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Kiran Turner
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29 August 2018.

Sent by email to: gasnetworks@ofgem.gov.uk

Dear Kiran,

RIIO-T1 Reopener Consultation – Industrial Emissions Costs

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 removal of ex-ante funding, subject to this uncertainty mechanism, that is no longer needed for investment to support compliance with environmental legislation at Moffat, Carnforth-Nether Kellet, Warrington and Kirriemuir. Similarly, ex-ante funding, subject to this mechanism, should be removed if it cannot be demonstrated how expenditure at Wisbech complies with the purpose of the mechanism. Not removing the ex-ante funding in either scenario would not be in consumers' interests.

It is appropriate to apply an approach consistent with treatment at the Aylesbury site to the Peterborough and Huntingdon sites. As a part of the Mid-Period Review parallel work, Ofgem highlighted ambiguity relating to the deliverable to support compliance with the Industrial Emissions Directive (IED) at the Aylesbury site. Ofgem proposed to hold NGGT accountable for delivering the outcome, instead of holding NGGT accountable for the delivery of a particular solution, without any change to baseline allowances¹. We agreed focus should be placed on the outcome when such ambiguity exists, so that licensees are encouraged to pursue innovative or more efficient solutions². We, therefore, agree it is appropriate to treat the sites at Peterborough and Huntingdon consistently with the Aylesbury site as similar circumstances exist. Consideration of how the level of funding can be better aligned with actual investment requirements is needed and, as such, we welcome Ofgem's intention to review how outputs and deliverables can be better defined in the RIIO-2 price controls³.

¹ "MPR parallel work decision", para 2.26-2.31:

https://www.ofgem.gov.uk/system/files/docs/2017/07/mpr_parallel_work_decision-v3.pdf.

² Centrica response to "Consultation on mid-period review parallel work":

https://www.ofgem.gov.uk/system/files/docs/2017/07/bg_response_-_mpr_parallel_work.pdf.

³ "RIIO-2 Framework Decision", para 5.4-5.6: https://www.ofgem.gov.uk/system/files/docs/2018/07/riio-2_july_decision_document_final_300718.pdf.

In principle, we agree ex-ante funding for the St Fergus and Hatton sites should be removed until there is greater certainty of the (appropriateness of the) preferred solutions to be implemented. It is not ideal that funding for solutions has been provided ahead of the completion of the front-end engineering design, through which the preferred solutions would be identified. Given the time needed to complete the front-end engineering design, it is appropriate to revisit funding for these sites during the RIIO-GT2 price control review.

Notwithstanding the above, it remains important that any potential impacts on network capability, resilience and flexibility in the interim are fully considered for these and other projects being assessed in this reopener window.

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

Responses to consultation questions

Question 1: What is your view of our proposed treatment of the planned works at St Fergus and Hatton?

In principle, we agree ex-ante funding for these sites should be removed until there is greater certainty of the preferred solutions to be implemented. Given the time needed to complete the front-end engineering design, it is appropriate to revisit funding for these sites during the RIIO-GT2 price control review.

Question 2: What is your view of our proposed treatment of the planned works at Peterborough and Huntingdon?

It is appropriate to treat the sites at Peterborough and Huntingdon consistently with the approach adopted for Aylesbury as a part of the Mid-Period Review parallel work. Ofgem highlighted ambiguity relating to the deliverable to at the Aylesbury site and decided to hold NGGT accountable for delivering the outcome instead of holding NGGT accountable for the delivery of a particular solution without any change to baseline allowances.

Question 3: What is your view of our proposed treatment of the planned works at the remaining sites?

Allowances for works at the specific sites should be removed if it cannot be demonstrated how expenditure complies with the purpose of the reopener mechanism.