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Tony Nixon
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3rd April 2020

Dear Thomas,

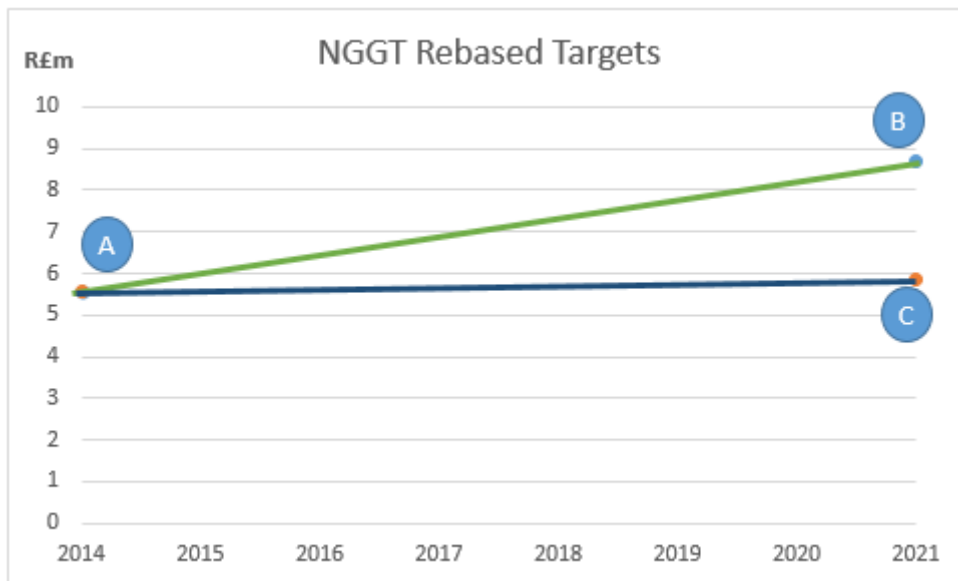
Re: Gas Transmission Network Output Measures Rebasing Consultation

This response is submitted by National Grid Gas plc. We operate and own the gas transmission assets in Great Britain and are referred to within the rebasing consultation as NGGT.

We support Ofgem's minded to position to approve our Rebased Targets for RIIO-T1. Nevertheless, we would like to raise the following points for clarification.

The NOMs Incentive Methodology published by Ofgem on the 6 December 2018 specified that symmetrical upper and lower materiality thresholds should be used when assessing compliance with the overall network target at the end of the price control period. As part of the publication of the NOMs Incentive Methodology no decision on the level of the materiality threshold for Gas Transmission was made following Ofgem's decision to delay until a better understanding of the degree of robustness of the data that would support the performance on NOMs outputs would be achieved. We believe following the rebasing exercise Ofgem should now be able to make this decision. Paragraph 1.10 of the consultation also mentions that our performance considering risk trading will be reviewed following the NOMs Incentive Mechanism. We would therefore welcome further conversation with Ofgem on the application of a symmetrical materiality threshold either side of the target for Gas Transmission and if and when a consultation on the NOMs Incentive Methodology is planned to agree said thresholds.

Figure 6 of the consultation is an illustration of the rebasing process for RIIO-T1. We do not think the graph correctly represent our target in comparison to the RIIO-T1 starting position. Our target set at the beginning of RIIO-T1 was to maintain risk at a broadly stable level. We therefore suggest replacing Figure 6 with the following graph using the monetised risk values provided as part of the rebasing process for RIIO-T1 starting position, RIIO-T1 end position with investment and RIIO-T1 end position without investments.



Step 1 – Starting Position of 2019 (Point A): Derive the monetised risk position at start of RIIO-GT1.
 Step 2 – End Position of 2021 without Interventions (Point B): Derive the monetised risk position without interventions at end of RIIO-GT1 by applying expected asset deterioration.
 Step 3 – End Position of 2021 with Interventions, this is the target our performance is measured against (Point C): Derive the monetised risk position with interventions at end of RIIO-GT1 by applying the impact of asset interventions required under RIIO-GT1 Final Proposals (RIIO-GT1 performance target).

In terms of the specific question raised in the consultation, please find our responses below.

1. Do you agree with our rebasing assessment methodology? (Section 3)

Yes, we agree with the methodology used by Ofgem to rebase our target for RIIO-T1. We would like to note for clarity that the total monetised risk value for NGGT does not include financial risk as described in section 2.9 of the NGGT NOMS rebasing overview report (attached and provided separately). For clarity we would recommend to add the following sentence to paragraph 1.9: the fixed costs of operating and maintaining the network are excluded from the reported monetised risk values.

