British Gas
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Dear Rupika,

Consultation on our minded-to position on the review of gas transporter agency (Xoserve) costs in RIIO GD1 and T1

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group, excluding Centrica Storage.

The resetting of gas transporters' price control allowances to reflect the 'user pays' model is a necessary step. However, we believe a number of actions are required to ensure that customers' interests are protected in this process. In particular:

- **An efficiency assessment of the forecast costs should be carried out.**
- **Customers should not be required to 'double-fund' service delivery.**
- **The publication of detailed analysis is required to allow industry stakeholders should then be given the opportunity to fully assess and comment on the proposals.**

An efficiency assessment of the forecast costs should be carried out:
We disagree with the presentation of the £53m reduction in costs over the T1/GD1 price controls as efficiency savings[1]. As described in Annex 2 of the consultation, the proposed revised allowances for 2017/18-20/21 are derived from the cost forecasts in the 2014/15 Regulatory Reporting Pack (RRP) because of concerns about the robustness of the cost forecasts included in the January 2016 Cost Assessment Submission:

> We have two main sources of information on Xoserve's costs: (1) the RRP, most recently submitted to Ofgem in July 2015; and (2) the CAT, submitted to Ofgem in January 2016...We have not received an explanation of the differences. We also note that the total costs for Xoserve in the last four years of RIIO GD1 and T1 submitted in the July 2015 RRP are broadly the same as the previous years. **Accordingly, we have decided to use forecast costs from the RRP for this minded to decision**.[2] [Emphasis added]

[1] Page 4 of the consultation document.
[2] Page 8 of the consultation document.

We note the total amount of funding customers are expected to provide over the T1/GD1 periods is £65m greater than total of the incurred and forecast costs presented in the January 2016 Cost Assessment Submission. This is shown in Table 1. Simply replacing one set of costs forecasts with another set of cost forecasts does not automatically lead to efficiency savings for customers. Using the costs forecasts in the 2014/15 RRP without an efficiency assessment of the expenditure incurred during the first half of the T1/GD1 price controls risks embedding any inefficiencies for the remainder of the price controls. As such, we recommend an efficiency assessment of the forecast costs is conducted.

Table 1 - Allowances and cost forecasts for 2013/14-20/21 (£m 14/15 prices)

<table>
<tr><th></th><th>2014</th><th>2015</th><th>2016</th><th>2017</th><th>2018</th><th>2019</th><th>2020</th><th>2021</th><th>TOTAL</th></tr>
<tr><td>Initial T1/GD1 allowances[3]</td><td>76.6</td><td>82.5</td><td>79.9</td><td>84.9</td><td>70.1</td><td>66.7</td><td>69.4</td><td>69.9</td><td>600.0</td></tr>
<tr><td>Incurred and forecast costs in Jan '16 Cost Assessment Submission[4]</td><td>49.1</td><td>53.5</td><td>65.9</td><td>61.3</td><td>59.0</td><td>66.3</td><td>57.9</td><td>57.6</td><td>470.7</td></tr>
<tr><td>Revised allowances (2013/14-16/17)[5]</td><td>76.5</td><td>82.4</td><td>79.9</td><td>84.9</td><td></td><td></td><td></td><td></td><td rowspan="2">536.0</td></tr>
<tr><td>Total forecast CDSP costs (2017/18-20/21)[6]</td><td></td><td></td><td></td><td></td><td>62.0</td><td>54.9</td><td>50.9</td><td>44.5</td></tr>
</table>

Customers should not be required to 'double-fund' service delivery:

We have concerns that customers may be required to 'double-fund' the delivery of some central data services, either because of deferred expenditure already funded that may be included in the cost forecasts or because of the overlap of service delivery across multiple service providers. At Final Proposals, it was made clear that allowances would be adjusted to take account of differences in costs and the new funding arrangements:

> Following our decision on changing the way Xoserve is funded an implementation project has begun. It is likely to conclude in late 2013 and therefore any necessary changes to NGGT‟s revenues will be from April 2015 at the earliest. We have provided an ex ante allowance to NGGT based on the current funding arrangements. When a final decision on new funding arrangements is reached we will then conduct a review of allowances and propose any necessary adjustments. The adjustment will take account of any differences in the costs incurred by NGGT and the ex ante allowances provided, as well as resetting allowances going forward to ensure they reflect new funding arrangements.[7]

[3] Data taken from Table 1 in the consultation.
[4] Excludes costs associated with 'user pays' services.
[5] Revised allowances for 2013/14-16/17 exclude proposed FGO implementation costs. Total includes total forecast CDSP costs for 2017/18-2020/21.
[6] Data taken from Table 3 in the consultation. Total includes revised allowances but excludes proposed FGO implementation costs.
[7] RIIO-T1: Final Proposals for National Grid Electricity Transmission and National Grid Gas Cost assessment and uncertainty paragraph 3.43 (https://www.ofgem.gov.uk/sites/default/files/docs/2012/12/3_riiot1_fp_uncertainty_dec12.pdf)

As shown in Table 2, allowances provided exceeded incurred expenditure by 56% in the first year of the T1/GD1 price controls and by 41% over the first four years. Insufficient detail has been included in the consultation to enable stakeholders to understand why this has occured. It is plausible these significant differences can, in part, be explained by the deferment of expenditure beyond 2106/17. The costs forecasts in the 2014/15 RRP show when expenditure is expected to be incurred but not when customers are required to provide funding. It would be inappropriate for any expenditure for which funding has already been provided but deferred beyond 2016/17 to be included in the total forecast CDSP costs for 2017/18-20/21 because customers would be required to 'double-fund' that expenditure. Any expenditure that meets these criteria should be identified and disallowed.

Table 2 - Customer funding in excess of incurred costs

	2014	2015	2016	2017	Total
£m (14/15 prices)	27.5	29.0	14.0	23.6	94.1
(%)	56.0%	54.2%	21.3%	38.5%	40.9%

Similarly, we have concerns that customers may be required to fund multiple service providers for the delivery of a specific service even though only one will delivers the service. For example, we are aware of the uncertainty relating to the separation of services delivered by the CDSP and the Data Communications Company (DCC) once the Central Registrations Service is implemented. We believe the provision of customer funding to a service provider for the delivery of a specific service once the responsibility for the delivery of that specific service has been transferred to another provider is inappropriate. We seek confirmation this scenario has been taken into account and the risk mitigated when the revised allowances for 2017/18-20/21 were calculated.

The publication of detailed analysis is required to allow industry stakeholders should then be given the opportunity to fully assess and comment on the proposals:
More information is required in the consultation to enable stakeholders to fully assess the appropriateness of the proposals. For example, a breakdown of the revised allowances by the expenditure categories and assumed profile of investment expenditure is required. Also, it is stated that efficiency savings have been identified without explanation of how those efficiencies have been estimated or what they relate to. This is likely to limit the level and effectiveness of engagement from all types of industry stakeholders. We recommend the detailed analysis is published and industry stakeholders are given the opportunity to formally respond before a final decision is made.

We hope you find these comments helpful. Please do not hesitate to contact me if you have any questions.

Yours sincerely

Andy Manning
Head of Network Regulation, Forecasting and Settlements