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Dear Geoff,

### **Consultation on the mid-period review (MPR) of RIIO-T1**

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group, excluding Centrica Storage.

We welcome efforts to ensure outputs and the associated levels of funding required to meet the needs of consumers and network users remain relevant in instances in which circumstances have changed since the RIIO-T1 price control was finalised. We agree with the intention of RIIO that revenues follow output delivery and, as such, funding initially provided for outputs no longer required should be returned in full to consumers. We also agree that network companies should be held accountable for outputs they are funded to deliver.

In appendix 1 we answer the specific consultation questions. However we also raise the following points:

- **Networks should retain a share of genuine efficiency improvements but should not benefit from not doing work, or deferring work that benefits consumers.**
- **Where SO activity is used to deliver TO outputs, the costs should be borne by the TO.**
- **As part of the assessment for RIIO-T2, National Grid should be held accountable for the £1.2bn of load related non-variant allowances provided for RIIO T1.**

**Networks should retain a share of genuine efficiency improvements but should not benefit from not doing work, or deferring work that benefits consumers.**

We welcome the proposals in the consultation to return funding to consumers for outputs that are no longer required. Networks should retain a share of genuine efficiency improvements but should not benefit from not doing work, or deferring work that benefits consumers. We believe the rewards available to networks for realising genuine efficiency improvements should always be greater than rewards due simply to changing circumstances meaning investment was no longer required (i.e. due to 'good luck'). It is also important that regulatory arrangements do not create an incentive to nor reward the over-forecasting of expenditure requirements.

**Where SO activity is used to deliver TO outputs, the costs should be borne by the TO:**

We have particular concerns about the suggestion that National Grid can use SO activity to deliver TO outputs (i.e. voltage management). Whilst we agree that it should be beneficial to consumers for the most efficient solutions to be adopted, whether those be TO or SO solutions, it needs to be recognised that SO costs are generally directly passed through to users, meaning users would pay all the costs through BSUoS<sup>1</sup> and then a large share of TO 'savings'. To avoid consumers effectively paying both the SO and the TO for the same outputs, the TO should pay the SO when it is assisting to deliver TO outputs.

**As part of the assessment for RIIO-T2, National Grid should be held accountable for the £1.2bn of load related non-variant allowances provided for RIIO T1:**

We are also concerned about the lack of specific outputs that accompany the vast majority of the £1.2bn of load related non-variant allowances provided for RIIO T1. National Grid should be held accountable for this allowance and should be required to demonstrate that it has acted in a manner which is in consumers' best interests with regards to it. For instance, it would be inappropriate, and a failing of the RIIO framework, if consumers were required to fund significant levels of load related expenditure for RIIO-T2 whilst National Grid retained a significant proportion of unspent load related allowances for RIIO-T1 simply because there were no specific outputs associated with the allowances.

As well as dealing with this accountability gap for RIIO T1, for future price controls we recommend that such accountability gaps are avoided and that relevant output(s) are set to more closely align with the nature of the issue(s) for which allowances are provided. Where site specific outputs are not practical there should be more general outputs which set out the deliverables which are expected to be achieved. Examples of such types of measures are the health and load indices in the current electricity distribution price control.

We hope you find these comments helpful. Please do not hesitate to contact me if you have any questions.

Yours sincerely,

Andy Manning  
Head of Network Regulation, Forecasting and Settlements

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<sup>1</sup> BSUoS costs are generally fully passed through to users as Grid's performance under BSIS typically falls outside the incentivised range.

## **APPENDIX**

### **CHAPTER: Two Question 1: Do you have any views on our proposals to remove the pipelines output and allowances?**

We agree that the pipelines output should be removed and the funding returned in full to consumers. As we stated above, networks should retain a share of genuine efficiency improvements but should not benefit from not doing work, or deferring work that benefits consumers. The Avonmouth pipelines solution is a clear example where work is no longer required and therefore the output and funding allowances should be removed.

We disagree with NGGT's alternative proposal to retain the pipeline allowances to 31 March 2017. The RIIO framework is clear that, whilst there should be no retrospective adjustments to claw-back genuine efficiency gains, where outputs have not been delivered or are no longer required, allowances should be returned to consumers. To do otherwise would create a regulatory regime where rewards were greater for good luck or over forecasting than for genuine efficiency improvements.

### **CHAPTER: Three Question 2: Do you have any views on our proposals to reduce the fault level output and funding for NGET?**

We agree that the fault level output should be reduced and the associated funding returned to consumers. To do otherwise would provide excessive rewards to National Grid as a result of either good luck or over forecasting.

### **CHAPTER: Three Question 3: Do you have any views on our proposals to declassify the shunt reactor output and make no adjustments to allowances for NGET?**

As stated above, networks should not benefit from not doing work or from deferring work that benefits consumers. We are concerned that removing the output altogether could give NGET incentives to seek non-TO solutions even if these are not in consumers' best interests. Retaining an output which places a requirement on NGET to demonstrate how it has addressed the voltage control issues in a manner that is in consumers' best interests will provide a better signal to NGET.

As highlighted above, whilst we agree that it should be beneficial to consumers for the most efficient solutions to be adopted, whether those be TO or SO solutions, it needs to be recognised that SO costs are generally directly passed through to users, meaning users would pay all the costs through BSUoS and then potentially a large share of TO 'savings'. To avoid consumers effectively paying both the SO and the TO for the same outputs, the TO should pay the SO when it is assisting to deliver TO outputs.