

Guidance

RIIO-GT2 Cost Assessment Working Group Term of Reference

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1. Purpose and Scope

Purpose

1.1 The RIIO-GT2 price control will run from 1 April 2021 to 31 March 2026.

1.2 The RIIO-GT2 price control will be rolled out at time of great change and uncertainty (changes in demand and volatility in times of demand). As such, the approach developed to assess costs and set allowances must be sufficiently flexible; the creation of a toolkit is envisaged as the best way of achieving this.

1.3 The purpose of the RIIO-GT2 Cost Assessment Working Group (“the Working Group”) is to help inform the development of this toolkit along side the development of the Business Plan Data Templates (BPDT) that will form the basis of the analysis.

1.4 The focus at this stage (summer/autumn 2018) is to ensure that we have developed the principles to determine whether or not certain cost assessment tools (e.g. benchmarks, CBA) and allowance setting mechanisms (e.g. uncertainty mechanisms, reopeners) are fit for purpose in the run-up to Ofgem’s RIIO-GT2 methodology sector consultation in December 2018 and sector methodology decision in 2019. We will revisit the need for and purpose of this Working Group in December 2018.

1.3 The Working Group will interact closely with and complement the enhanced engagement process. It is not a substitute for wider stakeholder engagement and consultation.

1.4 For the avoidance of doubt, this group is a separate working level forum to the Ofgem RIIO2 Challenge Group.

Scope

1.5 The Working Group is not tasked with developing and approving a final cost assessment and allowance setting toolkit, but rather to inform its development. The Working Group is also tasked with informing the development of the Business Plan Data Templates (BPDT) and associated guidance for the RIIO-2 Business Plan Submissions. In doing so, it will:

- Evaluate current RIIO-T1 cost drivers to date and prospective RIIO-T2 cost drivers
- Determine the principles and treatment of cost assessment tools (e.g. benchmarks, CBA) and allowances setting mechanisms (things like uncertainty mechanisms, reopeners)
- Determining the principles of data submission and the form of business plan data templates (e.g. considering the resource effort to deliver particular forms of data, ensuring methods to flag certain data as business or price sensitive)
- Identify material uncertainties and developing uncertainty mechanisms and the principles that underpin them (e.g. principles for allocation of risks between network companies and consumers)
- Identify the principles of assessment for what constitutes a fair, and legitimate deal for network companies and consumers
- Determine the treatment to be given to innovative solutions, investment avoidance and associated investment costs for setting allowances for future activities and how this is applied during the period when new opportunities are developed by networks

- Establish principles for identifying and using:
 - data sources in comparative analysis
 - expert review
- Identify draft objectives criteria for business plan assessment
- Ensuring consistency with other sectors and identify where there is a requirement for more freedom (for example -what business planning assumptions should be adopted)
- Establishing the treatment of any related outputs - in particular how can we best align allowances to costs/ cost drivers to outputs
- Assess how the toolkit accommodates proportionate treatment to assessing business plans

The above list is non-exhaustive.

1.6 For the avoidance of doubt, the Working Group is advisory in nature and not a decision-making body. As such, Ofgem will consider views raised by the Working Group but is under no obligation to accept them.

1.7 The Working Group will focus on issues specific to the RIIO Gas Transmission price control. In doing so, the Working Group will work closely with:

- other working groups, for example the RIIO Gas Transmission Cost Assessment Working Group and working groups in other sectors; and
- any cross-sector working groups and/ or workshops we establish in the future to discuss issues relevant across all sectors (e.g. output categories, innovation etc.).

1.12 For further information, please visit our website.

2. Membership

Membership

2.1 Members of the Working Group will comprise:

- Ofgem chair (James Veaney – Head of RIIO Gas Transmission, Kelvin Hui – Senior Manager RIIO Gas Transmission, Kiran Turner – Senior Manager RIIO Gas Transmission)
- Ofgem cost assessment leads on individual cost areas
- Representatives of National Grid Gas Transmission (NGGT)
- Representatives from other interested parties, including but not limited to consumer bodies, shippers, environmental bodies and suppliers.

2.2 Membership as of 19 August 2018 is currently as follows:

2.3 Where appropriate, the Working Group may invite internal or external experts to specific meetings and seek advice from these parties outside of the meetings. Potential topics will be identified during Working Group meetings.

2.4 We welcome expressions of interests from stakeholders interested in joining the group. Given the nature of the group and in order to facilitate detailed discussions on the design of outputs and incentives, Ofgem may restrict membership to the group.

2.5 Stakeholder engagement is central to the RIIO framework and we encourage stakeholders to get involved in RIIO-GT2 through:

- Ofgem consultation processes; and
- Network operator stakeholder engagement

2.6 For further information, please visit our website.

3. 3. Meetings

3.1 Meetings will be organised by Ofgem and will be held at Ofgem offices in London and/ or Glasgow unless otherwise specified. Teleconferencing facilities are available upon request.

3.2 Materials presented at the meetings are for the purpose of stimulating discussion only. As such, materials presented do not the views of Ofgem/ the Gas and Electricity Markets Authority (GEMA). Where possible, materials will be made available on our website. We will endeavor to circulate all meeting materials at least two full days before any meeting

3.3 Members will be expected to have sufficient time to be able to devote to any pre-meeting reading and post-meeting actions. Members are also actively encouraged to bring forward ideas and/or research to assist the group.

3.4 In order to facilitate open and constructive debate, meetings will be held under Chatham House Rule. A non-attributable summary of discussions will be made available on our website.

3.5 While consensus may be welcome in some areas, it is not the aim of the RIIO-GT2 Policy Working Group. In fact, different views, with improved understanding of the reasons for the difference and the evidence base that might help guide final decisions, may be equally as useful.

4. 4. Forward work programme

4.1 The group's draft forward work programme is as follows