across all the plans.

In corporate finance it would appear the networks have interpreted guidance in the March Strategy document in different ways, and in assessing the relative efficiency of financial packages, it is important that Ofgem are able to correct for this difference.

Ofgem appear to consider that none of the cost of equity (CoE) proposals in the companies plans are well justified, including those proposals that fall within Ofgem's guidance range in the March Strategy document.

In our plan we provided detailed evidence supporting our proposed cost of equity. Firstly, we established what would be the correct CoE for the GD business today under the existing price control policies. This review included applying the CAPM model, but also checking this against investor feedback, regulatory precedent and other models, such as the Dividend Growth Model. We then took this starting CoE and applied the changes in risk resulting from the new RIIO-GD1 policies and financial package. Our resultant CoE was 7.2% based on these four categories of detailed evidence.

Given the level of analysis and detail we provided, we look forward to further discussions with Ofgem to identify areas where our proposals are considered to be unacceptable. Key to this, as Ofgem note in the Initial Assessment, is finalising totex allowances and incentive arrangements along with uncertainty mechanisms, the approach to which should be discussed as a priority to enable networks to fully understand and consider Ofgem's concerns in the April resubmissions.

6. Uncertainty and Risk

We welcome Ofgem's feedback that NGGD provided the most comprehensive and measured identification of risks and approach to dealing with uncertainties. We were disappointed that this was not reflected in the amber on the Initial Assessment of the risk and uncertainty criteria for our plan and believe this relates to the need for further dialogue on the streetworks uncertainty mechanism rather than the quality of our treatment of risk and uncertainty. This is an issue common to all GDNs but which we and SGN currently face most significantly given the relative rollout of streetworks legislation schemes across the UK. We appreciate Ofgem need to fully consider any additional / amended uncertainty mechanisms to those proposed by Ofgem and will seek to share views on our Streetworks uncertainty mechanism as a matter of priority.

On the specific points raised:

<u>Streetworks</u> - we have considered all Stakeholders views when developing our uncertainty mechanisms, such as our approach to Streetworks, which aims to provide smoother charges overall with a less material true-up for legislative changes. In addition, there is now further clarity on the Transport for London Lane Rental scheme, which would allow consideration of an ex ante allowance based on the published charges and streets affected.

<u>Charging Volatility</u> - One of the key causes of volatility in charges is the change in capacity across supply points, particularly related to industrial and commercial customers. For example, we have raised Uniform Network Code Modification 380 – Periodic Annual Quantity (AQ) Calculation – which identified and implements a new Uniform Network Code AQ calculation regime, commonly termed "rolling AQ" to replace the existing arrangements. As part of this proposal, discussions are also progressing in the working group around fixing the booked SOQ for charging purposes. Implementation of this Modification with fixing of the SOQ, if agreed, will go some way towards improving stability and predictability.

Throughout our Stakeholder engagement, including discussion with individual shippers, we have discussed possible approaches to manage charging volatility and included opportunities that we are progressing in our business plan to reduce charging volatility. We have had many different views from our stakeholders and our proposals seek to give stability in prices with no material increases in customer charges and ensure that future customers are not funding the costs created in logging up known costs that are being incurred.

SECTION 3 - Key Issues and Next Steps

We support the intent to get to a position whereby our April business plan submission is broadly acceptable to Ofgem. We believe we can address the feedback set out in the assessment of our plan such that we present a plan which Ofgem find acceptable.

We have been puzzled by the proposed change of policy from the March 2011 Strategy document to use the second business plan costs as the basis for the benchmarking analysis and particularly in terms of determining the reward/penalty GDNs will receive as part of the IQI framework. The March strategy stressed the importance of providing incentives to companies to submit robust cost forecasts in their initial plans and stated the intent to use companies' first business plan submission and Ofgem's final cost assessment to determine the reward/penalty and the marginal incentive rate. By moving straight to the second plans and not acknowledging the quality of the first plan at all, this potentially discriminates against networks that have made the most efficient and best justified first business plan submissions.

Priority Areas

We acknowledge Ofgem's list of priorities but believe proportionality should be applied reflecting on the Initial Assessment of companies plans. For example, there are different levels of assessment on the strategy underpinning a number of the common areas identified such as repex (and wider approach to CBA) and asset health data and assumptions for deterioration.

There is one key major additional item which needs to be added to the list of common industry issues which is the range of incentives proposed for RIIO-GD1. All network companies have made the point in their business plans that the current proposed range of incentives does not provide an adequate upside potential for RIIO-GD1 from that which could be reasonably expected for well performing network companies. Our own analysis showed that the plausible upside potential falls well short of the double digit RoRE that Ofgem itself in its March strategy document has acknowledged should be a reasonable expectation for well performing networks.

