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Dear James,

Response to your public consultation on mid period review parallel work

I am writing in response to your recent public consultation on mid period review parallel work. In general we support Ofgem's minded to position and provide the following responses to the questions asked in the consultation on those aspects that are applicable to National Grid Gas Distribution Limited (NGGDL).

Chapter 1

Question: Do you agree with the scope of the MPR parallel work?

We agree with the scope of the MPR parallel work as it responds to the concerns of stakeholders that were made during the MPR consultation that are out of scope of the RIIO MPR criteria.

We recognise the need to review output targets to ensure that they are appropriate and that they are providing value for customers. We also believe that there is value in reviewing the powers available to Ofgem to ensure such targets are delivered. Such powers should be considered in the context of a principles based regulatory approach that focuses on value to customers.

Chapter 2

Question: 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.

We agree that output purpose is fundamental. This is required to ensure that customers are protected and that proportionate assessment of delivery is made. Account should also be taken on changing circumstances and a network's ability to adapt to external developments. Targets are not ends in themselves; they exist to ensure appropriate customer service therefore the focus should be on customer outcomes with the target as a measure that was developed at a point in time to inform delivery and performance.

Question: 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?

It is not clear how customers would benefit from detailed output specification by Ofgem or indeed how Ofgem would determine what level of output was appropriate to set at a time of price control

negotiations. Prescribing a highly detailed specification that would remain both relevant and appropriate over a price control period is problematic. Were such an approach taken it is possible that divergence between customer needs and RIIO targets would undermine confidence in the regulatory framework.

The reason for secondary measures was that Ofgem considered they provided a guide in respect of longer term company performance without their being hard targets. This avoided the risks and costs for Ofgem and networks associated with micro-management for extended periods such as RIIO GD/T1.

Chapter 3 **London medium pressure**

Question: 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.

The London Medium Pressure replacement work remains a value positive programme. We remain committed to deliver the benefits for customers as soon as we can, given access constraints in London – but for now we are rightly returning money to customers for the work that will not be completed within GD1.

NTS exit capacity incentive

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

We agree that no changes should be made to the incentive. The change to GDN booking of NTS Exit required GDNs be incentivised to minimise their use of capacity given that costs will ultimately be paid by customers. This has resulted in lower GDN bookings and so the release of capacity which has suppressed investment in the NTS – and not just reinforcement investment – e.g. fewer compressors now needed to comply with tightened emissions requirements because more are being removed or derogated to work only on an infrequent basis. Capacity has also been made available for non GDN connected NTS customers. Rather than looking at short-term incentive performance, regard should be given to the long term benefits accruing through avoided and potential expensive NTS reinforcement investment.

Safety repair risk

Question: 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 that it should be monitored. Repair risk is more of an operational performance measure, not directly a safety measure. Moreover, GDNs use different measurement systems, which frustrate comparisons. The targets drive different operational performance levels across GDNs having been set on a particular year's performance. We believe there is value in reviewing this output such that more meaningful and consistent measurement can be achieved for GDNs for GD2.

In addition, this output can be materially impacted by weather / number of escapes reported and other factors that may be outside of GDNs control. Managing to this non-safety target can drive adverse (unintended consequences) of other safety work and drive additional costs that may be considered not to be in best interest of customers.

Reliability loss of supply

Question: 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.

It is appropriate that the current targets are revised for those targets where there are identified errors. For those targets within the reliability loss of supply outputs where there is not a known error we do not see it appropriate to change the target.

NGGDL targets have been impacted by identified errors in respect of multi occupancy buildings (MOBs), which in particular impacts the London network (in London 50% of premises are flats, a much higher proportion than elsewhere in the UK). At the time of the price control submission NGGDL indicated that an increase in MOB related workload was anticipated and Ofgem accepted this to the extent that additional funds were allowed. However, the corresponding interruptions targets were erroneously not changed. This has led to a miss-match between work and targets.

MOBs when interrupted may require major engineering works to restore supply as pipes may have to be replaced and this can require new routes through or up the outside of an existing building. This work can be highly disruptive to residents and will require us to obtain consent from multiple parties (each tenant, landlords of different flats in a block, building freeholder, management company, local authority including obtaining planning permission) before work can start on site. As a result circumstances beyond our control can lead to delays lasting weeks or months before we are able to start the engineering work required to restore supply. Given this situation we believe that MOBs should not be part of the main output for any new targets, but should be measured separately with annual explanation on the trends and the actions being taken to improving the customer experience.

We would advocate the need to provide explanations with evidence of our performance in this area as we seek to deliver continued improvement in customer experience of interruptions.

Maintaining operational performance

Question: Do you agree with our proposed approach to make no changes to this output for the remainder of RIIO-GD1, to continue monitoring this output and to require companies to justify where they fail to meet this output? If not, please explain why and provide evidence.

We agree with Ofgem's proposed approach. Operational performance measures are intended to encourage good stewardship of a network and provide leading indicators over future investment / maintenance requirements. Indeed as a monitoring measure Ofgem anticipated over and under delivery in these measures and the need for explanations to be provided.

Yours sincerely,

By Email

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