

# Consultation

## RIIO-2 Draft Determinations – Northern Gas Networks

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Our aim for the RIIO-2 price controls is to ensure energy consumers across GB get better value, better quality of service and environmentally sustainable outcomes from their networks.

In May 2019, we set out the framework for the price controls in our Sector Specific Methodology Decisions. In December 2019, Transmission and Gas Distribution network companies and the Electricity System Operator (ESO) submitted their Business Plans to Ofgem setting out proposed expenditure for RIIO-2. We have now assessed these plans. This document, and others published alongside it, set out our Draft Determinations for company allowances under the RIIO-2 price controls, for consultation. We are seeking responses to the questions posed in these documents by 4 September 2020.

Following consideration of responses, we will make our Final Determinations at the end of the year. This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at [Ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations). If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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## 1. Introduction and overall package

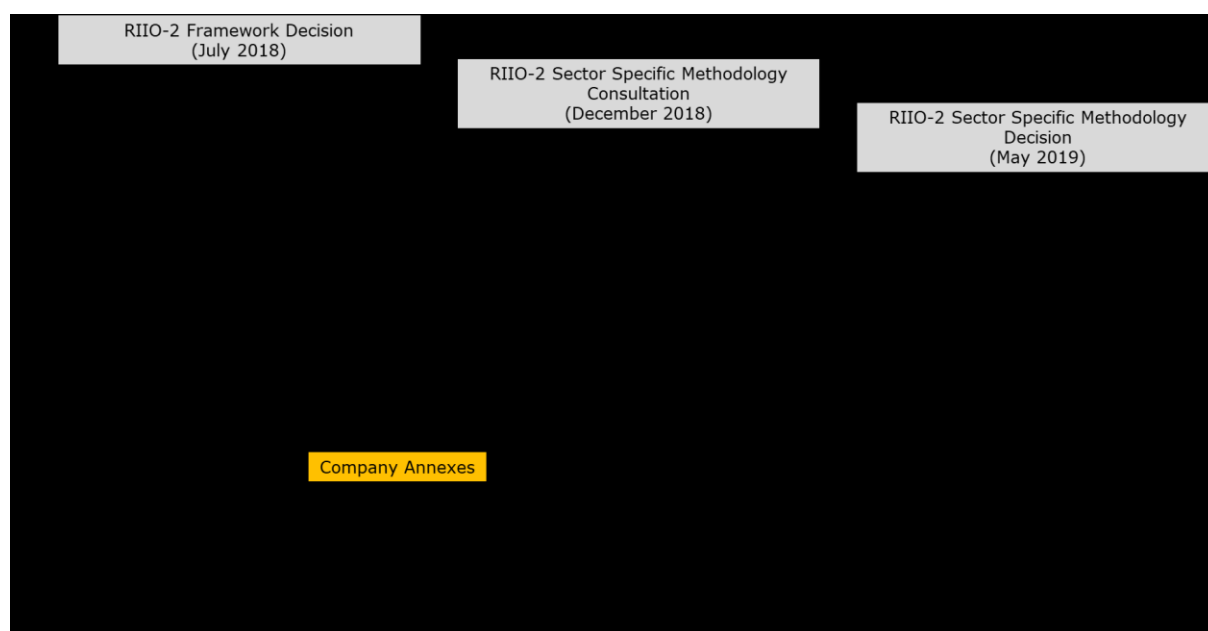
### Purpose of this document

- 1.1 This document sets out our Draft Determinations and consultation positions for the gas distribution (GD) price control (RIIO-GD2) for the areas that are specific to NGN. This price control will cover the five-year period from 1 April 2021 to 31 March 2026. All figures are in 2018/19 prices except where otherwise stated.
- 1.2 Setting Allowed Revenue is underpinned by a large set of proposals across output design, cost assessment, and finance. The purpose of this document is to focus on NGN and:
- Support stakeholders in navigating the individual proposals across the suite of RIIO-2 Draft Determinations Documents that make up its overall allowed revenue
  - Set out any proposals that are specific to NGN, including:
    - baseline cost allowances
    - parameters for common outputs
    - bespoke Output Delivery Incentives (ODIs)<sup>1</sup>
    - bespoke Price Control Deliverables (PCDs)
    - bespoke Licence Obligations (LOs)
    - Consumer Value Propositions (CVPs)
    - Uncertainty Mechanisms (UMs)
    - the level of Network Innovation Allowance (NIA).
- 1.3 This document is intended to be read alongside the RIIO-2 Draft Determinations Core Document (Core Document) and RIIO-2 Draft Determinations - Gas Distribution Sector Annex (GD Annex). Figure 1 sets out where you can find information about other areas of our RIIO-2 Draft Determinations.

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<sup>1</sup> ODIs can be reputational (ODI-R) or financial (ODI-F).

**Figure 1: RIIO-2 Draft Determinations documents map**



## **What makes up NGN's Draft Determinations (the RIIO-2 building blocks)?**

- 1.4 We have structured our price control consultation positions around a series of building blocks. The building blocks reflect how we propose to set companies' Allowed Revenue. Table 1 provides stakeholders with a map to where to find the proposals that make up the Draft Determinations.

**Table 1: RIIO-2 Building Blocks**

Building Block		Where to find the Draft Determinations	
		Approach/Methodology	Company specific parameters
Base Revenue (BR)	Legacy items from previous controls including RIIO-1 RAV and close-out adjustments	Finance Annex: Chapter 11	GD Annex: Chapter 2
	Common ODIs, PCDs and LOs	Core Document: Chapter 4	GD Annex: Chapter 2
	Bespoke ODIs, PCDs and LOs	Core Document: Chapter 4	Chapter 2
	Baseline Totex Allowance	Core Document: Chapter 5	GD Annex: Chapter 3
	Capitalisation Rate (Fast/Slow Money)	Finance Annex: Chapter 11	Finance Annex: Chapter 11 Table 40
	WACC Allowance	Core Document: Chapter 6 Finance Annex: Chapter 4	Finance Annex: Chapter 4 Table 31
	Depreciation Allowance	Depreciation Annex	Finance Annex: Chapter 10 Table 39
	Tax Allowance	Finance Annex: Chapter 7	Finance Annex: Chapter 7
	Innovation	Core Document: Chapter 8	Chapter 5
	Cyber and Physical security	Core Document: Chapter 7	Cyber resilience – Confidential annexes Physical security – GD Annex: Chapter 2 <sup>2</sup>
Adjustments to BR for company performance	Totex Incentive Mechanism (TIM)	Core Document: Chapter 10	Chapter 1
	Network Asset Risk Metric (NARM)	NARM Annex: Appendix 3	NARM Annex Chapter 2
	BPI Reward/Penalty	Core Document: Chapter 10	Chapter 1
	Return Adjustment Mechanism (RAM)	Finance Annex: Chapter 8	Finance Annex: Chapter 8
Rules to adjust BR for other factors	Uncertainty Mechanisms (including Pass-through)	Core Document: Chapter 7	Chapter 3
	Policy Indexation (Real Price Effects, ongoing efficiency)	Core Document: Chapter 5	Core Document: Chapter 5
	Other Indexation (Regulatory asset value, Cost of equity, Cost of debt)	Finance Annex: Chapter 9	Finance Annex: Chapter 9
	Whole System Mechanisms	Core Document: Chapter 8	Core Document: Chapter 8
	Pensions	Finance Annex: Chapter 11	Finance Annex: Chapter 11
	Directly Remunerated Services (DRS)	Finance Annex: Chapter 11	Finance Annex: Chapter 11

<sup>2</sup> Cadent and SGN only

## An overview of NGN's RIIO-2 price control

- 1.5 A summary of our proposed baseline totex for NGN is presented in Table 2. This reflects our view of efficient costs including ongoing efficiency over RIIO-GD2. For further details of any values, please refer to Chapter 3.<sup>3</sup>

**Table 2: NGN submitted and proposed baseline totex<sup>4</sup> (£m, 2018/19)**

Network	Cost area	NGN Submitted totex (£m)	Ofgem Proposed totex (£m)	Difference (%)
NGN	Direct opex	313	318	2%
	Indirect opex	132	131	-1%
	Capex	274	255	-7%
	Repex	530	379	-28%
	<b>Totex</b>	<b>1,249</b>	<b>1,083</b>	<b>-13%</b>

- 1.6 The common outputs that we are proposing for all companies in RIIO-GD2 are set out in Table 3 with further details in the GD Annex. Table 3 also sets out the bespoke outputs that we have proposed to include in our Draft Determinations (further details are contained within Chapter 2).

**Table 3: Summary of proposed common and bespoke outputs applicable to NGN**

Output name	Output type	Further detail
<b>Common outputs across GD Sector</b>		
<b>Meeting the needs of consumers and network users</b>		
Consumer vulnerability minimum standards	LO	Not covered (no change since SSMD) <sup>5</sup>
Consumer vulnerability reputational incentive	ODI-R	GD Annex
Consumer vulnerability and carbon monoxide safety use-it-or-lose-it allowance	PCD	GD Annex
Fuel Poor Network Extension Scheme	PCD	GD Annex, this annex Chapter 2
Customer satisfaction survey	ODI-F	GD Annex
Complaints metric	ODI-F	GD Annex
Guaranteed Standards of Performance (GSOPs)	LO	GD Annex
Emergency response time	LO	GD Annex
Unplanned interruptions	ODI-F	GD Annex, this annex Chapter 2

<sup>3</sup> Where the source document is not stated, we are referring to this document (Draft Determinations - NGN Annex, abbreviated to NGN Annex).

<sup>4</sup> Baseline totex refers to total controllable costs (excludes BPI, RPEs, pass-through costs and includes ongoing efficiency).

<sup>5</sup> All references to 'our SSMD' in this GD Annex refer to the RIIO-GD2 Sector Decision Annex to the RIIO-2 Sector Specific Methodology Decision (SSMD), <https://www.ofgem.gov.uk/publications-and-updates/riio-2-sector-specific-methodology-decision>

Output name	Output type	Further detail
Appointments for restoring supply to appliances	ODI-R	GD Annex
Digitalisation Strategy and Action Plan	LO	Core Document
Data Best Practice	LO	Core Document
<b>Deliver an environmentally sustainable network</b>		
Shrinkage and environmental emissions	ODI-F and ODI-R	GD Annex
Environmental action plan and annual environment report	LO and ODI-R	GD Annex
Business carbon footprint reporting	ODI-R	Core Document
<b>Maintain a safe and resilient network</b>		
Repex - tier 1 mains replacement	PCD	GD Annex, this annex Chapter 2
Repex - tier 1 services	PCD	GD Annex, this annex Chapter 2
Gas holder demolitions	PCD	GD Annex
Network Asset Risk Metric	PCD and ODI-F	GD Annex
Cyber resilience Operational Technology (OT)	PCD	Confidential annex
Cyber resilience Information technology (IT)	PCD	Confidential annex
Capital projects	PCD	GD Annex, this annex Chapter 2
<b>Bespoke outputs to NGN</b>		
<b>Meeting the needs of consumers and network users</b>		
Job completion lead time including re-instatement	ODI-R	Chapter 2
Outstanding repairs	ODI-R	Chapter 2
Community Partnering Fund	ODI-R	Chapter 2
Hardship Fund	ODI-R	Chapter 2

1.7 We set out the UMs that we are proposing for NGN in Table 4 (further detail is in Chapter 4).



**Table 4: Summary of proposed common and bespoke UMs applicable to NGN**

UM Name	UM type	In baseline totex <sup>6</sup>	Further detail
<b>Common UMs across GD Sector</b>			
Pension deficit charge adjustment	Pass-through	No	Not covered (no change since our SSMD)
Third party damage and water ingress	Pass-through	No	GD Annex
Miscellaneous pass-through	Pass-through	No	Not covered (no change since our SSMD)
Gas Transporters share of Xoserve costs	Pass-through	No	Not covered (no change since our SSMD)
Repex – Tier 2A iron mains	Volume driver	Yes (baseline forecast)	GD Annex
Repex – HSE policy changes	Re-opener	No	GD Annex
Repex - Tier 1 iron stubs	Re-opener	No	GD Annex
Diversions	Re-opener	Partial (separate from re-opener)	GD Annex
Multiple occupancy buildings (MOBs) safety	Re-opener	No	GD Annex
Heat policy	Re-opener	No	GD Annex
Domestic connections	Volume driver	Yes (baseline forecast)	GD Annex
New large load	Re-opener	No	GD Annex
Smart meter rollout costs	Re-opener	Partial (separate from re-opener)	GD Annex
Specified streetworks	Re-opener	Partial (separate from re-opener)	GD Annex
Fuel Poor Network Extension Scheme (FPNES)	Volume driver	Yes (baseline forecast)	GD Annex
<b>Common UMs across all sectors</b>			
Bad Debt	Pass-through	No	Finance Annex <sup>7</sup>
Business Rates	Pass-through	No	Not covered (no change since our SSMD)
Ofgem Licence Fee	Pass-through	No	Not covered (no change since our SSMD)
Coordinated Adjustment Mechanism	Re-opener	No	Core Document
Cyber Resilience OT <sup>8</sup>	UIOLI allowance and re-opener	Partial (separate from re-opener)	Core Document
Cyber Resilience IT <sup>6</sup>	Re-opener	Partial (separate from re-opener)	Core Document

<sup>6</sup> Any costs not included in baseline totex, but included in allowed revenue, are captured in the licence model.