We have proposed a number of additional incentives which we believe would deliver real value to customers and support the closure of this gap. In particular we have focused on the safety and reliability outputs which currently do not have financial incentives associated with them (despite being identified as our stakeholders' top priorities). We are very keen to engage further with Ofgem on these issues in order to explore their implementation.

1. Repex and Approach to CBA

Tier 2 Thresholds

We believed the approach to applying Tier 2 was very clear and we have applied the methodology we understood to have been agreed. We have applied a consistent methodology across all our networks, the different risk thresholds are a result of different population densities. We are happy to work with Ofgem and the HSE to explore whether there are any enhancements to our methodology but we would need to ensure that any methodology is based on sound data and is validated prior to its adoption. If this proves impossible in the time constraints, our proposed approach is a robust methodology on which to define the threshold for Tier 2.

Cost benefit analysis

We have undertaken a thorough and comprehensive approach to cost benefit analysis which we are pleased to see acknowledged in the assessment. We have taken time to explain to both our stakeholders and Ofgem/HSE our approach to cost benefit analysis and what this has identified for our plan. We are supportive of the need to understand the different approaches the GDNs may have taken to ensure, where it is practicable and appropriate, for common assumptions to be used (such as discount rates and asset life assumptions used in companies' analyses). We note however that it does not seem feasible or appropriate to have one methodology which covers all investment decisions as circumstances and drivers are different (for example some decisions interact with legislative requirement, some concern removal of assets rather than replacement etc)

Outputs

Given the positive feedback ion the assessment on our linkage of replacement through to primary outputs and costs, we assume that the comments made with regard to outputs are not directed at NGGD's plan. We look forward to working with Ofgem on any specific areas they require further information on.

Service replacement

We have responded to the specific points raised on service replacement through supplementary questions. We are therefore not sure whether this is a common industry issue.

2. Asset Health, Criticality and Risk Data

This is an area where we would like to see a proportionate approach being applied given the strength of feedback on our overall approach to asset management and our asset integrity plans. We have set out clear output commitments relating directly to the changes in risk indices over the course of RIIO-GD1 and our asset health investment plans are aligned to these commitments. We have provided detailed information on our approach to asset health assessment with a description of the condition data that is used as one of the elements underpinning our assessment. We have also provided detailed breakdown of the options we have considered for all our material investments. We look forward to discussing any further information Ofgem need for their assessment of these plans.

We are happy to work with Ofgem and the GDNs to find the optimal way to present the outputs we are delivering through our asset health plans (to enable easier understanding and comparability for stakeholders). As noted earlier in our response, in terms of funding asset plans (as set out in para 3.20), it must be recognised that information is never perfect and therefore a robust asset management plan must make best use of the condition data that has been gathered and use sound engineering logic based on the quality of data to ensure the integrity of the assets.

3. Smart Metering

We agree with Ofgem on the need to establish the role of the GDNs with respect to smart metering and have been actively participating in cross industry discussions including DECC, suppliers, Ofgem and the other GDNs to achieve this. Understandably, at this stage of the Smart meter programme industry frameworks and protocols are not yet formalised. Even after GDN roles have been established and timescales clarified, the effects of Smart metering are unlikely to be uniform across the GDNs. Therefore we recognise that there are different assumptions made in the GDN plans.

Given the uncertainties, we agree with Ofgem in the need to develop an uncertainty mechanism and we are working with Ofgem and the other GDNs to develop common assumptions for the expected impact on GDN costs.

We do however, wish to highlight two misunderstandings of our business plan assumptions as stated in Table 3.1:

a. The 5% quoted by Ofgem as the volume increase on PREs is a misquote. This figure refers to the percentage of meter installations that will require our involvement. The number of jobs was provided to Ofgem in our supporting information and is equivalent to a 15% increase in PREs.

b. The table quotes NGGD's costs as included as part of the fully funded emergency service, whereas for SGN they are included as part of a 95% funded emergency service. Reviewing the SGN plan, it would appear to us that SGN also requests a fully funded emergency service, but that around 5% of its work represents infill work on Smart and CO. In contrast we plan to accommodate greater levels of infill work within our fully funded emergency service, taking up standby time left by metering competition so that 8% of our work relates to smart metering, and a further 13% CO – a significant output commitment. Therefore our 21% infill assumption compares to Scotia's 5%.