2. Do you agree with our view that the Rebased Targets satisfy the Rebasing Principles? (Section 4)

Yes, we agree with Ofgem’s view that the Rebased Targets satisfy the Rebasing Principles.

3. Do you agree with our minded-to decision to approve NGGT’s Rebased Targets and modify NGGT’s licence in order to substitute them for the Original Targets? (Section 5)

Yes, we agree with Ofgem’s minded to position. For clarification, we would like to point out, that our Rebased Target is therefore a single monetised risk value (R£5.84m) and not individual monetised risk targets for each Primary Asset Class (PACs) as per the table detailed in the rebasing

consultation¹. We would therefore recommend including the single monetised risk value and words to this effect in the updated licence condition (see separate response to proposed licence modification). The modified licence condition should also state the price base of the monetised risk value, which is in a 2016/17 price base aligned with our NOMs methodology².

We hope you find this response helpful. If you would like to discuss any of the above, please do not hesitate to contact me.

Yours Sincerely



Tony Nixon
Head of Gas Transmission, Regulation

NGGT Rebasing Overview Report – Attached and provided separately



NGGT T1 Rebasing Overview Report Final v6.pdf

¹ As per consultation from the 6 March 2020, we are required to deliver a specified level of risk on our network at the end of the price control period (31 March 2021). The total network monetised risk (R£) values indicated by our Rebased Targets for the end of RIIO-T1 is R£5.84m. We are permitted to trade risk across asset categories in order to deliver its total risk target.

² Our NOMs methodology consultation closed in May 2018 and came into effect from 19 June 2018.

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3rd April 2020

Dear Thomas,

Re: Gas Act 1986, Section 23(2), Notice of statutory consultation on a proposal to modify Special Condition 7E of the gas transporter licence held by National Grid Gas plc.

This response is submitted by National Grid Gas plc. We operate and own the gas transmission assets in Great Britain.

We support Ofgem’s proposed licence modification to replace our current volume-based Network Replacement Outputs with its rebased monetised risk targets, as proposed in Ofgem’s Gas Transmission Network Output Measures Rebasing Consultation dated 6 March 2020. The proposed modification will substitute the Network Replacement Outputs with equivalent rebased monetised risk targets.

However, the suggested modification to Table 1 of Special Condition 7E of our licence does not make it clear that we are permitted to risk trade between Primary Asset Class (PACs) and that the total Rebased Target for the RIIO-T1 price control is R£5.84m, not the replacement priorities by PAC. Therefore, prior to implementing the proposed modification and in order to appropriately achieve the intent of the rebasing consultation, we would recommend including the total value of R£5.84m in 2016/17 price base into the table and including some wording in the licence condition in relation to the trading of risk across asset categories. Please see below the proposed table and suggested wording to be included in the licence modification aligned with the rebasing consultation.

Table 1: Network Replacement Outputs:

Primary Asset Categories (PACs)	Monetised risk	Risk Priority (RP)				Total MR at 31 March 2013
		RP1	RP2	RP3	RP4	
Entry Points	Risk £	79,107	13,951	1,558	47,767	142,383
Exit Points	Risk £	320,147	6,790	1,651	7,041	335,629
Compressor	Risk £	378,086	152,390	65,754	121,401	717,632
Pipeline	Risk £	562,672	568,666	383,245	2,756,804	4,271,387
Multijunction	Risk £	317,128	5,795	34,610	13,082	370,615
Total	Risk £	1,657,140	747,591	468,820	2,946,095	5,837,645

Proposed wording to be included in Special Condition 7E:

The Licensee is required to deliver a specified level of monetised risk on its transportation system by the end of the Price Control Period). The total monetised risk to be delivered by the Licensee during the Price Control Period is R£5.84m (in 2016/17 price base). Table 1 provides a breakdown of the R£5.84m target position. The Licensee is permitted to trade risk across asset categories in order to deliver this total risk target.

We hope you find this response helpful. If you would like to discuss any of the above, please do not hesitate to contact me.

Yours Sincerely

A handwritten signature in black ink that reads "A. J. Nixon". The signature is written in a cursive style with a long horizontal stroke at the end.

Tony Nixon
Head of Gas Transmission, Regulation