<sup>7</sup> RIIO-2 Draft Determinations – Regulatory Finance Annex (abbreviated to Finance Annex)

<sup>8</sup> Previously listed in our SSMD as Cyber resilience and Business IT re-openers.

UM Name	UM type	In baseline totex <sup>6</sup>	Further detail
Non-operational IT and Telecoms Capex	Re-opener	Partial (separate from re-opener)	Core Document
Pensions (pension scheme established deficits)	Re-opener	No	Not covered (no change since our SSMD)
Physical Security (PSUP)	Re-opener	Partial (separate from re-opener)	Core Document
Tax Review	Re-opener	No	Finance Annex
Net Zero	Re-opener	No	Core Document
Cost of debt indexation	Indexation	No	Finance Annex
Cost of equity indexation	Indexation	No	Finance Annex
Inflation Indexation of RAV and Allowed Return	Indexation	No	Finance Annex
Real Price Effects	Indexation	No	Core Document

1.8 Table 5 sets out our NIA proposals for NGN (we include further details in Chapter 5). Our general approach to the NIA is set out in the Core Document.

**Table 5: Summary of proposed Network Innovation Allowance applicable to NGN**

Consultation position
£11.5m, conditional on an improved industry-led reporting framework.

1.9 Table 6 summarises our assessment of NGN across the four stages of the Business Plan Incentive (BPI), and sets out where you can find additional information.

**Table 6: Summary of proposed NGN BPI performance**

BPI Stage	Outcome	Further detail
1	Pass	Core Document for approach to assessment and rationale.
2	Reward of £1.6m	Core Document for approach to assessment. Chapter 2 of this document for views on specific proposals.
3	No penalty	Core Document for approach to assessment. Chapter 3 of this document for specific views on NGN's performance.
4	No reward	Core Document for approach to assessment. Chapter 3 of this document for specific views on NGN's performance.
Overall	Reward of £1.6m	Core Document

1.10 Table 7 summarises our proposed Totex Incentive Mechanism (TIM) rate for NGN. Further details can be found in the Core Document.

**Table 7: Summary of proposed TIM rate for NGN**

Network	TIM rate (%)
NGN	50%

1.11 Table 8 summarises the financing arrangements that we are proposing to apply to NGN and the GD sector as a whole. Please refer to the Finance Annex for more detail on these areas.

**Table 8: Summary of proposed financing arrangements applicable to NGN**

GD Sector Finance Parameter	NGN rate	Source
Notional gearing	60%	See Table 31 in the Finance Annex
Cost of Equity	4.20%	
Expected outperformance	0.25%	
Allowed return on equity	3.95%	
Allowed return on debt	1.74%	
Allowed return on capital	2.63%	
Notional gearing	60%	

## 2. Setting outputs

### Introduction

2.1 In this chapter we cover two main areas:

- Firstly, we set out the proposed NGN-specific parameters for common GD sector outputs.
- Secondly, we set out our views on the bespoke outputs that NGN proposed in its Business Plan.

### Common Outputs

2.2 We set out our consultation position for the NGN-specific parameters in the following tables for the common outputs for RIIO-GD2, excluding where we specify parameters in Chapter 2 of the GD Annex.

2.3 We set out more detail on the common outputs in the GD Annex, including the broader consultation positions and our rationale. For the cost assessment related to outputs, please see Chapter 3.

**Table 9: Summary – NGN parameters for common outputs**

Output name	Output type	Parameters
Fuel Poor Network Extension Scheme (FPNES)	ODI-R and Volume driver	Target number and cap for number of connections.
Unplanned interruptions	ODI-F	Minimum performance level, excessive deterioration level and highest modelled number of major incidents.
NARM	PCD and ODI-F	Baseline Network Risk Output - total that a network company has been funded to deliver through its RIIO-GD2 baseline, excluding Network Risk Outputs associated with other mechanisms or PCDs.
Repex - Tier 1 mains replacement	PCD	Baseline Target Workloads – number of kilometres of Tier 1 mains to be decommissioned. Baseline Cost Allowances for Tier 1 mains replacement.
Repex - Tier 1 services	PCD	Baseline Target Workloads – number of service interventions associated with Tier 1 mains replacement. Baseline Cost Allowances for Tier 1 services.
Capital Projects	PCD	List of projects included and the network where they apply.

**Common outputs consultation question**

NGNQ1. What are your views on the values for the common output parameters we have set out in the NGN Annex?

**Fuel Poor Network Extension Scheme****Table 10: Consultation position – FPNES ODI-R targets and volume driver cap**

Network	ODI-R Target	Volume driver cap
	<i>Number of connections – RIIO-GD2 total</i>	<i>Number of connections – RIIO-GD2 maximum</i>
NGN	5,000	10,000

## Unplanned Interruptions

**Table 11: Consultation position - ODI-F Minimum performance and Excessive Deterioration levels and highest modelled major incidents**

Network	Minimum performance Level	Excessive Deterioration Level	Highest Modelled Major Incidents
	<i>Hours per year</i>	<i>Hours per year</i>	<i>Number per year</i>
NGN	11	16	4

2.4 The Monte Carlo model used to determine the values is included in the Unplanned Interruptions Model Annex.

## NARM PCD and ODI-F

2.5 This table summarises NGN's NARM targets. Please refer to the NARM Annex for our consultation position and rationale.

**Table 12: Summary - NARM Baseline Network Risk Outputs**

Network	Baseline Network Risk Outputs
<i>Unit</i>	<i>Risk pound (R£m)<sup>9</sup></i>
NGN	10.3

<sup>9</sup> The unit used to denote Monetised Risk values. R£ is used to differentiate from financial monetary values.

## Tier 1 mains replacement PCD

**Table 13: Consultation position - Tier 1 mains decommissioned Baseline Target workloads (RIIO-GD2 total, km)**

NGN	2021/22	2022/23	2023/24	2024/25	2025/26	RIIO-GD2 Baseline Target Workload
<i>Workload Activities</i>	<i>km</i>	<i>km</i>	<i>km</i>	<i>km</i>	<i>km</i>	<i>km</i>
<b>Cast Iron and Spun Iron: Low-Pressure and Medium Pressure</b>						
a. <=3"	11.8	11.8	11.8	11.8	11.8	<b>59.0</b>
b. 4"-5"	162.2	162.2	162.2	162.2	162.2	<b>811.1</b>
c. 6"-7"	89.0	89.0	89.0	89.0	89.0	<b>444.8</b>
d. 8"	47.1	47.1	47.1	47.1	47.1	<b>235.3</b>
<b>Ductile Iron: Low-Pressure</b>						
a. <=3"	4.5	4.5	4.5	4.5	4.5	<b>22.6</b>
b. 4"-5"	62.2	62.2	62.2	62.2	62.2	<b>310.9</b>
c. 6"-7"	34.1	34.1	34.1	34.1	34.1	<b>170.5</b>
d. 8"	18.0	18.0	18.0	18.0	18.0	<b>90.2</b>
Total - all diameters and materials	428.9	428.9	428.9	428.9	428.9	<b>2,144.3</b>

**Table 14: Consultation position - Tier 1 mains Baseline Cost Allowances (RIIO-GD2 total, £m 2018/19)**

	2021/22	2022/23	2023/24	2024/25	2025/26	RIIO-GD2 Baseline Allowance
<i>Baseline allowance</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
<b>Tier 1 mains baseline allowance</b>						
NGN	40.9	40.4	39.9	39.5	39.0	<b>199.8</b>

## Tier 1 services PCD

**Table 15: Consultation position - Tier 1 service interventions Baseline Targets Workloads (RIIO-GD2 total, no. of services)**

NGN	2021/22	2022/23	2023/24	2024/25	2025/26	RIIO-GD2
Workload Activity	No.	No.	No.	No.	No.	No.
<b>Tier 1 service interventions</b>						
Relay - domestic	17,610	17,610	17,610	17,610	17,610	<b>88,049</b>
Test and transfer - domestic	11,740	11,740	11,740	11,740	11,740	<b>58,699</b>
Relay - non-domestic	87	87	87	87	87	<b>433</b>
Test and transfer - non-domestic	58	58	58	58	58	<b>288</b>
Total	29,494	29,494	29,494	29,494	29,494	<b>147,469</b>

**Table 16: Consultation position - Tier 1 services Baseline Cost Allowances (RIIO-GD2 total, £m 2018/19)**

	2021/22	2022/23	2023/24	2024/25	2025/26	RIIO-GD2
Baseline allowance	£m	£m	£m	£m	£m	£m
<b>Tier 1 services Baseline Allowance</b>						
NGN	8.7	8.6	8.5	8.4	8.3	<b>42.7</b>

## Capital Projects PCD

**Table 17: Consultation position – NGN projects list for the capital projects PCD**

Network	Project	Deliverable/output	Proposed costs (£m)
NGN	TransPennine	As per Engineering Justification Paper (EJP)	19.47
NGN	Overcrossings	As per EJP	8.25
<b>Total</b>			<b>27.72</b>



## Bespoke Output Proposals

- 2.6 For RIIO-2, we invited companies to propose additional bespoke outputs as part of their Business Plans reflecting the needs of and feedback from their stakeholders and consumers.
- 2.7 We requested that companies' support bespoke proposals with robust justification to ensure that the potential consumer benefits were reasonable, given the additional cost and/or regulatory complexity introduced into the price controls. In making our draft decisions for RIIO-2 outputs, we have sought to strike a balance between these trade-offs for each bespoke proposal. You can find the background and our assessment approach in our Core Document.
- 2.8 In this section, we provide our views on all of the bespoke outputs that NGN proposed in its Business Plan, and any that we propose to apply to NGN.
- 2.9 For full details on the bespoke proposals, refer to NGN's Business Plan.

### Bespoke Output Delivery Incentives

- 2.10 The table below summarises the bespoke ODI proposals that NGN submitted as part of its Business Plan and outlines our consultation position.