4. Streetworks

We welcome the intent for Ofgem to engage on Streetworks legislation costs in order to develop a consistent approach across networks and look forward to working with Ofgem to define a workable framework for determining an ex ante allowance and an associated uncertainty mechanism.

5. Low Pressure Gas Holders

Given the differences in GDN's business plans and timescales, we support further investigation and assessment by Ofgem, particularly to understand the drivers behind differences in unit costs and variances in capital requirements to enable the substitution strategy. We note the size and type of holder are key drivers of variance in our networks.

We would however note our remediation proposals are to the statutory minimum level, not to a 'commercial' level as detailed in Ofgem's assessment, and we welcome the acknowledgement that we are proposing a less aggressive phasing for the demolition / remediation programme than other networks.

6. Comparative Efficiency Modelling

We welcome the opportunity to further develop further the comparative modelling techniques and Ofgem's acceptance of the need to consider the regional and company specific factors. We especially welcome the proposal in paragraph 4.11 to engage further with NGGD on our analysis. Unique among the GDNs, we have explained not only those factors which add to GDNs' costs, but also those which act to reduce them. These have been developed to help our comparative analysis on our networks which we have used to drive targets both during GDPCR1 and in our business plan. They explain a significant element of the apparent differences in "efficiency" shown by regression methodology for our four networks.

The indicative Tier 1 repex regression shown in figure 3.1 appears to be significantly distorted by the inclusion of Streetworks costs, for which our GDNs, and especially London, have very much higher levels of anticipated cost than the other GDNs. If these were excluded and subject to a separate treatment, we believe a more reasonable representation would emerge.

7. Social Outputs

We would welcome further discussions on whether a common approach can be developed (where desirable) on carbon monoxide awareness. In particular in our business plan we flagged the need to consider whether GDNs should be funded to provide CO alarms to designated customer groups and this would be a good area to explore further with stakeholders.

We look forward to engaging further with Ofgem on the additional information they are seeking on our fuel poor connections plan.

SECTION 4 - Assessment of NGGD's Business Plan

1. Overall Assessment

We welcome Ofgem's positive comments on the comprehensive nature of our plan, the clear structured framework to dealing with the key business issues and the robustness of our stakeholder engagement approach.

We assume the overall cost efficiency assessment as Red reflects commentary on only one of our networks (London) rather than a view on our plans as a whole. We have the lowest spend on both a network and company basis as shown in paragraph 4.35. where other companies who are considerably more expensive over RIIO-GD1 are shown as amber. If streetworks costs (which fall more proportionately on the NGGD networks) are excluded, the overall totex cost differential is even greater between other networks that have been assessed more favourably. The differences are further reinforced given that we have committed to the most stretching set out output commitments as discussed previously.

We can only assume that the assessment reflects Ofgem desire for further information surrounding the cost efficiency of our London network. If a network by network breakdown would have been shown, we would have expected a green assessment for our other three networks.

We also understand that the amber on the assessment of the risk and uncertainty criteria relates to the need for further dialogue on the streetworks uncertainty mechanism rather than the quality of our treatment of risk and uncertainty which has been praised as the most comprehensive. This is an issue common to all GDNs, but which we and SGN currently face most significantly given the relative rollout of streetworks legislation schemes across the UK.

We welcome Ofgem's openness to undertaking further comparative efficiency modelling and agree this is a critical area for Ofgem to take a policy decision on as soon as possible. We note however that it not going to be completed before the April resubmission.

We believe the quality of our plan is sufficient to merit proportionate treatment. We are committed to working with Ofgem to better understand the areas of our plan where further justification is required with the aim of providing the best quality plan for the April resubmission.

2. Assessment of Process

Key content, structure and completion of data templates

We welcome the positive feedback on the structure and format of our plan.

Responding to the specific points noted in paragraphs 4.10 and 4.11, we explained in Chapter 8 of our plan (Asset Management) and the supporting information[3] how we considered different demand scenarios in our plan development (including the Gone Green scenario as referred to).

We would like to understand further from Ofgem what is meant by "how to accommodate uncertainty over future network use in their asset management plans" as we believe we have already addressed this extensively in our plan.

Effective engagement and reflections of stakeholders' views

We welcome the positive feedback on our stakeholder engagement process.

[3] Appendix A8.2

In relation to the example quoted on where stakeholders rejected a solution, as part of our ongoing engagement, alternative options have been explored and discussed in relation to the outputs. In terms of the provision of a repair for vulnerable customers put forward by some of our stakeholders, we also assessed the option of arranging the visit of a local engineer to carry out a repair on the customer's behalf. Again, given the additional time that would be required by either our emergency engineer or emergency call centre to do this, and a consensus from our stakeholders that the emergency response team must be able to meet peak demand, we decided not to progress this option.

