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Dear James

## **Consultation on Mid Period Review Parallel Work (NGET)**

NGET welcomes the opportunity to respond to Ofgem's proposals set out in the Parallel Work consultation. This response is on behalf of National Grid Electricity Transmission plc. (NGET) and is not confidential – we are happy for it to be published on Ofgem's website.

### Summary

We welcome the proposals outlined within the consultation. The development of an output accountability regime is appropriate if it reflects the overall RIIO framework. We agree that Ofgem is right to view output delivery in the context of the purpose of the output /outcome and the benefits it delivers to customers. We consider the adjustment of allowances for the Western HVDC link to remove the timing benefit of late delivery of the project is an appropriate way to protect customers.

### Output Accountability - When should Ofgem consider an output delivered?

We welcome additional clarity as to what is classified as an output. The RIIO deal is designed to encourage innovation and to deliver outcomes in the most consumer conscious way. In some areas NGET has delivered output solutions that are different to the originally envisaged output (e.g. asset refurbishment instead of replacement) as we have evidence that demonstrates that this is in line with consumers' interests. Overly prescriptive output descriptions have the potential to hardwire delivery of specific solutions; possibly at the expense of innovative, consumer focused solutions.

In our view Ofgem is right to focus on the purpose of the output / outcome and the benefits delivered to consumers, because this gives the maximum scope for introducing innovation or for responding to changes in circumstances and thereby benefiting customers. The onus should be on the network licensee to justify the decisions it has made.

### Price Control Adjustments - Western Link

*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. Do you have any views on how we should delay allowances?*

In principle, yes, we agree with philosophy behind Ofgem's proposals: networks should not benefit from the late delivery of an output (where late delivery is not in consumers' interests) through the

timing difference between allowances and expenditure. There are many different ways in which such an adjustment could be applied. The objective of removing the timing benefit of delayed delivery is best achieved by adjusting the allowance profile to reflect the actual extended spend profile. This would remove any timing gain but leave the network incentivised on the cost of delivery. A simple delay to the allowances may not achieve the result Ofgem seeks due to the difference in spend and allowance profiles.

The current allowance profile is included within the PCFM as part of the Baseline and Strategic Wider Works outputs values per Special Condition 6I. As a mechanism to change the profile is not currently included in the licence, we propose the approach needed to incorporate any allowance adjustment would be to update the licence condition and associated PCFM inputs to reflect the changes.

We have kept Ofgem informed regarding the WHVDC project progress via the RRP and bilateral communications. We will continue to do this and will provide Ofgem with a report as proposed describing the problems encountered by the project and how we prudently and efficiently responded to these within three months of project commissioning.

*Do you have any view on how we should treat payments and in-kind benefits from suppliers paid to compensate for the delay? Please explain and provide evidence.*

Liquidated Damages (LDs), insurances, and other such mechanisms are used to incentivise contractor performance and provide compensation in situations where this does not happen. They reflect an agreed level of compensation for late delivery reflecting an estimate of the costs that contractor's delay will impose on the client (the network owner). LDs and insurances are optional and incur a cost premium and which is funded jointly by the network and its customers through the Totex Incentive Mechanism (TIM). Where these in-kind benefits are triggered, then they should be treated as 'negative Totex' and shared through TIM. As the consultation notes, the value of these payments may offset higher costs incurred by the network, which are also shared with consumers through TIM. This approach also follows the previously applied approach of sharing legal damages (and costs) with consumers and it is consistent with RIIO principles that costs and benefits are shared.

We agree with Ofgem that passing 100 percent of any benefit payments directly through to consumers removes the incentive for a network to negotiate in-kind benefits with its contractors and suppliers.

In 3.32 Ofgem suggests that companies should be exposed to passing through all payments which do not offset 'project costs'. This would be inconsistent with RIIO principles which involve customers and networks sharing risk and benefits. It would introduce asymmetry into the arrangements, compensate customers regardless of whether they had suffered any loss, and penalise a network regardless of how well they had managed a situation which might have been wholly outside their control. The level of any payment would be unpredictable— depending on level of project costs incurred. Ofgem noted (3.17) that enforcement action remains a possibility where the networks have not met their obligations and so we believe that this should be the route for determining if any penalty should be applied.

If you require any further information, or if you have any questions regarding this issue, please contact Andy Balkwill in the first instance on 01926 655988 or at [Andy.Balkwill@nationalgrid.com](mailto:Andy.Balkwill@nationalgrid.com)

Yours sincerely

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