**Table 18: NGN's bespoke ODI proposals**

Output name	Consultation position
<b>Bespoke outputs we propose to accept</b>	
<b>Job completion lead-time including re-instatement:</b> Offer a date to complete works once payment has been made within 20 working days.	<b>Accept:</b> We propose to accept this bespoke output. Our rationale follows this table.
<b>Outstanding repairs completed in 7 days:</b> Outstanding repairs completed in seven days - >89% Service Level Agreement (SLA) by end of RIIO-GD2.	<b>Accept:</b> We propose to merge this output with Outstanding Repairs completed in 28 days. Our rationale follows this table.
<b>Outstanding Repairs completed in 28 days:</b> Outstanding repairs completed in 28 days - > 98% SLA by the end of RIIO-GD2.	<b>Accept:</b> We propose to merge this output with Outstanding Repairs completed in 7 days. Our rationale follows this table.
<b>Hardship Fund:</b> Serving customers who are in desperate need of direct financial help and have been unable to identify help through existing funding routes.	<b>Accept:</b> We propose to accept this bespoke output. Our rationale follows this table.
<b>Community Partnering Fund:</b> Joined forces with Northern Power Grid to make £100,000 available on an annual basis and	<b>Accept:</b> We propose to accept this bespoke output. Our rationale follows this table.

Output name	Consultation position
administer this fund in two waves throughout the year.	
<b>Bespoke outputs we propose to reject</b>	
<b>Customer Satisfaction Survey (non-regulated):</b> Customised surveys and research for the customer groups not covered by the regulated customer satisfaction surveys.	<b>Reject:</b> We recognise there is value in stakeholder engagement and looking to extend surveys to groups not covered by our customer satisfaction surveys. We are therefore proposing to allow the small associated costs in the baseline allowance, so that NGN trials new surveys. At this stage however, we do not think an output is appropriate. NGN has not set out any specific measurable outputs beyond establishing the survey. We think NGN should develop this internally and seek to monitor as a separate Key Performance Indicator (KPI) for its stakeholders and consider its potential for future price controls. It should also share the learning from trialling this survey with other network companies.
<b>Enhanced Complaints Metric:</b> Assess its performance against an enhanced complaints metric, that measures performance in calendar (instead of working) days and includes the percentage of complaints resolved within 60 minutes as a target.	<b>Reject:</b> We found insufficient justification of the consumer value for an additional ODI for complaints, particularly given the significant overlap with the existing common Complaints Metric. We also note NGN is already delivering good performance levels against the proposed targets so the measure is not justified as being sufficiently stretching to warrant an ODI. NGN may want to retain the proposed monitoring as a separate KPI for its stakeholders.
<b>Key account service standards for shippers:</b> <ul style="list-style-type: none"> <li>acknowledgement of query (other than those which are part of a standard Xoserve interface) – one working Day</li> <li>agreement of a resolution date – one Working Day</li> <li>completion to agreed resolution date – on Agreed Date</li> <li>industry code services through Xoserve interfaces – as per industry Standard.</li> </ul>	<b>Reject:</b> We found insufficient evidence of this submission stretching beyond business as usual (BAU) and normal monitoring. Monitoring responses to enquiries is a BAU activity. NGN may want to retain the proposed monitoring as a separate KPI for its stakeholders.
<b>Key account service standards for Suppliers:</b> <ul style="list-style-type: none"> <li>agreement of a resolution date (following internal assessment) – one day</li> <li>completion to agreed resolution date – two days</li> <li>completion to agreed resolution date – on agreed date.</li> </ul>	<b>Reject:</b> We found insufficient evidence of this submission stretching beyond BAU and normal monitoring. Monitoring responses to enquiries is a BAU activity. NGN may want to retain the proposed monitoring as a separate KPI for its stakeholders.

Output name	Consultation position
<b>Key account service standards for Gas Transporters:</b> <ul style="list-style-type: none"> <li>• agreement of a resolution date (following internal assessment) – one day</li> <li>• completion to agreed resolution date – two days</li> <li>• completion to agreed resolution date – on agreed date.</li> </ul>	<b>Reject:</b> We found insufficient evidence of stretch beyond BAU and normal monitoring. Monitoring responses to enquiries is a BAU activity. NGN may want to retain the proposed monitoring as a separate KPI for its stakeholders.
<b>Disconnection and diversion quotations:</b> Quotation to customer within three working days: £40 compensation per working day late, capped at lowest of £297 or quotation sum.	<b>Reject:</b> We commend NGN for widening the scope of service quality and are proposing to extend current quotation GSOPs to these groups. There is insufficient evidence of the needs case to tighten the existing standard further than set out in our SSMD <sup>10</sup> to warrant a bespoke measure and we are already proposing to double all current payment levels. We encourage NGN to retain this standard as a voluntary GSOP on the basis any funds required to do so are sourced from company shareholders.
<b>Initial capacity studies for entry:</b> Provided to customer in less than five working days.	<b>Reject:</b> This target is linked to another bespoke ODI, NGN Biomethane Process Improvements, which we propose not to include.
<b>Initial capacity studies for large load connections:</b> Provided to customer in less than 30 working days.	<b>Reject:</b> This is a clearly defined and measurable output although NGN did not present evidence of how stretching it is. If this target only applies to a few of the largest loads where the connection process lasts for an extended period, the benefit would be too small to warrant an ODI. NGN may want to retain this as a separate KPI for its stakeholders.
<b>% of repairs completed within 12 hours:</b> > 64% of repairs completed within 12 hours of a gas escape.	<b>Reject:</b> We found insufficient evidence of a stretching target beyond BAU. Our SSMD <sup>11</sup> stated that we would remove this output because this level of service is now BAU. NGN may want to retain the proposed monitoring as a separate KPI for its stakeholders.
<b>Supply restoration to appliance following ECV connection for a planned interruption:</b> <12 hours - £20 penalty.	<b>Reject:</b> Due to sufficient commonality with other network companies' 'purge and relight' bespoke outputs and value to consumers; we propose to establish a common ODI-R for appointments. We provide further detail in our GD Annex 'Appointments for restoring supply to appliances'.

<sup>10</sup> Paragraph 2.209 (4 working days).

<sup>11</sup> Paragraph 4.86. The 12 hour standard is a secondary deliverable in relation to the repairs safety output in RIIO-GD1.

Output name	Consultation position
<b>Supply restoration to ECV and appliance following unplanned interruption:</b> less than two hours of restoration to ECV or at a time agreed with customers - £20 penalty.	<b>Reject:</b> Due to sufficient commonality with other network companies' 'purge and relight' bespoke outputs and value to consumers; we propose to establish a common ODI-R for appointments. We provide further detail in our GD Annex 'Appointments for restoring supply to appliances'.
<b>Major Incident Standards:</b> Eight individual targets or major incident standards to meet if more than 250 customers are affected.	<b>Reject:</b> We found a lack of evidence that the targets represent an improvement on existing level of service. NGN is already providing these services in RIIO-GD1. NGN may want to retain this as a separate KPI for its stakeholders.
<b>Annual Showcase Event and Annual Report:</b> Report on performance, share best practice and engage with stakeholders on strategic direction.	<b>Reject:</b> NGN listed this output as a bespoke output. However, we found insufficient evidence of enhanced performance above the common consumer vulnerability reputational ODI we have decided to implement as part of RIIO-GD2, which requires reporting and an annual showcase event.
<b>Carbon monoxide (CO) awareness sessions and provision of free CO alarms to all new connections customers:</b> Deliver 10,000 completed surveys per year.	<b>Reject:</b> The consumer vulnerability and CO safety use-it-or-lose-it allowance provides funding for this type of activity and the consumer vulnerability reputational ODI provides NGN with the opportunity to highlight its performance. We found insufficient evidence to justify the need for a bespoke ODI, PCD or LO.
<b>Energy Efficiency Advice:</b> Commit to delivering directly 1,000 successful energy efficiency advice referrals per year of vulnerable customers to partners who can provide further support on improving energy efficiency in homes.	<b>Reject:</b> The consumer vulnerability and CO safety use-it-or-lose-it allowance provides funding for this type of activity and the consumer vulnerability reputational ODI provides NGN with the opportunity to highlight its performance. We found insufficient evidence to justify the need for a bespoke ODI or PCD.
<b>Social and Customer Competency Framework:</b> Build a Customer and Social Competency Framework. This will mirror the Safety and Technical Competency Framework that supports NGN's existing operational training.	<b>Reject:</b> The consumer vulnerability and CO safety use-it-or-lose-it allowance provides funding for this type of activity and the consumer vulnerability reputational ODI provides NGN with the opportunity to highlight its performance.
<b>Dedicated 24/7 PSR/Extra Support Hotline:</b> A dedicated hotline for any customer registered on the PSR, or who might identify themselves as needing additional support.	<b>Reject:</b> The consumer vulnerability and CO safety use-it-or-lose-it allowance provides funding for this type of activity and the consumer vulnerability reputational ODI provides NGN with the opportunity to highlight its performance. We found insufficient evidence to justify the need for a bespoke ODI or LO.

Output name	Consultation position
<b>100 Community Partners trained each year to deliver support with Carbon Monoxide safety; Priority Services Registrations/Awareness; Energy Efficiency Advice/Referrals:</b> NGN will deliver training to a minimum of 100 community partners per year, in line with the standards and criteria set within their Customer and Social Competency Framework.	<b>Reject:</b> The consumer vulnerability and CO safety use-it-or-lose-it allowance provides funding for this type of activity and the consumer vulnerability reputational ODI provides NGN with the opportunity to highlight its performance.
<b>Biomethane Process Improvements:</b> <ul style="list-style-type: none"> <li>initial capacity studies for gas producer connections in five working days (15 working days in RIIO-GD1)</li> <li>detailed capacity studies in 20 working days (30 working days in RIIO-GD1)</li> <li>respond (via telephone) to operational faults on gas producer sites within four hours</li> <li>stakeholder engagement.</li> </ul>	<b>Reject:</b> We think the need for this ODI has been superseded by our proposal to extend the existing connection quotation service standards (GSOPs) to include green gas enquiries, which will be common across all gas distribution networks (GDNs) (see Chapter 2 of our GD Annex for more detail). As set out in our SSMD, <sup>12</sup> GDNs will report on biomethane connections data (including studies) in the Annual Environment Report (AER). We propose they also report on stakeholder engagement in this area under the AER (see Chapter 2 of our GD Annex). NGN may want to retain inclusion of these or other similar metrics in its AER as a separate KPI for its stakeholders. NGN may also want to retain the proposed monitoring with respect to system fault response as a separate KPI for its stakeholders.
<b>Environmental Action Plan (EAP) - Initiatives to use resources responsibly:</b> Initiatives under the Environmental Action Plan including but not limited to: <ul style="list-style-type: none"> <li>embed NGN Sustainable Procurement policy via Supplier Code</li> <li>0% disposal of recyclable or recoverable waste to landfill</li> <li>less than 0.1% of excavation spoil to landfill.</li> </ul>	<b>Reject:</b> We propose NGN reports on its resource use and waste initiatives under the new RIIO-2 Licence Obligation for companies to publish an AER; therefore, we do not consider it is necessary to set an additional reputational ODI in this area.
<b>EAP - Initiatives to Enhance Life on Land:</b> <ul style="list-style-type: none"> <li>Targeted biodiversity improvements at &gt;200 NGN sites</li> <li>Embed tools to measure net change in ecosystem services at our 50 largest sites and natural capital on new large projects</li> <li>Continue land remediation programme.</li> </ul>	<b>Reject:</b> We propose NGN reports on its biodiversity reporting initiatives under the new RIIO-2 Licence Obligation for companies to publish an AER; therefore, we do not consider it is necessary to set an additional reputational ODI in this area.

<sup>12</sup> Paragraph 3.75.

## Bespoke ODIs Consultation questions

NGNQ2. Do you agree with our proposals on the bespoke ODIs? If not, please outline why.

## Our consultation position on bespoke ODIs included in our Draft Determinations

### Job completion lead time including re-instatement

Job completion lead time including re-instatement	
Purpose	A reputational incentive to reduce the time between customers paying for a standard connection service (or alteration) and the GDN completing the work.
Benefits	Faster connections and alterations leading to increased customer satisfaction.

