

Your Ref:
Our Ref: 136/13
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Date: 31 July 2013

Dear Colleague,

Decision in relation to RIIO-GD1: Regulatory Instructions and Guidance – Version 1.0

Introduction

The Regulatory Instructions and Guidance (RIGs) is the principal means by which we collect data from the Gas Distribution Networks (GDNs) in order to monitor performance against their price control objectives and hold them to account.

In May 2013 we consulted on a draft set of RIGs¹ GDNs which would apply for the period 2013-2021. Following review of the responses to the consultation we have made changes where necessary and finalised the RIGs which will be issued for annual reporting.

- RIIO-GD1 Gas Distribution Price Control – Regulatory Instructions and Guidance: Version 1

This is supported by two reporting templates setting out the tables that each GDN will complete on an annual basis.

- RIIO-GD1 Gas Distribution Costs and Outputs Reporting Template: Version 1
- RIIO-GD1 Gas Distribution Revenue Reporting Template: Version 1

Before issuing the RIGS by direction the Authority is required by Standard Special Condition A40 (Regulatory Instructions and Guidance) ("SSC A40") to give notice to the GDNs that it proposes to issue the RIGs (the "Notice"). The Notice was sent to the GDNs today and the Authority intends to issue the direction to implement the RIGs on or after 2 September 2013. The RIGs will have effect from 1 April 2013.

Legal Framework

The RIIO-GD1 reporting requirements have been consolidated into a single licence condition for gas distribution (SSC A40). SSC A40 sets out the scope, content and governance arrangements for the RIGs.

The RIGs set out the instructions and guidance that should be followed and applies to the following GDNs:

¹ [RIIO-T1 and GD1: Draft Regulatory Instructions and Guidance \(RIGs\) - open letter consultation](#)

- National Grid Gas plc (NGG)
- Northern Gas Networks Limited (NGN)
- Scotia Gas Networks (SGN) for:
 - Scotland Gas Networks plc
 - Southern Gas Networks plc
- Wales & West Utilities Limited (WWU)

Responses to the consultation

We received five responses to the consultation, one each from the GDNs and one from British Gas; these have been published on our Ofgem website.² These responses included errors in the guidance and/or in the template and areas that required further clarification.

Both NGN and WWU raised concerns over the requirement to report to a minimum of three decimal places and whether this was proportionally material. NGG recognised that materiality and accuracy has been a major theme of the working groups and considered that much attention has been paid to providing text that recognises that in the context of regulatory reporting, a pragmatic approach to accuracy and materiality consistent with the purposes for which the data is intended is the most appropriate model.

Both NGN and WWU support the sharing of data between the GDNs, with NGN believing it is consistent with the principles of comparative regulation and WWU considering it essential to enable the GDNs to analyse our detailed regression modelling. They also consider that sharing of detailed output reporting would allow them to fully understand and compare relative outputs, with this information allowing them to make comparisons and drive efficiencies for the benefit of the customer. NGG are concerned that the provision and sharing of some data with other GDNs may carry a small risk of a third party perceiving that NGG are gaming the regulatory system by aligning their activities with other GDNs that could result in a complaint to Ofgem.. NGG have requested Ofgem examine this point and provide reassurance to the GDNs to the extent it is able as part of the consultation decision document.

All the GDNs highlighted practical concerns in relation to the reporting arrangements for the risk removed primary output. This related to the reporting risk removed associated with iron pipes, particularly where a pipe has been split into sections in the asset repository, and decommissioned as part of a rolling programme.

NGN highlighted that there was no agreed definition for integrity based maintenance.

Both NGN and SGN requested further clarification on how we would adjust for deemed efficient fines and penalties relating to street works as part of the annual iteration process.

The GDNs highlighted that the level of data reported should be proportionate to the RIIO principles and that any reporting should be consistent with the requirement of the data assurance guidance (DAG).

Our decision

We have considered the responses and the further discussions following our consultation. Where errors have been identified we have corrected these and provided further clarification as necessary.

² [RIIO-T1 and GD1: Draft Regulatory Instructions and Guidance \(RIGs\) - open letter consultation](#)

We also considered the concerns regarding materiality and accuracy of reporting, we believe that the text proposed in our consultation is pragmatic and appropriate and will not be changing this requirement.

We have retained our position on the sharing of information between GDNs within the RIGs, but we are still considering the matter and we will not take any action for non-compliance until we have come to a final decision.

We have worked closely with the GDNs to resolve the issue of the reporting arrangements for the risk removed primary output. This includes the GDNs confirming the approach they plan to adopt for the first two years of the RIIO-GD1 price control and a commitment to have a documented process in place ensuring claims for risk credit are calculated on a consistent basis as soon as possible. We also have a commitment from the GDNs that for reporting year 2015-16 onwards that risk will be calculated from a minimum of 90 per cent (to be reviewed annually), by length, of known decommissioned parent main values as opposed to averaged values. Details of this have been incorporated within in the RIGs.

We have removed the requirement to report costs against integrity based maintenance, but there will be an expectation on the GDNs to be able to demonstrate and understand the whole life cost of asset management optimising the use of total expenditure approach.

For the assessment of efficient fines and penalties relating to street works we have based this on the approach we used in setting allowances for the RIIO-GD1 Final Proposals³. We would then allow the minimum of actual reported fines and penalties relating to streetworks and our assessment of efficient fines and penalties. Details of this are included as part of the RIGs. The approach we have used will be reviewed following any street works reopener decision made during RIIO-GD1 price control period.

We recognise there are still areas that require further work, such as annual reporting, sharing of information and reporting for future uncertainty mechanisms. We have detailed at Appendix 1 where we believe there is still work in progress.

We agree that the level of data reported should be proportionate to the principles of RIIO and we are committed to review this with the GDNs annually and where necessary this will be consistent with the DAG.

We would like to make you aware that we are reviewing our approach to monitoring network company performance in the light of best practice and the RIIO framework. There may be some changes as a result of that review. We will consult on any significant changes in due course.

Any questions should, in the first instance, be directed to [Mick Watson](#) (telephone 020 7901 7416).

Yours sincerely,



Paul Branston
Associate Partner, Costs & Outputs
Smarter Grids & Governance: Distribution

³ [RIIO-GD1: Final Proposals - Supporting document - Cost efficiency](#)

Appendix 1: Outstanding issues

Table A1.1: RIGs outstanding issues

Outstanding issue	Reference
Developing the commentary as part of the overall annual reporting	RIGs paragraph 1.17
Sharing of information between the GDNs	RIGs paragraph 1.32
Smart metering – uncertainty mechanism	Table 3.14
SIU – uncertainty mechanism	Table 3.15
Physical security upgrade programme (PSUP) – uncertainty mechanism	Table 4.8