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Date: 27th April 2018

Re: Consultation on the Network Output Measures (NOMs) Incentive Methodology

Dear Paul,

This response to Ofgem's consultation is made on behalf of National Grid Gas Transmission (NGGT). NGGT is the owner and system operator of the high pressure gas network in Great Britain.

NGGT has participated in the Cross Sector Working Group meetings that have been instrumental in the drafting of the proposed methodology. Overall we believe the methodology is a fair reflection of the intent of the RIIO Final Proposals and the respective Licences to close out the NOMs incentive. It is important to highlight, and as covered within the methodology, there may be a need to revisit the methodology on a sector specific basis once the rebasing of each sector's NOMs target is completed.

In terms of the specific question raised in the consultation please find our responses below.

Question 1: Does the process as described in the draft methodology flow-chart represent a suitable means of implementing the data gathering and assessment phases of the incentive mechanism? Are there any improvements that you could suggest? Please state your rationale alongside any answers provided.

Yes, we believe the flow chart represents a suitable mechanism and have no improvements to suggest at this stage.

Question 2: Do you agree with the use of a materiality threshold around the NOMs network monetised risk target to assess compliance? Do you consider that the range proposed for the Distribution sectors is appropriate? Please state your rationale alongside any answers provided.

Yes, to be consistent with other price control adjustments and reduce unnecessary regulatory burden we believe a materiality threshold is appropriate. We also support using a materiality level that aligns with that specified in the respective Licences for reopener submissions.

Question 3: Do you agree that the exposure to the NOMs incentive should be measured from the upper/lower materiality thresholds? Please state your rationale alongside any answers provided.

No, to be consistent with other price control adjustments, such as reopeners, we believe performance should be measured from the target rather than the edge of the materiality threshold. We disagree that this creates perverse incentives to do/less more when on the cusp of the performance band and believe there are sufficient checks and balances to avoid this situation occurring. We are concerned that applying the incentive from the edge of the materiality threshold, in effect changes the nature of the materiality threshold to a dead band. In our opinion a materiality threshold is put in place to avoid significant regulatory burden for small movements within a price control, which in this case may not be achieved with the implementation proposed. In addition, if the aim was to design a dead band it may not be appropriate to use the thresholds as specified for reopeners.

Question 4: Do you agree with our proposal for how the associated costs of over/under delivery are derived? Please state your rationale alongside any answers provided.

We think the high level principles set out to determine the associated costs of over/under delivery are appropriate. However we believe it is important to ensure a proportionate approach is taken in determining efficient costs and do not believe it would be beneficial or commensurate with the risks and rewards to undertake an extensive ex-post efficiency assessment of NOMs delivery, particularly at an individual scheme level.

Question 5: Do you agree with the use of the actual spend profile for allocating the associated costs of a justified over-delivery or unjustified under-delivery? Are there other options that you consider would be more appropriate? Please state your rationale alongside any answers provided.

Yes, we believe this is a pragmatic approach. Alternative methods based on a comparison of allowances and actual costs may provide a more exact approach, but to ensure consistency across all sectors, where appropriate data may not always be available, the proposed approach is acceptable.

Question 6: Do you consider that the timeline proposed is achievable and realistic? Are there improvements that you can recommend? Please state your rationale alongside any answers provided.

Yes, we believe the timeline is achievable. It is important that the close out process is completed in a timely manner, to avoid any undue uncertainty.

Question 7: Do you consider that the implementation of a common NOMs incentive methodology should require an impact assessment? Please state your rationale alongside any answers provided.

No, we do not believe an impact assessment is required. The methodology does not represent a fundamental change, it is enacting the requirements of the respective Licences in accordance with the principles established at the RIIO-1 price controls.

If you would like to discuss any of our responses please do not hesitate to contact me.

Yours Sincerely,

M.D.Watson

Martin Watson
Strategy & Innovation Manager