### *Background*

2.11 In its Business Plan, NGN proposed a Reputational ODI for it to offer completion dates that are within 20 working days of payment for connection or alteration services at sites where flow rates are below 275kWh per hour. NGN provided data from 2019/20 indicating that it currently meets this standard in 31% of cases. Average duration between payment and completion of services was 33.5 days.

### *Consultation position*

Output parameter	Consultation position
Incentive design	We anticipate either a single target for the whole of RIIO-GD2, or incremental annual targets for percentage of connection/alteration requests where NGN can offer completion within 20 days of payment. NGN still needs to provide the targets for the percentage of connection/alteration requests where it can offer completion within 20 days. We will only accept this ODI if we believe that the targets are sufficiently stretching.
ODI type	Reputational.
Implementation	NGN must report on its performance via the Regulatory Reporting Pack (RRP).

### *Rationale for consultation position*

2.12 We propose to accept NGN's proposal because we think it will encourage faster standard connections and alterations and there is evidence that its customers value this.

- 2.13 Our Business Plan Guidance (BPG)<sup>13</sup> stated that bespoke output proposals should set stretching targets that are well evidenced and deliver clear outcomes. NGN did not provide a target, but demonstrated ambition in this area by seeking to complete jobs within 20 days when its current average performance is 33.5 days. We encourage NGN to put forward a stretching target for the percentage of connection/alteration requests where it can offer completion within 20 days so that we can implement this ODI.

#### *Consultation questions*

NGNQ3. What are your views on our proposal to accept the Job completion lead-time including re-instatement ODI? Do you have a view on what the percentage performance target(s) should be and how is it stretching?

#### Outstanding repairs

Outstanding repairs	
Purpose	A reputational incentive to reduce the time taken to repair gas escapes.
Benefits	Lower CO <sub>2</sub> e emissions and avoided costs to consumers.

#### *Background*

- 2.14 Under current regulations,<sup>14</sup> GDNs must repair gas escapes with 12 hours of being informed, unless they can prove that it is not reasonably practicable. If the escape persists beyond 12 hours, it must be monitored and repaired as soon as is practicable.
- 2.15 NGN proposed two ODI-Rs to increase the proportions of repairs that it completes within seven days and 28 days of being informed of a gas escape.

<sup>13</sup> Paragraph 2.16, <https://www.ofgem.gov.uk/publications-and-updates/riio-2-business-plans-guidance-document>

<sup>14</sup> Section 7 of the Gas Safety (Management) Regulations (GS(M)R) 1996

*Consultation position*

Output parameter	Consultation position
Target	<p>Percentage of gas escapes repaired within seven days in:</p> <ul style="list-style-type: none"> <li>• 2021/22: &gt;85.9%</li> <li>• 2022/23: &gt;86.6%</li> <li>• 2023/24: &gt;87.4%</li> <li>• 2024/25: &gt;88.2%</li> <li>• 2025/26: &gt;89.0%</li> </ul> <p>Percentage of gas escapes repaired within 28 days in:</p> <ul style="list-style-type: none"> <li>• 2021/22: &gt;95.7%</li> <li>• 2022/23: &gt;96.3%</li> <li>• 2023/24: &gt;96.9%</li> <li>• 2024/25: &gt;97.4%</li> <li>• 2025/26: &gt;98.0%</li> </ul>
ODI type	Reputational.
Implementation	NGN must report on its performance via the RRP.

*Rationale for consultation position*

- 2.16 We propose to merge NGN's two proposals into a single ODI-R to encourage enhanced performance. Faster repairs reduce the volume of gas lost to the atmosphere, resulting in lower CO<sub>2</sub>-e emissions and reduced costs for consumers from not having to pay for the additional escaped gas. NGN has not requested additional funding for enhanced performance, indicating that the ODI-R is likely to produce a net benefit for consumers.
- 2.17 NGN proposed targets for repairs within seven days (>89%) and 28 days (>98%) that it will seek to achieve by the end of RIIO-GD2. The targets appear stretching relative to NGN's RIIO-GD1 average performance (84% of repairs within seven days, 95.1% within 28 days).<sup>15</sup> NGN also provided clear evidence that its consumers support this initiative.
- 2.18 Our consultation position is to provide annual targets for the duration of the price control period. The annual targets follow a linear trajectory from NGN's RIIO-GD1 average performance to the targets it proposed for the end of RIIO-GD2.
- 2.19 NGN would report on its performance through the RRP. All GDNs currently report on number of gas escapes and number of gas escape repairs deferred beyond 28 days. For NGN, we propose to supplement this with fields to enter number of repairs deferred beyond seven days and an indicator of whether it has met the ODI-R targets.

<sup>15</sup> RIIO-GD1 averages using data for the period 2013/14 to 2018/19 provided in the GDN's Business Plan



### Community partnering fund

Community partnering fund	
Purpose	A reputational incentive for NGN to provide £50,000 annually to a local community fund in collaboration with Northern Powergrid to fund charities and other groups to deliver projects within their communities.
Benefits	Fund projects to support consumers in vulnerable situations and deliver environmental schemes.

### *Consultation position*

Output parameter	Consultation position
Target	NGN will invest £50,000 in its community partnership fund in collaboration with Northern Powergrid.
ODI type	Reputational only.
Implementation	NGN should report on contributions to the community partnership fund through the RRP.

### *Rationale for consultation position*

2.20 We propose to accept this ODI-R as proposed by NGN. The fund will support local community groups and charities to deliver schemes supporting consumers in vulnerable situations and rolling out environmental initiatives within its communities. This fund is at no direct additional cost to the consumer as it is funded by NGN's shareholders.

2.21 NGN's proposal is supported by stakeholders and is likely to have clear benefits for local communities.

### Hardship fund

Hardship fund	
Purpose	A reputational incentive to deliver a shareholder-funded scheme to provide £150,000 a year to help provide financial support for customers who are most in need.
Benefits	The fund will provide last resort help for those most in need of financial support.

*Consultation position*

Output parameter	Consultation position
Target	NGN will invest £150,000 a year to provide a hardship fund, supporting customers in desperate need of financial support.
ODI type	Reputational only.
Implementation	NGN should report on contributions to the hardship fund through the RRP.

*Rationale for consultation position*

- 2.22 We propose to accept this ODI as proposed by NGN. The NGN hardship fund provides support for those who are most in need. This fund is at no direct cost to customers as it is completely funded by NGN's shareholders.
- 2.23 NGN's proposal is supported by stakeholders and is likely to have clear benefits to consumers who need support but have been unable to access it via other routes.

## Bespoke Licence Obligations

- 2.24 The table below summarises the bespoke LO proposals that NGN submitted as part of its Business Plan and outlines our consultation position. These all relate to Guaranteed Standards of Performance (GSOP) and are proposals to enhance them beyond their statutory levels.

**Table 19: NGN's bespoke LO proposals**

Output name	Consultation position
<b>Bespoke outputs we propose to reject</b>	
<b>GSOP 2 - Reinstatement of a customer's premises for both planned and unplanned interruptions:</b> Reinstatement of a consumer's premises (private land) within three calendar days for planned and unplanned interruptions, excluding bank holidays.	<b>Reject:</b> There is insufficient evidence of the needs case for tightening the existing standard further than set out in our SSMD. <sup>16</sup> We are already proposing to double all current GSOP payment levels. We encourage NGN to retain this standard as a voluntary GSOP if any funds required to do so are sourced from company shareholders.
<b>GSoP 3 - Alternative heating and cooking facilities for priority domestic customers:</b> Four hours: £48 payment.	<b>Reject:</b> We are already proposing to double GSOP payments for RIIO-GD2, in place of this proposal.
<b>GSOP 4 - Standard connection/alteration quotation - &lt;275kWh:</b> Three Working Days: £20 per	<b>Reject:</b> We are already proposing to double GSOP payments and tighten this standard as a common LO. There is insufficient

<sup>16</sup> Chapter 2, Table 3 (5 working days)

Output name	Consultation position
working day late, capped at lowest of £297 or quotation sum.	evidence of the needs case to tighten the existing standard further than set out in our SSMD <sup>17</sup> to warrant a bespoke measure. We encourage NGN to retain this standard as a voluntary GSOP if any funds required to do so are sourced from company shareholders.
<b>GSOP 5 - Non-standard connection quotation below 275kWh:</b> 11 Working Days: £20 per working day, up to quotation sum or £297 whichever is lowest.	<b>Reject:</b> We are already proposing to double GSOP payments for RIIO-GD2, in place of this proposal.
<b>GSOP 6 - Non-standard connection quotation above 275kWh:</b> 21 working days: £40 per working day late, capped at lowest of £595 or quotation sum.	<b>Reject:</b> We are already proposing to double GSOP payments for RIIO-GD2, in place of this proposal.
<b>GSOP 8 - Response to land enquiries:</b> Within five Working Days £80 per working day up to £297 (<275kWh) or £595 (>275kWh).	<b>Reject:</b> We are already proposing to double GSOP payments for RIIO-GD2, in place of this proposal.
<b>GSOP 9 -Provision of start and completion date below 275kWh:</b> Ten working days £40 per working day late, capped at lowest of £297 or quotation sum.	<b>Reject:</b> We are already proposing to double GSOP payments and tighten this standard as a common LO. There is insufficient evidence of the needs case to tighten the existing standard further than set out in our SSMD <sup>18</sup> to warrant a bespoke measure. We encourage NGN to retain this standard as a voluntary GSOP if any funds required to do so are sourced from company shareholders.
<b>GSOP 10 - Provision of start and completion date above 275kWh:</b> 20 working days £80 per working day late, capped at lowest of £595 or quotation sum.	<b>Reject:</b> We are already proposing to double payments for RIIO-GD2, in place of this proposal.
<b>GSOP 11 (i) -Completion of work on the agreed date &lt;£1k:</b> On agreed date: £40 per working day late.	<b>Reject:</b> We are already proposing to double payments for RIIO-GD2, in place of this proposal.
<b>GSOP 11 (ii) -Completion of work on the agreed date ≤£4k:</b> On agreed date: Lesser of £200 per working day late or 2.5% of contract sum.	<b>Reject:</b> We are already proposing to double payments for RIIO-GD2, in place of this proposal.
<b>GSOP 11 (iii) -Completion of work on the agreed date ≤£20k:</b> On agreed date: £200 per working day late.	<b>Reject:</b> We are already proposing to double payments for RIIO-GD2, in place of this proposal.
<b>GSOP 11 (iv) -Completion of work on the agreed date ≤£50k:</b> On agreed date: £200 per working day late.	<b>Reject:</b> We are already proposing to double payments for RIIO-GD2, in place of this proposal.
<b>GSOP 11 (v) -Completion of work on the agreed date ≤£100k:</b> On agreed date: £200 per working day late.	<b>Reject:</b> We are already proposing to double payments for RIIO-GD2, in place of this proposal.
<b>GSOP 13- Notification in advance of a planned interruption:</b> Seven days, £40 domestic, £100 non-domestic.	<b>Reject:</b> We are already proposing to double payments for RIIO-GD2, in place of this proposal.

<sup>17</sup> Paragraph 2.209 (4 working days).

<sup>18</sup> Paragraph 2.210 (17 working days).

**Bespoke LO consultation question**

NGNQ4. Do you agree with our proposals on the bespoke LOs? If not, please outline why.

**Consumer Value Propositions**

2.25 The table below summarises the CVP proposals that NGN submitted under stage 2 of the BPI and outlines our consultation position.

2.26 For full details on the proposed CVPs, see NGN's Business Plan.

2.27 Where our CVP decisions reference associated bespoke ODIs, PCDs or UMs, please see tables 18, 19 and 49 respectively for more detail.