Similarly, we also looked at the possibly of introducing a hardship fund to assist with the cost of replacement or repair of appliances and discussed this with stakeholders. It was noted that some suppliers and other organisations already provide this service, and hence we did not pursue this option.

As part of our customer monitoring of our Emergency Response and Repair service we undertake a post visit courtesy phone call to a sample of our customers to identify any areas of concern. Whilst this has not identified any underlying issues, as part of our direct customer research and complaints analysis we are reviewing any further assistance we may provide to vulnerable customers in this area.

Assessment of Outputs

We note that there is no overall comparative table of output commitments included in the Initial Assessment. If there had been, from the information visible in the public domain, we believe our commitments would be seen to be the most comprehensive and stretching in all the key output areas compared to the other networks

Customer Satisfaction

We are pleased that Ofgem acknowledge our additional output measures associated with managing costs and reducing disruption associated with streetworks activities. We see management of our streetworks activities as one of the key challenges during RIIO-GD1 and are keen to demonstrate that we are delivering improvements to our stakeholders.

We note Ofgem's comments regarding the differential in customer satisfaction for working in London and we would be happy for Accent to facilitate meetings with Ofgem and the organisations who took part in the joint research study. Both the quantitative research undertaken by Accent and the qualitative research undertaken by Opinion Leader confirmed a London difference existed and we welcome further discussions in this area.

Carbon Monoxide

We were concerned with the comment by one respondent that our CO proposals do "not go beyond current practice". We have subsequently spoken to the respondee to better explain our proposed approach and we hope that this removed any potential misunderstanding of our proposals.

Our current approach is to respond to reports of Carbon Monoxide and, where there are visual signs of Carbon Monoxide spillage, we make safe the installation so that the customer can arrange a repair. Our plan for the RIIO-GD1 period introduces a new additional CO advice and awareness service, either as part of an attendance to a report of a gas escape or by providing a proactive visit arranged with the customer. The proposed approach has the additional benefit of maximising the use of our Emergency Service resources standby time and allows delivery of a service with minimal impact on our costs. This Primary Output (to deliver 2.1 million service visits) is then supported by the CO Awareness Leading Indicator that will measure the effectiveness of our Primary Output.

The supporting information within our plan highlights that we are willing to fund the provision of CO Alarms to vulnerable customers (at an estimated cost of c.£3.5m based on a volumes similar to our heating and cooking appliance provision to vulnerable customers 315k). There were, however, mixed views in our stakeholder engagement about whether GDNs should provide CO alarms or whether this should be left to other parties in the energy market. This is one area we noted there should be a common industry approach upon and look forward to working with Ofgem, GDNs and stakeholders on a way forward.

Fuel Poor Network Extensions

We will provide additional information on our overall strategy on fuel poverty in our April resubmission.

Connections Policy

We suggest that as the market for distributed gas connections is currently at a very early stage, it will take some time before the application process becomes more standardised and therefore amenable to accurate forecasting of costs and timescales. We therefore welcome Ofgem's approach that work is required during RIIO-GD1 to develop appropriate standards for the connection of gas entry customers.

Environment (excluding shrinkage)

Although leakage volumes will continue to dominate our Business Carbon Footprint (BCF) and will continue to be the primary area of focus in reducing our operational impact on the environment, we also intend to focus our attention on other areas of our carbon emissions. We explain how we intend to achieve this in Chapter 6 "Our Output Commitments" of our plan.

In summary, we intend to achieve (non shrinkage) environmental commitments through continuing to take a leading role in facilitating new resources to connect to the gas network, exploration of alternative entry charging methodologies, development of a new entry connections process as well as continuing to innovate to support the demonstration of new renewable gas resources. Additionally, we intend to reduce our Business Carbon Footprint emissions through procurement of a more sustainable commercial vehicle fleet (including participation in a CNG trial), continuation of the company car green incentive schemes and working closely with our energy management company to reduce energy consumption across our sites.

In terms of spoil and aggregate volumes and costs, for efficiency purposes, this detailed level of data has historically been incorporated within reinstatement project rates and costs provided by our Alliance and Coalition partners. As a consequence we have only recently started to regularly capture and monitor data down to the level that will allow us to develop a robust forecast for RIIO-GD1 and in doing so remove any obstacles going forward. In the absence of historic data we intend to make a more holistic commitment to our spoil and aggregate activities in our April business plan re-submission and will be in a position to report annually on volume and costs of spoil sent to landfill and extracted MOT type 1 virgin aggregate from 2013/14.

