

James Turnley
RIIO Teams
Ofgem
9 Millbank,
London SW1P 3GE.

Regulatory Affairs
Ground Floor, Lakeside West
30 The Causeway
Staines
Middlesex
TW18 3BY

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Dear James,

Consultation on mid-period review parallel work

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.

Answers to the consultation questions are below. 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

Answers to consultation questions

Chapter 2

When should we consider an output delivered?:

Do you think we are right to focus on the output purpose where there is ambiguity to decide when an output is delivered? If not, please explain why and provide evidence.

Where there is ambiguity, we agree that Ofgem should focus on the output purpose to decide when an output is delivered. However, where an output is unambiguous, network operators should be held to account for delivery of those specific outputs. To do otherwise could undermine the RIIO framework.

In future, when outputs are being defined, it is important any ambiguity is avoided. Outputs should also be designed to focus on consumer outcomes in a way that allows and encourages network operators to deliver at best value to consumers.

When should we consider an output delivered?:

What do you think about our alternative options including focusing on the detailed output specification or output declassification? Will they achieve our purpose? Can you think of any other alternatives?

Where there is ambiguity we agree that Ofgem should focus on the output purpose to decide when an output is delivered. However where an output is unambiguous, network operators should be held to account for delivery of those specific outputs. To do otherwise could undermine the RIIO framework.

National Grid Gas Transmission's compressors output:

Do you agree with our proposed approach to hold NGGT to account if it complies with the IED requirements? If not, please explain why and provide evidence.

In the case of NGGT's IED requirements, it appears that the output requirements were unambiguous in Initial Proposals and refer to both the purpose and to the asset. However, in Final Proposals, the output refers only to the purpose, namely complying with the IED. In this instance ambiguity exists, and so the proposed approach seems appropriate. Network operators should always be encouraged to pursue innovative or more efficient solutions, provided that it can be demonstrated that such solutions deliver the greatest value to consumers. In order to quantitatively demonstrate that an alternative approach has delivered the output at greatest value to consumers, any cost/benefit analysis will need to include the cost of the share of Totex savings which consumers will have to fund as well as any additional future costs, over and above the base case output.

SP Transmission's voltage control:

Do you agree with our approach to consider the output delivered if SPT manages voltage across its network efficiently? If not, please explain why and provide evidence.

We do not agree with approach. In the case of SPT's voltage control output, there is no ambiguity in the specified output in the licence. The £15.4m allowance is clearly and

explicitly related to voltage control issues related to the possible closure of Hunterston Power Station. The closure of Hunterston has been delayed and therefore the output is no longer required and the associated funding should be returned in full to consumers.

It is not appropriate to substitute the specified voltage control output associated with Hunterston with the unrelated voltage control issues caused by the closure of Longannet. The Longannet closure is simply an unforeseen event which SPT should bear the risk for. There are undoubtedly other unforeseen changes in circumstances since RIIO T1 allowances and outputs were set which contribute to SPT's 25% underspend of Totex to date in RIIO T1.

Chapter 3:

Western HVDC:

Do you agree with our proposed approach to delay allowances due to the delivery of the Western HVDC? If not, please explain why and provide evidence.

We agree that the transmission operators should not receive timing benefits. More broadly, Ofgem should consider, in instances such as this, whether it is appropriate for transmission operators to be exposed to the wider risks associated with late delivery (such as constraint costs incurred after the delivery date), rather than only the investment timing risk .

London medium pressure:

Do you agree that we should accept National Grid Gas Distribution's (NGGD) proposal to return £53.9 million? If not, please explain why and provide evidence.

Networks should not be able to buy themselves out of delivering outputs without clear evidence that this is in the consumers' best interests. We consider it is likely that, due to the challenges outlined in the consultation, the unit cost associated with this work would be greater than average. We also consider that, if NGGD is no longer able to deliver this output in RIIO GD1, then non-delivery penalties should apply. Any early settlement should reflect both of these, which we believe is likely to result in more money being returned to customers.

If the output requirement remains, NGGD should be held fully to account for delivery. The deferral of investment to future price controls while resetting targets for the current price control weakens the incentive on network operators to efficiently manage agreed expenditure allowances. In order to protect customers, if a refund is accepted and allowances are requested for the same activities in future price controls, future expenditure allowances should be capped at the value of the refund accepted during the RIIO-GD1 price control.

Furthermore, as stated in the consultation, the majority of the work will not be delivered during the RIIO-GD1 price control because of a "...combination of engineering and stakeholder challenges...". This suggests that the unit cost associated with this work is likely to be greater than average unit costs and therefore a pro-rata basis to calculating how much to return is inadequate. Ofgem should perform an assessment of how much this portion of the original output would cost to deliver and any return of funds should be based on that assessment rather than on a pro-rata approach. If such an assessment is not possible then we suggest the full actual level of unspent allowances associated with this overall output should be returned.

Connections volume driver:

Do you agree with our proposed approach not to amend SPT's connections volume driver? If not, please explain why and provide evidence.

We agree. Any of the alternative approaches weakens the incentive on network operators to efficiently manage expenditure allowances, especially in light of the fact that SPT expects to under-spend its baseline allowance.

NTS exit capacity incentive:

Do you agree that we should not make changes to the NTS exit capacity incentive? If not, please explain why and provide evidence.

We welcome Ofgem's acknowledgement that the scheme has weaknesses and has in the first three years of RIIO GD1 cost consumers £15m more than it might have in the absence of the scheme. As such, we expect this mechanism to be thoroughly reviewed ahead of the next price control.

Safety repair risk:

Do you agree with our proposed approach to continue to monitor this output for the remainder of RIIO-GD1 and require companies to justify where they fail to meet this output? If not, please explain why and provide evidence.

We agree with the proposed approach set out in the Executive Summary, which sets out that no changes are required and Ofgem will continue to expect companies to meet these outputs.

Reliability loss of supply:

Do you agree that we should change the targets for the loss of supply output for the remainder of RIIO-GD1, continue to monitor performance and require companies to justify where they fail to meet this output? If not, please explain why and provide evidence.

We agree with the proposed approach set out in the Executive Summary, which sets out that no changes are required and Ofgem will continue to expect companies to meet these outputs. We note that this approach appears inconsistent with the detailed approach presented later in the consultation

SPT's Trigger mechanism:

Do you agree with our proposed approach to this trigger mechanism? If not, please explain why and provide evidence.

We agree with the proposed approach.

Electricity transmission other outputs:

Do you agree with our approach to these outputs?

We agree with the proposed approach.

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