**Table 20: NGN's CVP proposals**

CVP name	Consultation position
<b>CVPs we propose to accept</b>	
<b>Enhanced Repair for Gas Escapes:</b> Improved repair times for outstanding gas escapes within seven and 28 days in order to reduce leakage from the network and carbon impact associated with this.	<b>Accept:</b> We found sufficient evidence for the targets and benefits of this proposal for it to receive a CVP reward. However, we have revised the CVP value submitted by NGN. Our rationale follows this table.
<b>CVPs we propose to reject</b>	
<b>Fuel poor connections:</b> Proposal to deliver 2,000 Fuel Poor connections per year, above the minimum target of 1,000 per year, delivering £22m benefit over RIIO-GD2 and £84m over 15 years.	<b>Reject:</b> NGN's stretch targets are greater than its RIIO-GD1 performance. However, SGN has proposed greater FPNES targets than in RIIO-GD1 as its minimum standard, without including these in its CVP proposal. Therefore we don't think NGN's proposal goes sufficiently beyond what some other network companies are doing to receive a CVP reward.
<b>Hardship fund:</b> Establish a Hardship fund to support those that cannot afford repairs/replacement to gas appliances post disconnection in RIIO-GD2, delivering £14m benefit over RIIO-GD2 and £49m over 15 years.	<b>Reject:</b> We think this CVP proposal constitutes corporate social responsibility (CSR) activities that are not within NGN's business footprint. We think CSR should be BAU for GDNs.
<b>Community partnering fund:</b> Contribution of £50,000 to a pot which is accessible to community groups and charities, delivering £0.5m benefit over RIIO-GD2.	<b>Reject:</b> We think this CVP proposal constitutes CSR activities that are not within NGN's business footprint. We think CSR should be BAU for GDNs.
<b>Consumer vulnerability competency framework:</b> Implementation of a	<b>Reject:</b> We are not proposing to accept the associated ODI proposal (Social and

CVP name	Consultation position
customer vulnerability competency framework to train NGN staff to recognise vulnerability and manage vulnerable customers, delivering £0.13m benefit over RIIO-GD2 and £1.9m over 15 years.	Customer Competency Framework) for the reasons stated in Table 17. This does not go beyond our expectation for the use of the consumer vulnerability and CO safety use-it-or-lose-it allowance, so it should not receive a CVP reward.
<b>Company Cars:</b> Implementation of a revised company car policy to include only full electric or hybrid vehicles, delivering £1.43m benefit over RIIO-GD2 and £2.44m over 15 years.	<b>Reject:</b> We do not think this proposal goes beyond BAU compared with the current performance of other GDNs. NGN pledge to have company car carbon emissions of no greater than 95 gCO <sub>2</sub> e/km, <sup>19</sup> whereas Cadent state its average company car emissions are already 93 gCO <sub>2</sub> e/km. <sup>20</sup>
<b>Tree planting:</b> Voluntary planting of 40,000 trees across our network, delivering £0.95m benefit over RIIO-GD2 and £23m over 50 years.	<b>Reject:</b> We think this CVP proposal constitutes CSR activities that are not within NGN's business footprint. We think CSR should be BAU for GDNs. Cadent also delivered a similar performance in RIIO-GD1, planting four trees for every one cut down. <sup>21</sup>
<b>Appointments for Purge and Relight:</b> Provision of an appointments system for purge and relight activities, delivering £25m benefit over RIIO-GD2.	<b>Reject:</b> We do not consider this idea is innovative and therefore, it should not receive a CVP reward. Ofgem considered GSOP appointment standards in its Sector Specific Methodology Consultation (SSMC), <sup>22</sup> but companies' customer research indicated a GSOP was not worthwhile at that time. Given three network companies have now submitted similar ideas, we are proposing to apply a common ODI-R for time-bound appointments.
<b>Complaint resolution:</b> 60-minute standard for complaint resolution, delivering £6m benefit over RIIO-GD2.	<b>Reject:</b> We are not proposing to accept the associated ODI proposal (Complaints metric) for the reasons stated in Table 18, so it should not receive a CVP reward.
<b>Gas restoration to appliance:</b> Restoration of gas to appliances within two hours of restoring gas to the Emergency Control Valve (ECV), delivering £2.6m benefit over RIIO-GD2.	<b>Reject:</b> We do not consider this idea is innovative and therefore, it should not receive a CVP reward. Ofgem considered GSOP appointment standards in its Sector Specific Methodology Consultation (SSMC), <sup>23</sup> but companies' customer research indicated a GSOP was not worthwhile at that time. Given three network companies have now submitted similar ideas, we are proposing to apply a common ODI-R for time-bound appointments.
<b>Reinstatement:</b> Reinstatement of a consumer's premises (private land) within	<b>Reject:</b> We are not proposing to accept the associated ODI-R proposal (Reinstatement of

<sup>19</sup> NGN Business Plan - A8 - NGN RIIO-2: Environmental Action Plan, page 23

<sup>20</sup> Cadent Business Plan - Appendix 07.04.04: Carbon Neutral Operations, page 24

<sup>21</sup> Cadent Business Plan, page 104

<sup>22</sup> See paragraphs 3.133-3.137 of the RIIO-GD2 GD Sector Annex to the RIIO-2 Sector Specific Methodology Consultation (SSMC GD Annex), <https://www.ofgem.gov.uk/publications-and-updates/riio-2-sector-specific-methodology-consultation>

<sup>23</sup> SSMC GD Annex, paragraphs 3.133-3.137

CVP name	Consultation position
three calendar days for planned and unplanned interruptions, excluding bank holidays, delivering £6m benefit over RIIO-GD2.	a customer's premises for both planned and unplanned interruptions) for the reasons stated in Table 18, so it should not receive a CVP reward.
<b>Citizens' Jury:</b> Create an enduring role with the Citizen's Jury meeting three times a year, delivering £1.87m benefit over RIIO-GD2.	<b>Reject:</b> The proposal was first implemented in RIIO-GD1. While we are supportive of this activity, we expect GDNs to maintain RIIO-GD1 service levels and continue high-quality stakeholder engagement as part of BAU, <sup>24</sup> and therefore we don't think it should receive a CVP reward.

### CVP consultation questions

NGNQ5. Do you agree with our proposals on CVPs? If not, please outline why.

### Our consultation position on CVP rewards included in our Draft Determinations

#### Enhanced Repair for Gas Escapes

Enhanced Repair for Gas Escapes	
Purpose	Improved repair time for gas escapes through implementation of seven and 28-day targets.
Benefits	Reduction in carbon emissions and avoided costs to customers for lost gas.

#### Background

2.28 NGN valued this CVP on carbon emission reduction from two associated ODI-Rs to improve leakage repair times:

- outstanding repairs completed in 28 days
- outstanding repairs completed in seven days.

2.29 The CVP is also associated with NGN's proposed ODI-R for percentage of repairs completed within 12 hours, but this was not included in the value calculation NGN submitted for this CVP.

2.30 Our consultation positions for the three ODI-Rs are set out in Table 18.

<sup>24</sup> Core Document, Chapter 4

### *Consultation position*

<b>CVP parameter</b>	<b>Consultation position</b>
Deliverable	Delivery of the Outstanding repairs ODI-R to improve leakage repair times and ultimately reduce carbon emissions.
CVP value	£3.17m (revised from the submitted £8.42m).
CVP reward	£1.58m.
Reporting and clawback	Refer to Chapter 10 of our Core Document.

### *Rationale for consultation position*

- 2.31 We propose to allow this CVP to reward higher service quality levels than RIIO-GD1 that NGN proposes to deliver without additional baseline funding. We consider there is sufficient evidence of stakeholder and Customer Engagement Group support for this CVP proposal and the associated ODI-Rs. We also found sufficient evidence of additional consumer value through quantified benefits for reduced carbon emissions and avoided costs to consumers for the forecast gas lost.
- 2.32 We propose a revised CVP value of £3.17m instead of NGN's submitted £8.42m. We found that NGN's calculation summed the gas volume reductions as if these leaks were ongoing rather than resolved at a later point in time – so we considered it was overestimating the benefits. We consider our revised value better accounts for the faster rate of completion for outstanding repairs.
- 2.33 We set out our consultation position for annual reporting requirements and mechanisms to clawback a CVP reward in the event of non-delivery in Chapter 10 of our Core Document.

### *Consultation questions*

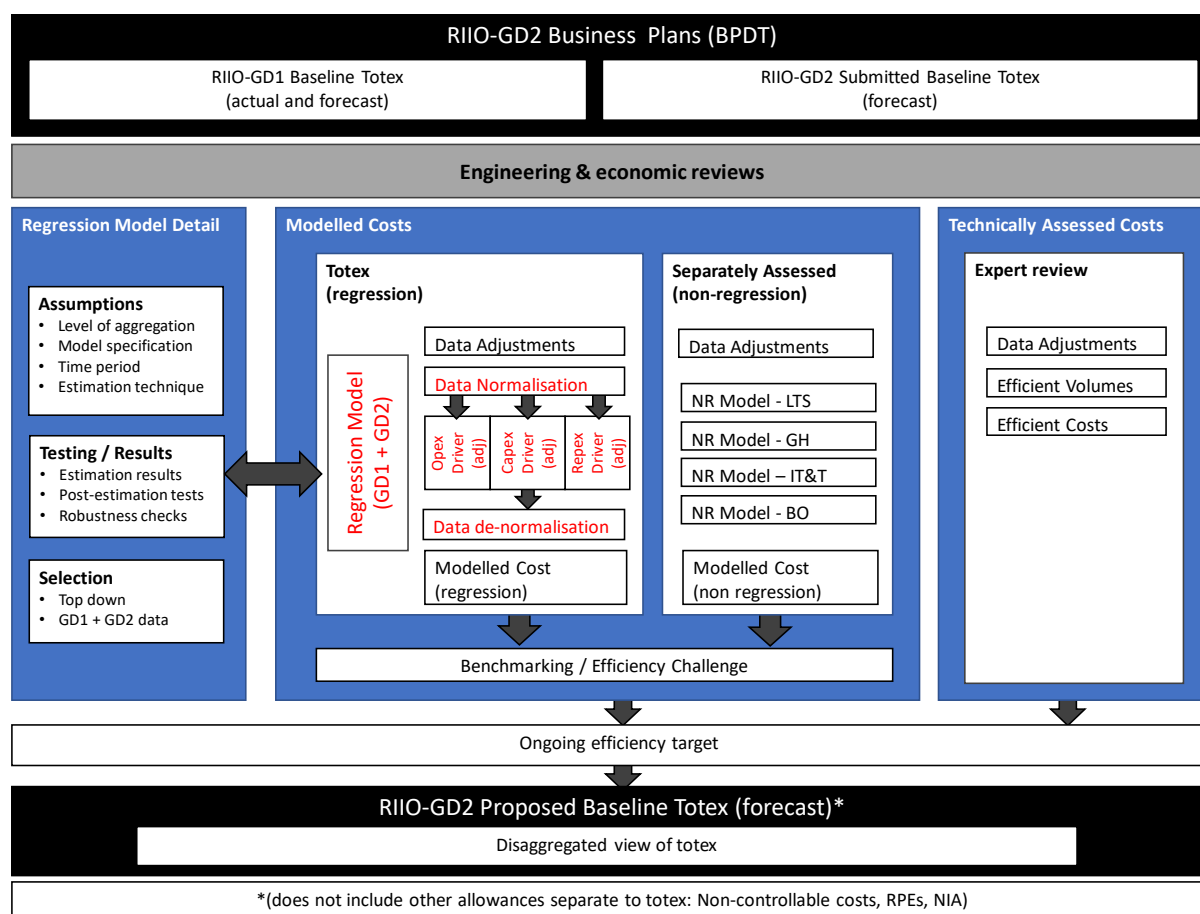
- NGNQ6. Do you agree with our proposal to accept the CVP for Enhanced Repair for Gas Escapes?