Shrinkage & EEI

We look forward to engaging further with Ofgem and the industry on our shrinkage and leakage proposals including our proposals to enhance the accuracy of the leakage model.

Innovation

We have welcomed further feedback from Ofgem on our Innovation strategy post the Initial Assessment and we will be considering how to enhance our innovation strategy for our April resubmission.

Reliability

We note the feedback on our reliability measures which largely relate to leading indicators rather than the primary output commitments.

We look forward to working with Ofgem to further understand our asset health commitments. We note, from what is visible in the published plans, we appear to be the only network that has set out output commitments associated with asset health and integrity. Our output metrics have been based upon the risk index combining the health and criticality assessments.

We intend to address the minor variance from the March 2011 strategy document in the other reliability outputs through the inclusion of the following measures in our April re-submission:

- Achievement of the 1:20 planning standard (Primary Output)
- Diversified and Undiversified Peak Day Load (Leading Indicators)
- Maintaining Operational Performance (Primary Output)

We also intend to provide an indicative forecast for our Leading Indicators of Offtake Meter Accuracy and Telemetered Fault Response within our April resubmission.

We will work with Ofgem to ensure that our Asset Health output commitments are understood and they can be compared with other networks.

Safety

We are the only GDN to propose output measures associated with the demolition of Gas Holders, which is also a material cost in all of the other GDN plans. We are happy to discuss the appropriateness of this measure with Ofgem.

Since the submission of our November plan, we have responded to Ofgem's supplementary question (GD1-IS-44) and provided indicative levels for Gas in Buildings and Mains Fractures corresponding to the planned main replacement. We also intend to reflect these levels within our April resubmission.

We have set out in detail our strategy to manage service risk in our plan and have responded to the points raised in the assessment through a supplementary question reply. We look forward to engaging with Ofgem on any further areas they are seeking further information.

3. Assessment of Efficient Expenditure

Total Expenditure

We are pleased to note Ofgem's comments that our plan shows clear linkages from repex and capex programmes through to safety, reliability outputs and opex activities and the fact that we have the lowest cost increases (except London). In our business plan we set out clearly the reasons for the higher cost pressures for London. This we accept is in part due to our current higher operating costs, but it is clear from comparing all the published business plans that:

- We have closed the operating cost gap.

- Our capital spend is far lower than the other GDNs - as it has been over the last ten years and as recognised by Ofgem at GDPCR1.
- Our replacement expenditure has the benefits of both workload efficiency (from our achievement in minimising Tier 2 and Tier 3 workload while conforming to the HSE's new repex policy) and cost efficiency (from targeting gap closure and ongoing productivity improvements).

This results in our cost per customer being 8% lower than that of the other GDNs over the RIIO-GD1 period, a figure which rises to 15% if Streetworks costs are excluded.

Whilst we welcome Ofgem's comment that we have demonstrated the greatest commitment to conforming to the HSE's new repex policy, we are surprised that Ofgem excluded our London network from this comment, given we applied a consistent approach across our GDNs. We do however understand that we need to engage further with Ofgem in setting out the London repex strategy and London repex unit costs.

Operational Expenditure

We are pleased with Ofgem's positive feedback on the clarity of our cost proposals and our linkage of investment through into opex. We welcome the opportunity through Ofgem's process to clarify our position and identify any inconsistencies across GDNs in areas such as smart metering, Streetworks and gas holder decommissioning.

We are, however, surprised at the statement in paragraph 4.41 that the cost increases in business support costs from 2010/11 are not sufficiently explained, especially in relation to training and apprenticeship costs where we provided supporting information on our resourcing strategy. This evidenced our age profile, hence derived the number of leavers from which we then quantified the number of new recruits (less than leavers to take into account efficiencies in operating costs), and then explained the duration of training and the make up of costs per trainee.

Capital Expenditure

We welcome Ofgem's assessment that the capex sections of our business plan are comprehensive and clearly presented; cost changes are detailed and well explained and that the plan contains a proportionate level of integrity information for a number of key asset categories, clearly setting out the rationale and options identified to manage the issues.

We note that we have proposed significantly lower overall capital spend than the other network companies.

On the specific points raised in this section:

<u>LTS</u> - with regard to the specific comments made, Chapter 8 of our plan and its supporting information[4] detailed how we intend to maintain the structural integrity of our existing Local Transmission Systems mitigating deterioration and potential damage from interference. Our expenditure proposal details the costs of pipeline and sleeve inspections and consequential fault remediation plus ancillary equipment such as Cathodic Protection systems and marker posts which provide ongoing protection and prevent further degradation and external interference.

