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

29 August 2018.

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

Dear Kiran,

RIIO-T1 and GD1 Reopener Consultation – Enhanced Physical Site Security Costs

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group. This response relates to the proposed adjustments for National Grid Electricity Transmission (NGET) and National Grid Gas Transmission (NGGT).

- **Funding should be provided only when expenditure is fully justified and is efficient.**
- **The approach used to assess proposed adjustments should also be used to assess 'logged up' costs.**

Funding should be provided only when expenditure is fully justified and is efficient:

We agree some of National Grid's proposed adjustments should be disallowed if it is not considered to be efficient. National Grid should be able to demonstrate efficiencies it is achieving over time, given it has received substantial expenditure allowances for projects of this type and has been delivering them over multiple price controls.

The approach used to assess proposed adjustments should also be used to assess 'logged up' costs:

Ofgem proposes to reject NGGT's application because efficient costs fall below the materiality threshold but will consider providing an allowance as a part of the RIIO-T2 process. We agree licensees should be provided with efficient levels of funding for investment that is needed. It is appropriate the assessment approach used during the reopener windows is also used to assess 'logged up' costs since those costs relate to the same investment need. Specifically, stakeholders should be formally consulted on proposed adjustments since Ofgem committed to its decisions

being informed by stakeholders in lieu of stakeholders being able to propose changes to NGGT's allowances¹. Additionally, materiality thresholds should also be applied.

The adjustments proposed by National Grid during this reopener window included the return of funding for sites that were declassified since the 2015 reopener window. None of those gas distribution networks (GDNs) that received £102m for these costs during the 2015 reopener submitted further applications. It is unclear whether any sites that those GDNs received funding for in 2015 were subsequently declassified. If such circumstances exist, we would be grateful for clarification on how that funding will be treated, in line with the policy intent that changes to allowed revenues would be symmetric².

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

¹ RIIO-T1 Final Proposals for National Grid Electricity Transmission and National Grid Gas Cost assessment and uncertainty Supporting Document, para 3.33:

https://www.ofgem.gov.uk/sites/default/files/docs/2012/12/3_riiot1_fp_uncertainty_dec12.pdf.

² RIIO-T1 Final Proposals for National Grid Electricity Transmission and National Grid Gas Cost assessment and uncertainty Supporting Document, para 3.33:

https://www.ofgem.gov.uk/sites/default/files/docs/2012/12/3_riiot1_fp_uncertainty_dec12.pdf.

Responses to consultation questions

Question 1: Do you agree with our assessment approach?

As part of your response please consider:

- **Our approach to Project Management costs**
- **Our approach to Risk costs**

We agree some of National Grid's proposed adjustments should be disallowed if it is not considered to be efficient. National Grid should be able to demonstrate efficiencies it is achieving over time, given it has received substantial expenditure allowances for projects of this type and has been delivering them over multiple price controls.

Question 2: Do you agree with the outcome of our assessment?

As part of your response please consider:

- **Our proposed adjustment on specific work costs**
- **Our proposed adjustment for NGGT development costs**
- **The application of the materiality threshold**

We agree the materiality threshold should be applied. Further, the assessment approach used during the reopener windows is also used to assess 'logged up' costs since those costs relate to the same investment need. Specifically, stakeholders should be formally consulted on proposed adjustments and the materiality thresholds should also be applied.