### 3. Cost of service - setting baseline allowances

#### Introduction

- 3.1 In this section, we detail the steps taken to reach our proposed decision on NGNs submitted baseline totex allowance.
- 3.2 We have used three approaches in determining totex allowances: totex regression modelling, non-regression modelling and technical assessment. We present the results from each of these approaches next, together with a breakdown of any pre-modelling adjustments prior to our assessment, and the final steps taken to arrive at our proposed baseline totex allowance.
- 3.3 An overview of our process and common terms used in this chapter is provided below.

**Figure 2: Modelling Overview**





3.4 We intend this chapter to be read alongside other parts of our Draft Determinations that set out our industrywide approach. We provide further detail in the following documents:

- on our totex regression and modelled cost approach in our Step-By-Step Guide to Cost Assessment (SGSB Annex)
- on our assessment of regional and company-specific factors in the Regional and Company Specific Factors Annex.
- on our engineering assessment in our QEM/ARV Engineering Review Annex (Engineering Annex).

## Baseline allowances

3.5 Baseline totex referenced in this chapter comprises forecast controllable costs.<sup>25</sup> This includes direct and indirect opex, capex and repex and is inclusive of our proposed ongoing efficiency. Non-controllable costs, pass-through costs and real price effects (RPEs), while included in overall allowed revenue recoverable by GDNs, are not included in baseline totex and are treated separately<sup>26</sup>.

3.6 Table 21 compares NGN's submitted baseline totex with our proposed view of baseline totex.<sup>27</sup>

**Table 21: NGN submitted totex vs Ofgem proposed totex (£m, 2018/19)**

Network	Submitted totex (£m)	Proposed totex (£m)	Difference (£m)	Difference (%)
NGN	1249	1083	-166	-13%

3.7 A breakdown of proposed totex at the activity level is provided in Appendix 2. Our proposed methodology for disaggregating baseline totex is set out in the GD Annex and the SBSG Annex.

## Summary of our assessment

3.8 Prior to modelling NGN's forecast totex, we separated costs associated with activities considered suited to technical assessment. For the remaining modelled totex, we distinguished between costs suitable for regression analysis and costs

<sup>25</sup> Baseline totex and forecast controllable costs will be used interchangeably.

<sup>26</sup> Any costs not included in baseline totex, but included in allowed revenue, are captured in the licence model.

<sup>27</sup> Both company submitted baseline totex and our proposed baseline totex include the same items for easy comparison

subject to non-regression analysis. Table 22 details this breakdown of submitted totex for NGN.

**Table 22: NGN totex breakdown by assessment approach (£m, 2018/19)**

Network	Submitted totex	Modelled totex		Technical assessed costs
		Regression	Non Regression	
NGN	1,249	1,095	51	103
% split	100%	88%	4%	8%

3.9 Adjustments to submitted costs under each of our assessment approaches are summarised in Table 23. Modelled costs are subject to pre-modelling and benchmarking efficiency adjustments. Technically assessed costs are subject to technical assessment adjustments only. All costs are subject to ongoing efficiency adjustments.

**Table 23: Step by step breakdown of adjustments (£m, 2018/19)**

Network	Modelled cost		Technically assessed adjustments	Ongoing efficiency adjustments	Total adjustments
	Pre modelling adjustments	Benchmark efficiency adjustments			
NGN	-169	61	-14	-44	-166

Further details on our proposed adjustments

### **Proposed pre-modelling adjustments**

3.10 For costs subject to totex modelling (regression), we propose a number of pre-modelling adjustments to volumes and remove any costs subject to an uncertainty mechanism. These adjustments for NGN are summarised in the table below.

**Table 24: Proposed pre-modelling adjustments, NGN (£m, 2018/19)**

Network	Volume-related adjustments	UM related adjustments	Total pre-model adjustments
NGN	-123	-46	-169

3.11 We propose to remove £123m due to repex volume-related adjustments for activities that we consider have not been justified.

- 3.12 We also propose to remove £46m of costs associated with large load connections (£7m) and iron stubs repex (£39m), to potential re-openers and other uncertainty mechanisms.

### Proposed benchmark efficiency adjustments

- 3.13 Overall, NGN performed well on efficiency. They received a positive efficiency adjustment overall, being the frontier company. This was a result of their relative efficiency score being the highest of all GDNs.

### Proposed technically assessed cost adjustments

- 3.14 For technically assessed costs, we have made the following adjustments, listed in the table below. Our proposed view of bespoke proposals is presented in Chapter 2. Further details on other items is provided later in this chapter.

**Table 25: Technically assessed cost adjustments, NGN (£m, 2018/19)**

Network	Bespoke outputs	Capex projects	IT and Telecoms capex	Resilience	Total adjustments
NGN	-1	-2	-7	-5	-14

## Regression Analysis

### Introduction

- 3.15 In this section, we describe our proposed adjustments to the drivers that define the totex Composite Scale Variable (CSV) used in our regression model. Changes to drivers complement the pre-model adjustments made to submitted totex costs, noted above. Adjustments were made following engineering and cost assessment reviews of NGN's Business Plan.
- 3.16 Details are provided for each of our cost categories, opex, repex and capex, listing out any changes to drivers used in the regression model. For reference, values provided by NGN are referred to as submitted, and values used in our regression model as modelled.

## Opex proposals

3.17 The components of the totex CSV that relate to opex are Modern Equivalent Asset Value (MEAV), maintenance MEAV, emergency CSV and total external condition reports.

3.18 In our totex regression modelling for RIIO-GD2, we didn't make any adjustments to NGN's opex-related drivers.

**Table 26: NGN's opex drivers**

Driver	Driver Value	
Network	Submitted	Modelled
<b>MEAV</b> ( <i>£m, 2018/19</i> )		
NGN	53,475	53,475
<b>Maintenance MEAV</b> ( <i>£m, 2018/19</i> )		
NGN	21,681	21,681
<b>Emergency CSV</b> ( <i>No., 80% customers number, 20% total external condition reports</i> )		
NGN	4,50,547	4,50,547
<b>Total External Condition Reports</b> ( <i>No.</i> )		
NGN	73,166	73,166

## Repex proposals

3.19 For repex regression modelling, we use workloads to define the totex CSV together with synthetic costs.<sup>28</sup> The resultant synthetic cost driver is the sum of the products of workload volumes and synthetic unit cost for each activity.

3.20 Where we have disallowed workloads, we have also removed any corresponding costs from submitted totex. In the following section, we present the adjustments we made to repex workloads (the repex component of the cost driver).

<sup>28</sup> Synthetic unit cost is common across all networks.

### Tier 1 mains

**Table 27: Tier 1 mains and steel <=2" mains commissioned workloads (RIIO-GD2 total, km)**

Company/ Network	Submitted	Modelled	Summary of proposed workload adjustments
	<i>km</i>	<i>km</i>	
Tier 1			We have allowed in full proposed Tier 1 mains and steel mains <=2" workloads. NGN did not include dynamic growth in its forecasts for RIIO-GD2 workloads.
NGN	2,122.9	2,122.9	
Steel <=2"			
NGN	186.0	186.0	

### Tier 2A mains

**Table 28: Tier 2A mains commissioned workloads (RIIO-GD2 total, km)**

Company/ Network	Submitted	Modelled	Summary of proposed workload adjustments
	km	km	
NGN	10.1	10.1	We allowed in full-proposed workloads for Tier 2A as part of baseline modelling. <sup>29</sup>

### Tier 2B and Tier 3 mains

**Table 29: Tier 2B and Tier 3 mains commissioned workloads (RIIO-GD2 total, km)**

Company/ Network	Submitted	Modelled	Summary of proposed workload adjustments
	km	km	
<b>Tier 2B</b>			We allowed in full-proposed workloads for Tier 2B.
NGN	100.0	100.0	
<b>Tier 3</b>			We disallowed proposed workloads for Tier 3, as the CBA supporting this investment did not pay back before 2037.
NGN	50.0	0.0	

<sup>29</sup> See our GD Annex for further discussion of the Tier 2A volume driver.

*Further details on our proposed position*

- 3.21 We have allowed in full the workloads submitted by NGN for Tier 2B, as we consider the engineering needs case to have been justified and the investment is supported on a Cost Benefit Analysis (CBA) basis.
- 3.22 We have not allowed NGN's submitted programme of work for Tier 3 mains replacement, as the supporting CBA does not payback by 2037. We are concerned that this investment does not offer value for customers, given the uncertainty around the future of the gas network.

Steel mains >2"**Table 30: Steel mains >2" mains commissioned workloads (RIIO-GD2 total, km)**

Network	Driver Value		Summary of proposed workload adjustments
	Submitted	Modelled	
<b>Steel mains &gt;2" (km)</b>			We have disallowed proposed workloads for steel mains >2". We do not think the needs case has been justified.
NGN	149.9	0.0	

*Further details on our proposed position*

- 3.23 We have not allowed the workloads NGN submitted for the replacement programme of steel mains >2" in RIIO-GD2. We do not think that the needs case for these workloads has been sufficiently justified given the significant increase in proposed annual spend between RIIO-GD1 and RIIO-GD2. NGN did not present detailed sensitivity analyses of assumptions underpinning the needs case. We did not think there was sufficient clarity on how different elements of the proposed workloads contribute to the aggregate-level benefits presented in the CBAs.

Iron mains >30m and Other Policy and Condition mains**Table 31: Iron mains >30m and Other Policy and Condition mains commissioned workloads (RIIO-GD2 total, km)**

Network	Driver Value		Summary of proposed workload adjustments
	Submitted	Modelled	
<b>Iron mains &gt;30m (km)</b>			We have disallowed proposed workloads for iron mains >30m, as the CBA supporting this investment does not pay back before 2037.
NGN	40.7	0.0	
<b>Other Policy and Condition mains (km)</b>			We have disallowed proposed workloads for other policy and condition mains, as the CBAs supporting these investments do not pay back before 2037.
NGN	18.4	0.0	

*Further details on our proposed position*

- 3.24 We have not allowed any workloads associated with NGN's submitted iron mains >30m investments in RIIO-GD2. The CBA for this investment did not pay back before 2037. We are concerned this investment does not offer value for money for customers, given the future uncertainty around the use of the gas network.
- 3.25 We have not allowed any of the workloads, which NGN submitted for other policy and condition mains in RIIO-GD2. We do not think the needs case has been sufficiently justified to support NGN's proposed Phoenix and PE mains replacement programmes. The CBAs did not pay back before 2037. We are concerned that these investments do not offer value for customers, given the uncertainty around the future of the gas network and other potential options for mitigating risk from these assets.

Services associated with mains replacement**Table 32: Services associated with mains replacement commissioned workloads\* (RIIO-GD2 total, no. of services)**

Network	Driver Value		Summary of proposed workload adjustments
	Submitted	Modelled	
Tier 1 (No.)			Where we have disallowed mains replacement workloads (discussed above), we have made corresponding downward adjustments to service interventions. All adjustments were made on a pro rata basis.
NGN	147,469	147,469	
Tier 2A (No.)			
NGN	206	206	
Tier 2B (No.)			
NGN	2,655	2,655	
Tier 3 (No.)			
NGN	1,402	0	
Iron Mains >30m (No.)			
NGN	0	0	
Steel Mains > 2" (No.)			
NGN	10,353	0	
Other Policy and Condition (No.)			
NGN	929	0	
* Includes relays, and test and transfer for both domestic and non-domestic properties			

*Further details on our proposed position*

3.26 We have made corresponding pro rata adjustments to services associated with mains where we have not allowed full funding for submitted workloads. These adjustments are based on submitted services: mains ratios for each network and submitted proportions between intervention types<sup>30</sup> and domestic/non-domestic.