The bias in costs being incurred in East of England reflects the much higher proportion of LTS assets when compared to our other networks. The Data tables illustrate the network has 2500km of LTS as compared to an average of 836km for other networks, with larger numbers of NTS Offtakes and more PRSs. This also results in East of England having a

[4] Appendix A8.5

higher proportion of pipelines that we have put forward for online inspection. In addition to this the network has significantly less permanent PIG traps requiring alternative, more expensive arrangements.

Use of innovation - Our capital plan includes numerous examples of where innovation has been incorporated into our delivery proposals. Our strategy includes the replacement of our inefficient aging pre heaters with highly efficient latest generation technologies burning distributed natural / bio gas. We are working with a consortium of renewable specialist to assess how we can supplement our baseline strategy with proven renewable technologies.

We are fully committed to developing renewable heat technologies and have commercial arrangements in place at a number of our pre-heat sites to explore opportunities for renewable pre-heat and power generation. Beyond that, we continue to work with the wider market to explore technical solutions that might enable greater substitution of distributed gas as the primary energy source for pre-heat.

Reinforcement and Connection Costs - With specific reference to the comments in paragraph 4.47, local reinforcement projects are subject to a significant degree of uncertainty. They are driven by specific customers, local developments or local constraints, the uncertain nature of these drivers result in significant volatility. As such we do not believe the first 3 years of outturn costs under GDPCR1 are representative of the underlying costs and ongoing requirements. Instead we set out our assessment of future costs has been derived from the underlying average of observed outcomes over a 10 year period.

In our supporting information[1] we have explained that ongoing reinforcement to mains and district governors is necessary to mitigate against local drivers detailed above. We highlight the insensitivity between underlying peak demand levels and reinforcement over the last 10 years, hence our overall projected decline in peak demand over the RIIO-GD1 period is not viewed as having a material effect on the potential costs.

We also discuss how our upstream LTS PRI's have sufficient existing capacity to meet our forecast demand ranges, however, our PRI's interconnecting > 7 bar to < 7 bar systems are more sensitive to local dynamics in demand and customer base. We explain that to resolve all implied constraints (40 sites) would require investment of around £36.4m excluding any of the 165 PRI's close to the trigger. We detail how our proposed investment of just £15.4m takes into account our ability to reconfigure flows, raise pressures or gain a better insight into network performance by expanding coverage of our pressure optimisation and recording equipment.

In our supporting information we also outline how we have determined our ex ante requirements of for new exit connections and to enable our commitment to customers in fuel poverty. In addition to this our plan includes an assessment of the impact of Streetworks legislation costs. Upon review, we believe that we have allocated too much of the streetworks costs to the connections activity and should instead have been allocated to the mains replacement activity. We are updating our approach to Streetworks costs in our April resubmission.

London reinforcement and connection costs - The significant increase in London reinforcement is explained by the over-allocation of streetworks costs to the connection activity explained above but also from the inclusion of reinforcement schemes to support the London Medium Pressure replacement strategy. As detailed in the supporting information to our business plan[2], the MP strategy is an innovative technical solution to delivering a more economically efficient outcome for our iron mains replacement programme. We are happy to work with Ofgem to provide additional clarity to understand these drivers.

[1] section 4 of A8.6
[2] A8.4 Section 3G

Other Capex - The expenditure forecasts included as 'other capex' within the Ofgem data tables have been categorised in accordance with the Regulatory Instructions and Guidance documents. Wherever possible we have shown these separately within the published categories or as named material projects. In all instances the detailed justification and evidence for our proposals have been included in our business plan Chapters 10 'Our Business Support Expenditure' and supporting information. We are happy to work with Ofgem to clarify or expand on the information already provided.

Governor Replacement - As detailed in our response to a supplementary question (GD1-Phase2-50), our overall assessment of costs for the governor replacement programme was correct but an error in workload numbers and unit costs applied to each network has been identified and corrected. We are happy to provide any further clarification arising as a result of our error.

Tools & Equipment Costs - We look forward to receiving further feedback on our tools and equipment costs that Ofgem believe require further justification. We note our plan appears comparatively to have the lowest level of costs across the GDNs.

IT Costs - We are surprised in paragraph 4.53 at the statement that our IT capex lack detail, having provided Ofgem with supporting information on IT capex expenditure. As noted by Ofgem this provides clear information to describe the IT strategy and explains the rationale behind moving to our evergreen status given the criticality of the core systems to the safe and secure operation of our networks. As such only a small proportion of our IT capex is related to CBA justification delivering additional financial benefits that are cost justified.

