

11 January 2016

Mr M Watson  
Head of Gas Distribution  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Dear Mick

**Consultation on a potential RIIO-T1 and GD1 mid-period review**

Thank you for the opportunity to comment on the above consultation.

In summary, supported by the continual feedback we receive from customers and stakeholders, we agree with the overall conclusion of your consultation. There are no material issues for RIIO-GD1 that necessitate a mid-period review (MPR) and the outputs set are working well to drive the right behaviours within gas distribution network operators (GDNs).

The Appendix to this letter provides answers to the specific questions asked in relation to gas distribution.

If you wish to discuss any aspect of our response, please don't hesitate to contact me.

Yours sincerely



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**Regulation Director**

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## Appendix

### ***Question 1: Do you have any views on the additional clarity we have provided on the RIIO-T1 and GD1 MPR scope?***

We are in agreement with the additional clarity provided in relation to the scope of the mid-period review for RIIO-GD1. In particular, we agree that the scope should, as previously stated, be limited to changes in outputs driven by changes in government policy and the needs of consumers and network users. Any movement away from this would introduce further regulatory risk into network price controls.

### ***Question 2: Do you consider the issues we have identified for RIIO-T1 and GD1 in this consultation fall within this scope?***

The primary issues identified for RIIO-GD1 are the following cross-sector issues:

- the treatment of late or non-delivery of outputs in some areas; and
- the materiality of innovation tax relief.

In our view, neither of these issues fall within the scope of the mid-period review as they do not involve changes to the outputs set for RIIO-GD1. As a result, the need for further clarity in relation to these issues should be dealt with outside of a mid-period review.

### ***Question 3: Are there any other issues within the defined scope that we have not included when assessing the need for an MPR for RIIO-T1 and GD1?***

We do not believe there are any other issues within the defined scope that need to be taken into account when assessing the need for an MPR.

### ***Question 17: Based on our current assessment we have not identified any material issues for RIIO-GD1 which we think would require further examination through an MPR. Do you agree with this assessment?***

As indicated in our covering letter, we believe the outputs set for RIIO-GD1 are working well to drive the right behaviours within GDNs. As a result, we are in agreement with this assessment.

We engage with thousands of customers and stakeholders every year through a raft of day to day engagement activities in order to ensure that we continue to understand and respond to their changing needs. Some of examples of the work we have recently carried out are:

- development of a stakeholder website to provide a vehicle for open consultation;
- a workshop with over 150 colleagues from the third sector;
- one to one meetings with specific stakeholder like Citizens Advice and Large Shippers;
- participation in industry groups (we chair the YHAUC and Energy Innovation Centre groups);
- detailed interviews with vulnerable and transient customers;
- focussed engagement on the impact of our works on microbusinesses; and
- working with a highly regarded independent research company in 2015 we:
  - conducted 6 deliberative focus groups (2 sessions one educating another taking feedback) with 61 domestic customers and 21 in-depth stakeholder interviews including MPs, LAs, Parish Councils, Businesses; and
  - we held 6 deliberative focus groups with 25 domestic customers to gauge which of the 51 output areas were of most interest to them and a wider quantitative survey of 800

customers and wider stakeholders to judge which if any of the targets they would like to be reviewed.

In addition to this continual flow of feedback we also verify our stakeholder priorities annually. Over the past year our engagement has confirmed that we have 5 key shared priorities with our stakeholders and we continue to work with them on the detail of what this means and how it influences our plans. The 5 key shared priorities are:

1. Delivering a reliable and safe service, whilst mitigating the impact of our works.
2. Putting customers at the heart of what we do to deliver an effortless experience.
3. Involving communities and being socially responsible.
4. Keeping costs down.
5. Gearing up for the future.

A strong message is that keeping costs down is a key priority and therefore balancing investment with increased deliverables \ outputs is very important.

Through all our engagement we have received valuable feedback around existing programmes and in response have implemented a rolling programme of improvements. However, none of the feedback received demonstrated a strong appetite from our stakeholders for reviewing existing outputs or identified any significant new output areas that need to be introduced.

***Question 18: Do you agree with our current assessment that there is no need to review the risk reduction output associated with the iron mains risk reduction programme, as part of an MPR?***

Given the robust evidence already provided by the GDNs in relation to this issue and the HSE's decision not to change their policy on PSR we are in agreement that there is no need to review the risk reduction output.

***Question 19: Do you agree with our current assessment that we do not need to review the asset health and risk secondary deliverable as part of an MPR?***

Given the ongoing work in relation to the methodology for Network Output Measures, we agree that this issue should not be taken forward as part of a MPR.

***Question 20: Do you agree that we should clarify some areas where it isn't clear how late or non-delivery will be treated? If so, which areas do you consider would benefit from such clarification?***

We agree that clarity should be provided in relation to the treatment of late or non-delivery of certain outputs. However, as indicated above, we do not believe this falls within the scope of the MPR as it does not involve changes in outputs driven by changes in government policy and the needs of consumers and network users. As a result, further clarity in relation to this issue should be dealt with outside a mid-period review.

**Question 21: How material do you consider innovation tax relief has been and is likely to be for the network companies? Do you consider this is an issue that we need to pursue as part of any MPR? We request that the network companies provide estimates of the benefits accrued so far due to this tax relief as part of their responses.**

From an NGN perspective, during the RIIO-GD1 period we have benefitted from innovation tax relief of £18k. As a result, we do not consider this to be an issue which should be pursued as part of any MPR. In addition, as indicated above, we do not believe this issue falls within the scope of the mid-period review as it does not involve changes to the outputs set for RIIO-GD1.