<sup>30</sup> Services relays; services test and transfer



Services not associated with mains replacement**Table 33: Services not associated with mains replacement workloads commissioned workloads (RIIO-GD2 total, no. of services)**

Network	Driver Value		Summary of proposed workload adjustments
	Submitted <sup>1</sup>	Modelled	
<b>Non-Domestic: Relay (No.)</b>			We have allowed in full the proposed workloads for non-domestic relays.
NGN	435	435	
<b>Domestic: Relay after escape (No.)</b>			We have allowed in full the proposed workloads for domestic relays after escape.
NGN	20,179	20,179	
<b>Domestic: Relay other<sup>2</sup> (No.)</b>			We have allowed in full the proposed workloads for other domestic relays.
NGN	11,047	11,047	
<sup>1</sup> Submitted values include correction to allocation of workloads provided through supplementary question responses NGN_SQ_CA_19 and NGN_SQ_CA_23  <sup>2</sup> Includes Domestic Relay: Bulk Services, Relay: Service Alts, Meter Relocations, Relay: Smart Metering, Relay: Smart Metering (Workload at Cost of Shipper), Relay: Other (Metallic), Relay: Other (Non-Metallic)			

*Further details on our proposed position*

3.27 We have allowed in full NGN's submitted workloads for services not associated with mains.

**Capex proposals**

3.28 Reinforcement and Connections workloads are both capex components of the totex CSV used in the regression modelling for RIIO-GD2. We have accepted NGN's submitted Reinforcement workloads in-full, as we note these are broadly in line with RIIO-GD1.

**Table 34: Reinforcement workloads (RIIO-GD2 total)**

Network	Driver Value		Summary of proposed workload adjustments
	Submitted	Modelled	
General <sup>1</sup> (km)			We have allowed in full the proposed workloads for reinforcement.
NGN	17.0	17.0	
Specific <sup>1</sup> (km)			
NGN	64.1	64.1	
<sup>1</sup> Includes mains only, as growth governors have been assessed separately, similar to RIIO-1.			

- 3.29 As shown in Table 35 and 36, we have included NGN's proposed Connections workloads in-full. As discussed in the GD Annex and Chapter 2 of this document, we propose to include common domestic and FPNES connections volume drivers to handle any material variations in outturn workload volumes.

**Table 35: Connections - mains workloads (RIIO-GD2 total)**

Network	Driver Value		Summary of proposed workload adjustments
	Submitted	Modelled	
Domestic: all types (km)			We have allowed in full the proposed workloads for connections - mains.
NGN	130.8	130.8	
Non-domestic: all types (km)			
NGN	39.0	39.0	
FPNES (km)			
NGN	21.1	21.1	

**Table 36: Connections - services workloads (RIIO-GD2 total)**

Network	Driver Value		Summary of proposed workload adjustments
	Submitted	Modelled	
Domestic: all types (No.)			We have allowed in full the proposed workloads for connections - services.
NGN	26,043	26,043	
Non-domestic: all types (No.)			
NGN	2,608	2,608	
FPNES (No.)			
NGN	5,000	5,000	

## Non-regression Analysis

- 3.30 This section presents an overview of the non-regression analysis we undertook for NGN, including adjustments that we made to costs and workloads. The analysis covered the following categories: multiple occupancy buildings (MOBs), diversions, growth governors, streetworks, smart metering and land remediation. For each category, we present a summary of submitted and modelled costs and workload volumes. Modelled costs from our non-regression analysis are added to modelled costs from our regression analysis, which are then subject to our benchmarking efficiency challenge.
- 3.31 For some non-regression models, the costs assessed fall into more than one of the opex/capex/repex cost categories (ie MOBs, streetworks). We present each non-

regression model in turn, rather than seeking to categorise costs into opex/capex/replex. Where we present modelled costs in the tables below, these are pre-application of benchmarking and ongoing efficiency adjustments.

### Multiple occupancy buildings (MOBs)

**Table 37: MOBs interventions proposed gross costs and workloads (RIIO-GD2 total)**

Network	Costs (gross)		Workloads	
	Submitted (input)	Modelled (output)	Submitted (input)	Modelled (output)
	£m	£m	No.	No.
<b>MOBs Repex</b>				
NGN	2.8	2.2	227	227
<b>MOBs Maintenance<sup>1</sup></b>				
NGN	0.002	0.002	n/a	n/a
<b>MOBs Connections</b>				
NGN	0.071	0.071	95	95
<sup>1</sup> MOBs maintenance costs only capture repex maintenance costs. Maintenance services costs associated with MOBs are not included.				

### Further details on our proposed position

- 3.32 We have made a downward adjustment to the planned replacement category for NGN's submitted MOBs repex costs, as we do not think the submitted unit costs have been sufficiently justified. We used the average of Cadent's RIIO-GD2 unit costs for this activity to adjust NGN's unit costs. We used Cadent's submitted costs as a comparator, as they were considered the most reliable based on an assessment of historical and RIIO-GD2 submitted costs across all of the networks.

## Diversions

**Table 38: Diversions mains commissioned and associated services proposed costs and workloads (RIIO-GD2 total)**

Network	Costs		Workloads	
	Submitted Costs	Modelled Costs (output)	Submitted Costs	Modelled Costs (output)
<b>Diversions</b>				
	£m	£m	Km	km
NGN	28.8	13.0	65.1	24.8
<b>Services Diversions</b>				
	£m	£m	No.	No.
NGN	0.7	0.4	1,329	693

3.33 We have made a downward adjustment to NGN's submitted diversions workloads. The workloads NGN submitted in its Business Plan Data Template (BPDT) represented a significant annual increase between RIIO-GD1 and RIIO-GD2. However, this was inconsistent with the supporting commentary in the Business Plan. We adjusted the submitted workloads in line with the commentary in the Business Plan, which noted significantly lower run rates.

## Growth governors

**Table 39: Growth governors costs and workloads (RIIO-GD2 total)**

Network	Costs		Workloads	
	Submitted Costs	Modelled Costs (output)	Submitted Costs	Modelled Costs (output)
	£m	£m	No.	No.
NGN	4.8	5.3	77	77

### Further details on our proposed position

3.34 We excluded NGN's submitted cost and workload data for 2019/20 and 2020/21 from our unit cost benchmarking model because the workload values were less than one in these two years. We did not make any pre-modelling adjustments to the RIIO-GD2 cost or workload data.

3.35 The modelled cost increase is driven by the industry unit cost benchmark, which is higher than NGN's submitted unit cost for RIIO-GD2.

## Streetworks

**Table 40: Streetworks costs (RIIO-GD2 total)**

Network	Costs	
	Submitted	Modelled (output)
	£m	£m
NGN	10.8	9.2
Workload/volume data not used for cost assessment.		

### *Further details on our proposed position*

3.36 We updated NGN's submitted costs to include the productivity costs<sup>31</sup> that NGN had not included in the original Business Plan submission. We included these productivity costs in the model to ensure consistency with other GDNs.

3.37 We disallowed costs for fines and penalties, and reduced NGN's costs in line with their average costs in years 2016/17 to 2019/20.

## Smart metering

3.38 NGN did not forecast any expenditure associated with smart metering.

## Land remediation

**Table 41: Land remediation costs and workloads**

Network	Costs		Workloads	
	Submitted	Modelled	Submitted	Modelled
	£m	£m	No. of sites	No. of sites
NGN	3.4	3.4	300	300

### *Further details on our proposed position*

3.39 We made no adjustments to NGN's submitted forecast land remediation expenditure.

<sup>31</sup> Streetworks productivity and admin costs were submitted to Ofgem following a supplementary question. NGN's admin costs were already included in their baseline costs, but productivity costs were excluded.

## Technically assessed costs

3.40 This section presents an overview of the technical analysis undertaken for NGN, including discussion of the adjustments that we made to submitted costs. For each category, we present a summary of submitted and allowed costs. Refer to our Engineering Annex for discussion on how expert review was applied to capex and repex investments.

### Bespoke outputs – proposed assessment

3.41 We excluded £20.1m of forecast incremental expenditure associated with bespoke outputs from our regression and non-regression modelling, and instead assessed these under our technical assessment category. We have accepted £19.6m of expenditure associated with the Trans Pennine Rail Electrification and biomethane process improvements. Detail on our proposals for all bespoke outputs is provided in Chapter 2. Table 42 summarises our proposals on NGN's forecast bespoke outputs that we technically assessed.

**Table 42: Proposed assessment of NGN's submitted bespoke outputs**

Network	Submitted	Proposed (excludes OE)	Adjustments	Adjustment (%)
NGN	20.1	19.6	-0.5	-2%

### Repex proposals

3.42 We did not assess any of NGN's submitted repex costs under this category.

### Capex proposals

LTS (Local Transmission System), storage and entry

**Table 43: Technical assessment of LTS, storage and entry projects**

Network	Investment name	Costs		
		Submitted	Proposed <sup>1</sup>	Confidence
		£m	£m	
NGN	TransPennine <sup>2</sup>	19.47	19.47	Low
1 Proposed costs do not include ongoing efficiency.				
2 TransPennine was submitted as a bespoke output and is therefore also represented in Table 49.				

*Further details on our proposed position*

3.43 We are satisfied with the justification for the TransPennine investment, and while we recognise that there is some uncertainty of the scope of the project, we are satisfied that submitted costs are reasonable and we have therefore allowed them, albeit with a low confidence BPI classification. We propose to fund this investment through a common Capital Projects PCD, discussed further in chapter 2, Setting Outputs.

Other capex**Table 44: Technical assessment of other capex projects**

Network	Investment name	Costs		
		Submitted	Proposed <sup>1</sup>	Confidence
		£m	£m	
NGN	Overcrossings	10.05	8.25	High
1 Proposed costs do not include ongoing efficiency.				

*Further details on our proposed position*

3.44 We have applied £1.80m of cost reductions to the Overcrossings investment. This reduction relates to a general contingency for perceived flood risk, which we considered to be unjustified.

IT and Telecoms**Table 45: Allowed IT and Telecoms projects**

Network	Costs	
	Submitted	Proposed <sup>1</sup>
	£m	£m
NGN	44.3	37.5
1 Proposed costs do not include ongoing efficiency.		

*Further details on our proposed position*

3.45 The IT and Telecoms and systems operation costs (excluding cyber) were assessed as part of a separate review by our consultant Atkins. See our GD Annex and IT and Telecoms Assessment Annex for the details of the assessment approach.

3.46 NGN submitted £44.3m of costs for IT and Telecoms projects. Based on Atkins' review, all NGN's projects passed the quality threshold for securing an ex ante

allowance. We consider Atkins' review appropriate, and the corresponding costs were labelled as high confidence under the BPI. We have applied a £6.8m reduction to submitted costs based on expert review.

## Non totex cost items

### Non-controllable opex

3.47 We propose to make some minor adjustments to submitted non-controllable opex. We adjusted shrinkage costs based on updated cost of gas forecasts<sup>32</sup>, and adjusted the established pension deficit recovery plan payments based on the 2017 reasonableness review. Table 46 summarises our allowances for NGN's non-controllable opex.

**Table 46: RIIO-GD2 non-controllable opex (£m, 2018/19)**

	NGN
Total non-controllable opex	484.7
Shrinkage	23.7
Ofgem Licence	9.2
Network Rates	220.2
Established Pension Deficit Recovery Plan Payment	21.0
NTS Pension Recharge	37.2
Bad Debt	0.0
NTS Exit Costs	148.7
Xoserve	13.2
Other	11.5

<sup>32</sup> Based on BEIS 2019 Gas Price Assumptions.



## 4. Adjusting baseline allowances to allow for uncertainty

### Introduction

4.1 In this chapter we cover two main areas:

- Firstly, we set out the NGN-specific parameters for common GD sector UMs.
- Secondly, we set out our views on the bespoke outputs that NGN proposed in its Business Plan.

