



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

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

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Dear colleague

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

The GDNs have published their second business plans on their websites, and we would welcome stakeholders' views on their revised plans. This letter sets out the website links to the GDNs' plans, and the key issues that we would like stakeholders to consider in reviewing the plans. Annex 1 sets out the RIIO-GD1 timetable.

#### **RIIO-GD1 process**

In March 2011 we published our decision<sup>1</sup> 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. Under the new framework, companies that submit very high quality plans would also be offered the option of agreeing price controls early – fast-tracking.

In November 2011, the GDNs submitted their first business plans, and in mid-February 2012 we published our initial assessment of their plans.<sup>2</sup> In our initial assessment, we noted that the GDNs' plans were much higher quality relative to previous price control submissions, and the plans were informed by a much greater degree of stakeholder engagement. In general, the GDNs demonstrated strong commitment to the implementation of the new RIIO framework, and we identified a number of key areas in each individual plan that we could broadly agree to (ie where we expect to apply lighter-touch regulation).

However, we also identified a number of material issues with all plans which we considered could not be resolved in the customer interest within the fast-track process.<sup>3</sup> We therefore

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<sup>1</sup> 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>

<sup>2</sup> Ofgem (17 February 2012) RIIO-GD1: Decision on fast-track process [http://www.ofgem.gov.uk/Networks/GasDistr/RIIO-GD1/ConRes/Documents1/120217\\_fast\\_track\\_decision\\_letter.pdf](http://www.ofgem.gov.uk/Networks/GasDistr/RIIO-GD1/ConRes/Documents1/120217_fast_track_decision_letter.pdf)

<sup>3</sup> Under the fast-track process, we would have published initial proposals for fast-tracked companies on 23 April 2012, and final proposals end July 2012. See: Ofgem (9 December 2011) RIIO-GD1: Gas Distribution Networks' (GDNs) business plans - publication and next steps, Annex 1. [http://www.ofgem.gov.uk/Networks/GasDistr/RIIO-GD1/ConRes/Documents1/111209\\_GDN\\_busplans\\_thirdparty.pdf](http://www.ofgem.gov.uk/Networks/GasDistr/RIIO-GD1/ConRes/Documents1/111209_GDN_busplans_thirdparty.pdf)

decided not to fast-track any GDN, and required all GDNs to submit a second business plan addressing the issues we raised in our initial assessment.

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

- National Grid Gas plc  
<http://www.talkingnetworksngd.com/>
- Scotia Gas Networks  
[http://www.sgn.co.uk/index.aspx?id=6553&rightColHeader=87&rightColContent=15&rightColFooter=237&TierSlicer1\\_TSMMenuTargetID=565&TierSlicer1\\_TSMMenuTargetType=4&TierSlicer1\\_TSMMenuID=6](http://www.sgn.co.uk/index.aspx?id=6553&rightColHeader=87&rightColContent=15&rightColFooter=237&TierSlicer1_TSMMenuTargetID=565&TierSlicer1_TSMMenuTargetType=4&TierSlicer1_TSMMenuID=6)
- Wales and West Utilities  
<http://www.wwestutilities.co.uk/stakeholders.aspx>
- Northern Gas Networks  
<http://www.northerngasnetworks.co.uk/cms/54.html#riio>

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?

#### **Views welcome and next steps**

We will publish our initial proposals for GDNs on 27 July 2012. We welcome views on these issues or any other aspects of the business plans to inform our initial proposals. Please submit any written comments to [RIIO.GD1@ofgem.gov.uk](mailto:RIIO.GD1@ofgem.gov.uk), by **Tuesday 19 June 2012**. Unless clearly marked as confidential, responses will be published on our web forum.

Yours sincerely

**James Grayburn**  
**Head of RIIO-GD1**

## Annex 1: RIIO-GD1 price control review timetable

The following Table sets out the RIIO-GD1 timetable.

<b>Date</b>	<b>Key Stage</b>
30 November 2011	GDNs' first business plans received
17 February 2012	Initial assessment paper published
27 April 2012	GDNs' second business plans received
19 June 2012	Second business plan feedback consultation closes
27 July 2012	Initial proposals published
December 2012	Final proposals published
1 April 2013	Price control commences