

Kiran Turner
Ofgem
10 South Colonnade
Canary Wharf
London E14 4PU.

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Sent by email to: kiran.turner@ofgem.gov.uk

Dear Kiran,

Informal consultation on RIIO-1 price control reopeners: Quarry and loss development claim costs (Gas Transmission)

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

We welcome the publication of this and other licensees' applications for funding adjustments via the various reopener mechanisms. Early sight of the applications provides greater transparency.

Based on the evidence in NGGT's application for this specific reopener, we do not believe NGGT should be provided with additional funding, because:

- **This re-opener mechanism covers only material one-off claims instead of total expenditure.**
- **NGGT's RIIO-T1 settlement already includes an ex-ante allowance for expenditure on quarry and loss of development claims.**
- **Funding should not be provided for claims for which significant uncertainty remains.**

This re-opener mechanism covers only material one-off claims instead of total expenditure:

This reopener mechanism was intended to cover only material one-off quarry and development costs claims.

In its RIIO-T1 business plan, NGGT proposed an uncertainty mechanism to cover the risk of substantial claims. NGGT stated:

"...as explained in the 'Managing Risk and Uncertainty' annex of our submission we know there will be an underlying level of such claims and have forecast on this basis but we are

seeking an uncertainty mechanism **to cover the risk of substantial claims** such as the two seen during TPCR4...”¹

NGGT also stated:

“...Periodically we receive claims from land owners for loss of revenue compensation due to our pipeline developments. In many cases we receive annual claims so there is an ongoing level of this expenditure forecast in our plan, however on occasion we receive **claims that are material and one-off in nature**.

To cover us for the uncertainty of **such one-off claims** we would seek to address this issue either with a specific re-opener or at the mid-period review of outputs. We would expect a specific re-opener for this uncertainty to be triggered by the result of an impact assessment and have a materiality threshold...”²

At Final Proposals, NGGT’s RIIO-T1 settlement included a ‘Quarry and loss of development claims’ reopener, but it was expressly stated that the context for this uncertainty mechanism was that it was for “**material one-off claims** from landowners for compensation due to pipeline developments”³.

NGGT proposes its baseline expenditure allowance is increased by £23.1m to cover the **total cost** of claims over the price control instead of just material one-off claims. NGGT has not provided the value of each individual claim, except one. However, NGGT’s data suggests the individual value of the majority, if not all, of the claims in the categories relating to £21.3m of the proposed expenditure adjustment is immaterial (see table below). This would mean the claims would not be covered by this re-opener mechanism as it covers only material one-off claims. Further, NGGT has not justified why any individual claim, if material, in these categories was not foreseeable ahead of the start of the price control. These factors suggest the proposed adjustments associated with these categories should be disallowed.

Table 1: Incurred and Forecast Claims and Costs

Category	Number of claims	Total cost (£m)	Implied average cost per claim (£m)
Loss of Crop – Annual Payments	854	4.3	0.005
Loss of Crop - Full and final settlement	132	3.54	0.027
Drainage – Investigation and repair	1103	8.3	0.008
Loss of Development	8	2.7	0.338
Sterilised Minerals	6	2.5	0.417
Total		21.3	

* data taken from the application.

¹ “RIIO-T1: Detailed plan”, page 161.

² “RIIO-T1: Managing risk and uncertainty”, paragraphs 225-226.

³ “RIIO-T1: Final Proposals for National Grid Electricity Transmission and National Grid Gas”, page 47: https://www.ofgem.gov.uk/sites/default/files/docs/2012/12/1_riiot1_fp_overview_dec12_0.pdf.

NGGT’s RIIO-T1 settlement already includes an ex-ante allowance for general expenditure on quarry and loss of development claims:

As well as seeking to recover total expenditure, rather than only material one-off costs as was intended for this uncertainty mechanism, it also appears to us that NGGT is claiming for expenditure for which it has already been provided an allowance in its baseline allowed revenue. In its application NGGT states:

“As part of RIIO-T1, no baseline funding was provided for Quarry and Loss liabilities due to the high level of uncertainty around the volume and financial magnitude of claims.”⁴

This statement is inconsistent with RIIO-T1 Final Proposals, which were clear that NGGT was provided with an ex-ante allowance of £20.2m for expenditure on quarry and loss of development claims⁵. Therefore, it seems to us that this application may be premised on a misunderstanding of the price control.

Funding should not be provided for claims for which significant uncertainty remains:

NGGT proposes its baseline expenditure allowance is increased by £1.7m for the decommissioning of a pipeline near Quarry C. It is unclear why this cost has been included in the application because, as NGGT highlights, significant uncertainty remains:

“...However since March the quarry and the local council are in the process of approaching the supreme court to overturn the judicial review decision.

This leads to a significant amount of uncertainty around this claim as without the planning permission we no longer have a liability...”⁶

NGGT has not explained why it believes the Supreme Court ruling should result in the necessary planning permission being granted. Even so, we would question whether NGGT is able to reliably pre-judge the outcomes of the Supreme Court ruling and planning permission processes. These factors suggest NGGT should not be provided with funding for the decommissioning of the pipeline until it is certain the costs will be incurred.

We hope you find these comments helpful. Please contact me if you have any questions.

Yours sincerely,

Andy Manning
Director - Network Regulation, Forecasting and Settlements
Centrica Regulatory Affairs, UK & Ireland

⁴ “National Grid Gas Transmission Quarry & Loss RIIO-T1 Reopener Submission”, page 3:
https://www.ofgem.gov.uk/system/files/docs/2018/05/nggt_quarry_and_loss_reopener_submission_08may2018_public_version_2.pdf.

⁵ “RIIO-T1: Final Proposals for National Grid Electricity Transmission and National Grid Gas: Cost assessment and uncertainty Supporting Document”, Table 7.11 page 108:
https://www.ofgem.gov.uk/sites/default/files/docs/2012/12/3_riiot1_fp_uncertainty_dec12.pdf.

⁶ “National Grid Gas Transmission Quarry & Loss RIIO-T1 Reopener Submission”, page 37.