### Common UMs

4.2 We set out our consultation position for the NGN-specific parameters in the following tables.

4.3 We set out more detail on the common UMs in the GD Annex, including the broader consultation position and rationale.

#### Repex – Tier 2A iron mains volume driver

**Table 47: Consultation position - Tier 2A iron mains decommissioned Baseline Target Workloads (RIIO-GD2 total)**

NGN	2021/22	2022/23	2023/24	2024/25	2025/26	RIIO-GD2 Baseline Target Workloads
<i>Workload Activities</i>	<i>km</i>	<i>km</i>	<i>km</i>	<i>km</i>	<i>km</i>	<i>km</i>
<b>Tier 2A mains decommissioned</b>						
9" in diameter	0.1	0.1	0.1	0.1	0.1	<b>0.6</b>
10"-12" in diameter	1.6	1.6	1.6	1.6	1.6	<b>8.1</b>
>12"-17" in diameter	0.3	0.3	0.3	0.3	0.3	<b>1.5</b>
Total	2.0	2.0	2.0	2.0	2.0	<b>10.1</b>

**Table 48: Consultation position - Tier 2A iron mains and services Baseline Cost Allowance (RIIO-GD2 total, £m 2018/19)**

	2021/22	2022/23	2023/24	2024/25	2025/26	RIIO-GD2 Baseline Cost Allowance
<i>Baseline Cost Allowance</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
<b>Tier 2A mains and services Baseline Cost Allowance</b>						
NGN	0.8	0.8	0.8	0.8	0.8	<b>3.8</b>

**Common UMs consultation question**

NGNQ7. What are your views on the baseline values for the Tier 2A iron mains volume driver?

**Bespoke UM Proposals**

- 4.4 We invited companies to propose bespoke UMs with suitable justification in our SSMD. We have considered the extent the supporting information justifies the key criteria outlined in the BPG, including:
- materiality and likelihood of the uncertainty
  - how the risk is apportioned between consumers and the network company
  - the operation of the mechanism
  - how any drawbacks may be mitigated to deliver value for money and efficient delivery.
- 4.5 We also considered whether the uncertainty was regionally specific, or industry wide, to assess whether a common re-opener could be more appropriate. You can find the background and our assessment approach in our Core Document.
- 4.6 The table below summarises the bespoke UM proposals that WWU submitted and outlines our consultation position. For full details on the bespoke proposals, refer to WWU's Business Plan.

**Table 49: NGN's bespoke UM proposals**

UM name	Consultation position
<b>Bespoke uncertainty mechanisms we propose to reject</b>	
<b>Streetworks:</b> About one third of Local Authorities currently have a streetworks scheme (eg lane rental), all expected to rollout so could increase costs from c£2m to c£5m.	<b>Reject:</b> We propose to merge this proposal into a new common UM to address the uncertainty for future costs associated with new permit and lane rental schemes not yet in operation (see Chapter 3 of our GD Annex for totex and Chapter 4 of our GD Annex for the mechanism).
<b>Streetworks excavation disposal:</b> Streetworks Legislation around the safe disposal of hazardous waste encountered during streetworks could change. Early analysis shows costs could increase by between £0.5m and £4m per year.	<b>Reject:</b> We found insufficient evidence of the cost impacts and a lack of detail for how to implement NGN's proposed mechanism.
<b>Smart metering:</b> Allow for efficiently incurred costs as a result of any material spikes in costs and workload. Minimum threshold as 0.5% of Totex, c£1.25m per annum.	<b>Reject:</b> We propose to merge this proposal into a new common UM to address the uncertainty associated with the timing of the programme (see Chapter 3 of our GD Annex for totex and Chapter 4 of our GD Annex for the mechanism).
<b>Large load connections:</b> Potential material increase in demand associated with electricity peaking plant could increase costs from c£1m to several million.	<b>Reject:</b> We propose to merge this proposal into a new common UM. We consider that there is sufficient evidence the network company cannot manage the uncertainty within its baseline allowance. However, we consider the need for risk mitigation applies to all GDNs and we propose a common re-opener that addresses both large load connections and reinforcement. Refer to Chapter 4 of our GD Annex for our proposed New Large Loads re-opener.
<b>High speed rail:</b> If it goes ahead, NGN would have to move pipes with costs of c£30m	<b>Reject:</b> This proposal is superseded by a new common UM. We consider that this would be in the scope of our proposed new common Diversions re-opener (refer to Chapter 4 of our GD Annex).
<b>TransPennine Rail Electrification:</b> UIOLI proposed because the rail project is likely to require significant changes to the gas network along its route. The timing is unknown at this point but is likely in RIIO-GD2.	<b>Reject:</b> We propose to merge this proposal into a new common PCD with an alternative accountability and clawback mechanism. Refer to Chapter 2 of our GD Annex for our proposed Capital Projects PCD and the 'Common outputs' in this annex for NGN's project list.

**Bespoke UMs consultation question**

NGNQ8. Do you agree with our proposals on the bespoke UMs? If no, please outline why.

## 5. Innovation

5.1 Our SSMD and Core Document identify the criteria that we have used to assess Network Innovation Allowance (NIA) funding requests.<sup>33</sup> The Core Document also details our proposals for the RIIO-2 NIA Framework and the Strategic Innovation Fund.

### Network Innovation Allowance

5.2 We set out below our Draft Determinations on NGN's RIIO-2 NIA funding.

### Consultation position

Network Innovation Allowance	Company proposal	Consultation position
Level of NIA funding	£11.5m	£11.5m *Conditional on an improved industry-led reporting framework.

### Rationale for consultation position

5.3 NGN's Business Plan contained a range of NIA-related proposals. These focus on addressing consumer vulnerability, specifically on:

- Reducing the impact of both planned and unplanned gas interruptions.
- Reducing the challenges and inconvenience caused for vulnerable customers by physical works to maintain or repair the network.
- Developing with other specialist agencies innovative solutions beyond day-to-day activities for vulnerable customers, to address the challenges arising from cold homes and fuel poverty.

5.4 Further NGN proposals focused on the energy system transition and aim to:

- Develop the evidence base required to determine whether transition to full or blended hydrogen networks is a safe and cost-effective path towards achievement of net zero targets.
- Enable a 'future focused' network that facilitates more green gas resources and is more integrated with electricity networks.

<sup>33</sup> SSMD Core Document, paragraph 10.62; Core Document, Chapter 8

5.5 NGN's NIA proposals focus on initiatives that appear either high risk, or would not deliver benefits during the price control period. Based on this, we have reasonable confidence that projects that will be taken forward will require the NIA in order to progress. Over RIIO-2, it is for NGN to determine which projects it will undertake and, for each, it will need demonstrate why the project cannot be funded through baseline totex, why it needs to be funded via the NIA, and how it supports the energy system transition or addresses consumer vulnerability. This will be part of the RIIO-2 NIA governance arrangements.

5.6 Our assessment of NGN's Business Plan against the criteria from our SSMD and the Core Document in the table below.

**Table 50: Assessment of NGN's Business Plan against NIA criteria**

SSMD /Core NIA criteria	Ofgem view
Undertaking other innovation as BAU	<b>Satisfactorily meets the criterion including:</b> case studies of initiatives that will be taken forward as BAU, with evidence of innovation to deliver efficiencies through modernisation of processes, techniques and systems running the network and greater use of real time data, automation and robotics.
Application of best practices	<b>Satisfactorily meets the criterion including:</b> consideration of best practice in project management and use of best practice methodologies developed with other network companies.
Processes in place to rollout proven innovation and the evidence that this is already happening	<b>Satisfactorily meets the criterion including:</b> evidence of key learnings from RIIO-1 innovation and examples of rolled out projects.
Processes in place to monitor, report and track innovation spending and the evidence that this is already happening	<b>Does not satisfactorily meet the criteria:</b> consistent with our assessment of all NIA requests, we do not consider that NGN has demonstrated that it has tried and tested processes in place to monitor, report and track innovation spending and benefits.

5.7 The request for funding was also reasonable and proportionate, comparable to the level of innovation funding received in RIIO-1. In RIIO-1, NGN received 0.7% of base revenue as NIA funding, roughly equivalent to £2.5m per year. We accordingly propose to provide NGN with £11.5m NIA funding for RIIO-2.

5.8 As detailed in the Core Document, we propose that all NIA funding is conditional on the implementation by the start of RIIO-2 of an improved, industry-led reporting framework. If this condition is not satisfied, our proposal is that we will not award NIA funding for RIIO-2.

**Innovation consultation question**

NGNQ9. Do you agree with the level of proposed NIA funding for NGN? If not, please outline why.

## Appendix 1 Consultation questions

### RIIO-2 Draft Determinations – Northern Gas Networks

#### Common outputs consultation question

NGNQ1. What are your views on the values for the common output parameters we have set out in the NGN Annex?

#### Bespoke ODIs Consultation questions

NGNQ2. Do you agree with our proposals on the bespoke ODIs? If not, please outline why.

NGNQ3. What are your views on our proposal to accept the Job completion lead-time including re-instatement ODI? Do you have a view on what the percentage performance target(s) should be and how is it stretching?

#### Bespoke LO consultation question

NGNQ4. Do you agree with our proposals on the bespoke LOs? If not, please outline why.

#### CVP consultation questions

NGNQ5. Do you agree with our proposals on CVPs? If not, please outline why.

NGNQ6. Do you agree with our proposal to accept the CVP for Enhanced Repair for Gas Escapes?

#### Common UMs consultation question

NGNQ7. What are your views on the baseline values for the Tier 2A iron mains volume driver?

#### Bespoke UMs consultation question

NGNQ8. Do you agree with our proposals on the bespoke UMs? If no, please outline why.

#### Innovation consultation question

NGNQ9. Do you agree with the level of proposed NIA funding for NGN? If not, please outline why.



## Appendix 2 Proposed baseline totex allowances in detail

**Table 51: RIIO-GD2 proposed baseline totex allowance, NGN (£m, 2018/19)**

Cost activity	2021-22	2021-23	2023-44	2024-55	2025-66	RIIO-GD2 Total
Work Management	18.2	16.9	16.6	16.5	16.4	84.5
Emergency	11.2	10.9	10.7	10.4	10.2	53.5
Repair	16.2	15.7	15.2	14.7	14.2	76.0
Maintenance	17.0	17.7	17.7	16.4	17.0	85.9
Other Direct Activities	3.8	3.7	3.7	3.6	3.6	18.4
<b>Total Direct Opex</b>	<b>66.5</b>	<b>65.0</b>	<b>63.8</b>	<b>61.7</b>	<b>61.4</b>	<b>318.4</b>
Business Support	23.3	22.8	22.5	22.3	21.8	112.6
Training and Apprentices	3.9	3.6	3.5	3.5	3.4	18.0
<b>Total Indirect Opex</b>	<b>27.2</b>	<b>26.4</b>	<b>26.0</b>	<b>25.8</b>	<b>25.3</b>	<b>130.6</b>
LTS and Storage	11.3	18.5	21.5	16.4	15.1	82.8
Connections	8.2	8.3	8.4	8.5	6.2	39.5
Mains Reinforcement	4.4	4.4	4.4	4.5	4.3	21.9
Governors	1.6	1.6	1.6	1.6	1.6	8.0
Transport and Plant	4.3	5.4	4.3	3.7	2.0	19.7
Other Capex	19.3	17.8	15.3	15.3	15.4	83.2
<b>Total Capex</b>	<b>49.2</b>	<b>55.9</b>	<b>55.5</b>	<b>50.0</b>	<b>44.5</b>	<b>255.1</b>
<b>Total Repex</b>	<b>77.8</b>	<b>76.8</b>	<b>75.8</b>	<b>74.9</b>	<b>73.9</b>	<b>379.3</b>
<b>Totex</b>	<b>220.7</b>	<b>224.0</b>	<b>221.1</b>	<b>212.4</b>	<b>205.1</b>	<b>1,083.3</b>