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| **SGN Final Determination** | |
| **FDQ Query** | | | |
| **Reference number** | | SGN\_FDQ\_033 | |
| **Document Name** | | RIIO-2 Final Determinations – SGN Annex | |
| **Topic/Activity:** | | BPI Calculation – SGN\_FDQ\_005 follow up | |
| **Question:** | | Follow up question to SGN\_FDQ\_006 following response from Ofgem.  The error to which we originally referred, is the failure to apply a consistent approach across all GDNs which should not be a matter of judgement or discretion for you. Failing that, please confirm for the avoidance of doubt that all GDNs have been assessed on a consistent and comparable basis, and given the low confidence in costs that you have found and reported for other GDNs, why similar penalties have not been applied?  In your answer can you please identify why you have chosen to disregard the guidance provided on multiple occasions that a high level of transparency was important and providing Ofgem with information they did not otherwise have access to would be considered favourably[[1]](#footnote-1) [[2]](#footnote-2) [[3]](#footnote-3). This objective was restated in the in the Sector Specific Decision Document[[4]](#footnote-4).  Given this direction and in the absence of more specific guidance from Ofgem, we decided that for all projects or programmes with an investment value of greater than £0.5m would be submitted to Ofgem with an accompanying CBA and justification to demonstrate a high level of transparency an approach that was clearly signalled in our first draft business plan submission in July 2019[[5]](#footnote-5).  It was only on the 20th of September 2019 when the investment threshold of £2m for assets health investment covered by the NARMs methodology or £5m for asset health investments outside of the NARMs methodology was provided[[6]](#footnote-6).  In an earlier workshop on the topic in Sept 2019[[7]](#footnote-7) the threshold was raised and in response to a question by SGN, Ofgem stated no clear preference between multiple EJPs disaggregated to investment levels or a higher-level CBA with greater assessment of options[[8]](#footnote-8). In the subsequent investment pack[[9]](#footnote-9) the point was not expanded upon.  Had we responded at this late stage to provide less information we would have been exposed to criticism by the RIIO Challenge Group and by our CEG. We therefore held to the guidance that transparency would be considered favourably.  If this is not an error, can you explain why this is should not be considered an example of SGN being penalised for providing greater transparency contrary to Ofgem guidance. | |
| **Confidential** | | No | |
| **FDQ raised by** | | SGN | |
| **Date Sent** | | 11/01/2021 | |
| **Ofgem Response** | | * As set out in the FD Core Document, we have applied a Stage 3 penalty to lower confidence costs removed by Ofgem from Business Plans, on the basis that the submitted cost figures were poorly justified by companies. * As we set out in the EJP Reviews Annex at FD, we do not think SGN demonstrated that submitted costs for the Campbelltown Ambient Vaporiser project were justified, and in our view had been developed without adequate consideration of other viable options. Consequently, we do not think submitted costs are justified or efficient, and hence we have disallowed them with lower confidence. * We have assessed all networks’ projects with a corresponding EJP on this same basis. Where we have disallowed costs, in part or in full, with lower confidence, we have applied a BPI penalty. | |
| **Date original question was Sent** | | 11/12/2020 | |
| **Original Question SGN\_FDQ\_005** | | There is an error in the assignment of Atmospheric Vaporisers to a penalty in Table 69. The text that sets out the reason is:  *“We have decided to classify this project as lower confidence and disallow submitted costs due to an insufficient needs case, as set out in Table 50. SGN disagreed with our Drat Determinations proposal to disallow this project, but we have not received substantive evidence to justify changing our approach.”*  The value of the SIU capex (replaced atmospheric vaporisers) is below the £2m minimum threshold established by Ofgem late in the business plan submission process.  It is an error that networks should be subject to a business plan incentive penalty for having provided more information than required by Ofgem.  Can Ofgem confirm this is an error and their intention is not to penalise network companies for providing more information than otherwise required as set out in the business plan guidance?  If Ofgem disagree that this is an error, can Ofgem set out   1. the basis of this assessment that the costs are considered low confidence as requested in our draft determination response (pg175)? 2. how their decision to penalise networks that have provided more information and greater transparency aligns with the business plan guidance? | |
| **Ofgem Response to SGN\_FDQ\_005** | | We do not agree that this is an error. We note SGN’s view but the GD annex sets out Ofgem’s position on this for Final Determinations. | |
| **Date of Ofgem Response** | | 29/12/2020 | |

1. Ofgem workshop, RIIO-2 Business Plan Incentive Workshop, 18th June 2019. [↑](#footnote-ref-1)
2. Ofgem workshop, RIIO-2 outputs, totex and business plan incentives workshop, 26th September 2018. [↑](#footnote-ref-2)
3. RIIO-2 Sector Specific methodology 18 Dec 2018. 9.10 *“We want companies to provide us with high quality information in their Business Plan. We may reward companies if they provide us with information that is not available to us, that helps us set a more accurate control that delivers greater benefits than would otherwise be the case. If companies do not provide us with the information that we ask for, or provide us unambitious, poor quality information, then financial penalties may be appropriate.”*  [↑](#footnote-ref-3)
4. RIIO-2 Sector Specific methodology – Core Document 24th May 2019.11.9. *“The incentive would make rewards available to companies if their plan represented genuine value for money and provided information that helps us to set better price controls. Inefficient, low quality plans would be subject to a financial penalty.“* [↑](#footnote-ref-4)
5. SGN Draft Business plan, 1st July 2019, pg 13 [↑](#footnote-ref-5)
6. RIIO-GD2 Investment Decision Pack Guidance, 20th September 2019, pg 7 [↑](#footnote-ref-6)
7. CBA and EJP Workshop – RIIO GD2 Price Control, 6th Sept 2019, presentation to working group [↑](#footnote-ref-7)
8. Ofgem working group, GD2 Asset Management WG2 (previously CBA/NARM/Repex WG), 7th August 2019 [↑](#footnote-ref-8)
9. RIIO-GD2 Investment Decision Pack Guidance, 20th September 2019 [↑](#footnote-ref-9)