

Reference

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Cadent Gas Limited

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Steven Steer

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Dear Steven,

Statutory Consultation to modify price control financial models to account for the London medium pressure refund and the National Grid voluntary allowance deferral.

Thank you for the opportunity to provide feedback on Ofgem's proposed amendments to the Electricity Transmission and Gas Distribution price control financial models (PCFMs). Our response relates solely to proposed amendments to the structure of the RIO GD-1 PCFMs, and more specifically the proposed methodology for adjustment to Cadent's RIO GD-1 allowances in the London gas distribution network in relation to replacement work on the medium pressure system that will be deferred to future price controls.

Cadent is a gas distribution company providing gas to 11 million homes and business through 130,000km of pipelines. We own and operate four regulated gas distribution networks covering a geographically defined service territory that spreads across the East of England, North London, the North West and the West Midlands.

The proposed amendment is to Non Variant Repex Allowances in the London network. We concur that this is the correct category of allowance for adjustment, and where original allowances for the medium pressure system workload resided in the RIO GD-1 Final Proposals.

We consider that the profile of allowance adjustment specified in Appendix 2 of the consultation document is appropriate given workload delivered and expenditure made during RIO GD-1 to date, and also relative to our future workload and investment projections for the remainder of the price control period.

The next opportunity to adjust Cadent's allowed revenues will be via the November 2017 Annual Iteration Process (AIP), with adjustment effective in our 2018/19 maximum allowed revenues via the MODt term. Given a degree of retrospective allowance adjustment relative to the point of revenue impact, we felt it important to assure that the proposed PCFM structural and allowance profile changes result in the correct cumulative revenue adjustment as well as to future revenue profiles. We have independently tested the proposed allowance adjustment using the version of the PCFM proposed for the 2017 AIP. Our approach was to first replicate the proposed allowance adjustment in Appendix 2 of the consultation document against 'Non Variant Repex Allowances', and then simulate the November 2017 PCFM iteration. This facilitated assessment of the resulting cumulative adjustment to 2018/19 revenues via the PCFM

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to separate offline calculations. We then simulated PCFM iterations for the remainder of RIIO GD-1 to assess expected future revenue impacts, again, against separate offline calculations. The outcome of this testing was satisfactory and we concur with Ofgem's assessment of revenue impact within the current price control of £13m.

Although the allowance adjustment only relates to the London network, we also tested that no other networks were impacted by the proposed structural changes to the PCFM, again to a satisfactory conclusion.

On the basis of our review and testing, we are comfortable with both the proposed structural changes to the RIIO GD-1 PCFM, and also the proposed nature of allowance adjustment.

If you have any further questions please do not hesitate to contact me using the details at the top of this letter.

Yours sincerely

By email

Craig Neilson
Revenue & Pricing Manager
Regulation & External Affairs