Replacement expenditure

We are pleased that Ofgem's assessment recognises our substantial and detailed business plan fro repex and the integrated asset management philosophy it demonstrates.

We are puzzled by the comment in paragraph 4.57 as the impact of our repex plan on risk reduction is highlighted throughout our plan and in addition we provided an additional outputs data table showing our commitments and relating these to historic levels. We will look to ensure this is even more clearly signposted in our resubmission.

Our approach to applying the three tier framework is homogenous across all of our networks. Tier 2 and 3 workloads have dropped in all 4 of our networks as a result of the 3 tier approach to iron mains.

We have set out our approach to determining our mandated programme in Tier 1, how we set the risk threshold in Tier 2 and how we have conducted cost benefit analysis in Tiers 2 and 3. We also set out our delivery approach to optimise cost efficiency and other outputs.

Our cost benchmarking and indeed Ofgem's own analysis presented in the assessment shows that we are around the upper quartile on efficiency for three of our networks. We have explained in our narrative the drivers behind why our London unit costs are higher such as Streetworks legislation costs and other London specific factors such as larger hole sizes and deeper excavations. We have acknowledged and addressed current efficiency gaps and set out a strategy in our plan which we believe closes those gaps, we need to work with Ofgem to ensure they understand our analysis and unit cost performance

We believe a top down methodology to cost benefit is a valid approach where it is not practicable to do a bottom up assessment in a timely manner. We, supported by our research into the OfWat methodology, believe a measured approach to cost benefit analysis would include a range of techniques to assess benefits to consumers and that CBA should not be applied mechanistically but as part of the wider responsibilities of an asset manager. With this principle, we look forward to engaging further with Ofgem on the aspects identified such as contiguous pipes, our Medium Pressure strategy and non mandatory projects.

We have responded to the specific points raised on service replacement through supplementary questions. We are therefore not sure whether this is a common industry issue. We have presented a robust plan with regard to managing the service risk which takes into account the changes in mains replacement workload but also then considers the need to ensure an equivalent level of services risk is removed (as per our HSE requirement). In addition, our plans for managing the risks posed by services to High Rise buildings are underpinned by our asset health condition surveys and we have set out our plans to replicate this on the medium rise asset population.

We will set out further sensitivities and the options we have considered in our resubmission.

Real price effects and ongoing efficiency

We note Ofgem state that we have used various sources for RPEs. We believe this to be a strength as these sources provided a range of outcomes for both labour and oil from which our case was based on a mid point. This we believe is the appropriate practice to take.

For oil (including transport which we based oil), the forecasts by the other GDNs were at the lower end of our range.

We are looking at our materials RPE factor given it is significantly higher than the other GDNs and accept the need to demonstrate more evidence. The materials factor however is predominantly associated with polyethylene pipe, which requires a high grade resin that is linked to oil and gas energy costs far more than general polythene packaging prices. We are therefore surprised at how low the assumptions of the other GDNs are, especially NGN.

With regard to the observation by Ofgem that our contractor labour RPE includes materials we believe this concerns our inclusion of reinstatement in repex contractor RPE. We provided Ofgem the details in supporting information and will be happy to discuss this point further.

In paragraph 4.69 Ofgem state that *"Ongoing efficiencies should account for the productivity savings that the industry can make as a whole, and therefore be in addition to the catch up efficiencies that NGGD has identified"*. Whilst we agree with the principle in this statement, it is not a valid criticism of our plan which clearly sets out how our front loaded efficiency initiatives would, by 2014/15, both close the current efficiency gap and deliver the ongoing efficiencies expected of the Upper Quartile.

We note Ofgem's point on our assumption for ongoing efficiency being lower than the other GDNs, but we would state that

- The difference with other GDNs is not as significant as implied by the document. For repex and capex there is a maximum difference of 0.2% with NGN and SGN. For opex, SGN's 0% on operational support gives an overall 0.8% pa ongoing efficiency compared to our overall opex assumption of 0.5% pa; and.
- Our assumptions for opex, capex and repex are reasonable and are consistent with the most recent regulatory precedent set by the Bristol Water competition commission determination.

As stated previously, our totex per customer is 15% below the other GDNs, on a like for like basis excluding Streetworks, which include our assessment of RPEs and ongoing efficiency. However, because we have been aggressive in constraining and reducing costs where possible, we have been successful in producing a plan which represents significantly better value for our customers, which must be the primary consideration.

4. Assessment of Efficient Financial Costs

We welcome the acknowledgment that we submitted a comprehensive analysis of our proposed financing arrangements.

Cost of Equity

We would welcome dialogue with Ofgem as to why the evidence in our plan is not compelling particular given the range of evidence we provided and with regard to the fact our proposal falls within Ofgem's own range from their analysis.

Notional Gearing

Ofgem required the networks to devise a financial package which ensures that the networks are financeable throughout the eight years. This includes the ability to achieve an A or BBB rating. In order to achieve credit metrics (in particular PMICR) which meet this requirement, the gearing was reduced to 53%. Our proposed gearing is not significantly lower than the very recent regulatory precedent set by Ofgem's February 2012 RIIO-T1 proposal for the Scottish transmission companies, which includes gearing at 55%.

Gearing is a far more effective lever in achieving the metrics, and this enabled us to place less weight on transitional measures (e.g. the East of England plan has no transitional measures). Our plan did consider other options to meet the key credit metrics such as increasing transitional measures. However, our analysis suggested this approach was not as effective as reduced gearing in achieving financeability, this is because the reduction in interest costs arising from lower gearing has a high impact on PMICR while the impact of transitional measures is almost negligible. On the subject of PMICR, we have deducted expensed repex in calculating the numerator of PMICR and AICR as the evidence we have from the ratings agencies supports this deduction. We note that Northern Gas Networks have not made this deduction and so have an artificially high PMICR and AICR which will increase the risk of their proposed finance package.

Notwithstanding the above, we will be reviewing our approach for our April submission and will again explore the most efficient way of achieving financeability.

Regarding the differences in metrics between the narrative and financial model, we state in our plan that we have used an RPI of 3% in determining forecast metrics within the narrative. This is our estimate of average RPI over the plan period given evidence from HM Treasury. However, the Ofgem model has an estimate of RPI which is slightly lower (on average) than 3%. We retained the Ofgem RPI forecast in the model metrics (but not the narrative) to aid Ofgem in the process of comparing metrics between GDNs.

5. Assessment of Uncertainty and Risk

We welcome the acknowledgment that we provided a thorough and comprehensive analysis of the risks and uncertainties we will face over RIIO-GD1

Ofgem have raised a concern over the cost assumptions that feed through to our uncertainty mechanisms. Our risk modelling, by design, omitted risks which we were unable to quantify such as stranding risks from changes to the regulatory framework that impact on our Cost of Equity. Where we have been able to identify robust costs we have taken the risks through to our modelling.

<u>Cost Assumptions underlying materiality</u>- We believe the cost assumptions we have used in our risk modelling to be robust and reflect a plausible range of costs that could be incurred.

For example, for the costs specifically relating to our proposed additional or adjusted uncertainty mechanisms;

a) The potential cost range used for medium-rise multiple occupancy buildings are built from historic incurred costs reported through our Regulatory Reporting Pack and

b) The potential costs range for Streetworks had been captured as part of our London Network Income Adjusting Event and represented actual costs incurred in managing to the new legislation that will be further rolled out across our networks. Specifically for Lane Rental, the tariff applied for the upper bounds has been based on the recent lane rental consultation of £2,500 per day.

Streetworks mechanism - We welcome Ofgem's commitment to explore further how streetworks legislation costs should be treated under RIIO-GD1. We recognise we need to provide further clarity over how our cost projections have been built up and what are the key elements driving the uncertainty within the overall category of streetworks costs. We have considered the impact of our mechanism on charging volatility and indeed this was an area we consulted directly with stakeholders both our business customers such a shippers and direct end consumers. It is notable that the latter group have told us they place a greater weight on stability rather than predictability of charges whereas the former are more driven by predictability Our proposed approach seeks to protect both customers and networks by ensuring a reasonable ex ante expectation of the recovery of efficient costs and a timely recovery of material costs such that there is no adverse impact on financeability and greater transparency to enable charging volatility to be managed. We believe it is difficult to avoid complexity given the uncertainty in this area and it is more a question of when you deal with the complexity, try to agree a clear up front framework or address assessment of efficient costs ex post. Our intent is to be clear on the framework for assessment upfront even if an assessment is to be made at a later date.

We will review the feedback we have received on our mechanism in conjunction with considering the conclusions of the recent income adjusting event relating to streetworks costs from GDPCR1 in proposing a way forward for our April resubmission.

MOB Surveys - We look forward to engaging further on our proposed uncertainty mechanism for medium rise multi occupancy buildings and will provide further information on this in our April resubmission.

Summary

In summary, we welcome the positive feedback on our November plan and will review the areas where Ofgem are seeking further evidence and justification in considering our plan resubmission in April.