

All Gas Distribution Networks and
other interested stakeholders

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Dear Stakeholders,

**Consultation on proposed amendments to the Gas Distribution Networks' (GDNs')
Workbooks contained in Schedule 2: Appendix to Special Condition 4H –
Specification of Network Outputs**

We are consulting on our intention to amend each of the eight Gas Distribution Networks' (GDNs) Network Output Measures (NOMs) targets, to better align their targets with our RIIO-GD1 Final Proposals (FP).¹ The targets are contained in the Workbooks at Schedule 2: Appendix to Special Condition 4H – Specification of Network Outputs of their Gas Transporter Licences.

Background

NOMs targets

Each GDN has a set of NOMs targets that reflect the asset intervention workload (primarily replacement and refurbishment) that they have been funded to deliver during RIIO-GD1. The targets are based on each of the GDNs' own methodologies for assessing the health and criticality of their network assets and the impact of their asset interventions on these parameters. These target "Workbooks"² were published on 1 February 2013 on Ofgem's website.³

In order to allow us to assess GDNs' performance against their targets at the end of RIIO-GD1, we need to ensure that both the target data and the reported actual delivery data are derived on the same basis (i.e. according to the same methodology). GDNs' actual delivery at the end of RIIO-GD1 will be reported in accordance with the new monetised risk NOMs Methodology.⁴ GDNs must therefore convert (rebase) their "Original Targets" to equivalent monetised risk targets to enable like-for-like comparison. We refer to these equivalent monetised risk targets as the "Rebased Targets".

¹ <https://www.ofgem.gov.uk/publications-and-updates/riio-gd1-final-proposals-%E2%80%93-overview>

² The "Workbook" is comprised of asset volumes distributed, based on their health and criticality, onto 5x4 tables. For each asset category, the GDNs have stated their price control start position (2013) and their view of the price control end position (2021) for both with and without intervention scenarios.

³ <https://www.ofgem.gov.uk/publications-and-updates/riio-gd1-modifications-special-conditions-gas-transporter-licences-held-gas-distribution-network-gdn-operators-and-reasons-decision-pursuant-section-23-and-38a-gas-act-1986>

⁴ <https://www.ofgem.gov.uk/publications-and-updates/notice-intention-not-reject-modified-gas-distribution-network-output-measures-noms-methodology>

Issue with GDN current NOMs targets

When we published the Workbooks in February 2013, the intention was that they would align with workload allowances set out in FP. While this was substantially the case, we have discovered through the course of the rebasing process that some elements did not fully align⁵. It is therefore necessary to correct the target misalignment before we can assess the appropriateness of the rebased targets which the GDNs are working towards.

Process for correcting the GDNs' Original Targets

To ensure that stakeholders have sufficient opportunity to comment on both the correction of the GDNs' Original Targets and on the rebasing process and Rebased Targets, we are conducting three consecutive consultations:

1. Consultation on the alignment of the GDNs' Original Targets with FP (this consultation)
2. Statutory consultation on modification of the GDNs' licences

In order to give effect to the the correctly aligned Original Targets, we need to modify each GDN's Gas Transporter Licence so that it references the corrected target Workbook. This licence modification will follow the 28-day statutory consultation process, which we intend to conduct following conclusion of the current consultation and publication of our decision.

3. Consultation on the GDNs' Rebased Targets

Finally, we will consult for 56 days on our rebasing assessment methodology and our views on the GDNs' Rebased Targets.

Following conclusion of all three consultations, we expect to be in a position to publish our final decision on rebasing in April 2019.

Proposed Changes to the GDNs' Workbooks

The required changes to the Network Output Workbooks fall into three categories as explained below.

1. Changes between IP and FP in the GDNs' allowed workload

We published our RIIO-GD1 IP on 27 July 2012⁶ and GDNs submitted the current published Workbooks on 30 November 2012 to align with IP allowed workloads. These submissions were made ahead of our RIIO-GD1 FP, which we published on 17 December 2012, and therefore did not reflect the changes in allowed workload between IP and FP.

The workload changes between IP and FP related mainly to the asset categories linked to the Health and Safety Executive mandated iron mains repex programme. The asset categories impacted by this change are:

- Distribution Mains – all GDNs
- Services – all GDNs
- Governors - NGN and WWU
- LTS Pipelines - SGN and WWU
- PRS - SGN

⁵ FP set out our decision for RIIO-GD1 taking into account respondents' views from Initial Proposals (IP). By publishing the GDNs' workbooks which were submitted prior to FP, the data within those workbooks will not have included FP decisions or workload adjustments.

⁶ <https://www.ofgem.gov.uk/publications-and-updates/riio-gd1-initial-proposals-%E2%80%93-overview>

- MOB Risers - WWU

2. Cadent's MOB Riser data

Ofgem earlier this year launched an investigation⁷ into Cadent's record-keeping for Multi-Occupancy Building (MOB) Risers. This investigation is currently ongoing and, as such, we are unable to comment on the current status or findings.

Cadent updated their Workbooks to provide the best currently available view of their total asset data for MOB risers. Included within the updated Workbooks are Cadent's MOB Risers workload volumes, based on their FP allowance. We are therefore satisfied at this point that the changes do not lessen the requirements on Cadent in respect of MOB Risers. However, we reserve the right to revisit any decision arising from this consultation depending on the outcome of the MOB Risers investigation.

3. Other asset data corrections

GDNs identified data errors and/or inaccuracies in their published Workbooks. Our view is that it is preferable to correct the errors now rather than addressing them as part of our RIIO-GD1 closeout on the NOMs Incentive Mechanism. The errors and/or inaccuracies are mostly linked to data cleansing the GDNs have completed since FP decisions. The corrections are minor adjustments to the data that we are minded to accept based on the supplementary information provided. However, we intend to reconsider these data adjustments when completing our end of period assessment, to confirm their appropriateness.

The variations between the February 2013 and the proposed FP aligned asset volume tables are summarised in Appendix 1, and the FP Alignment Microsoft Excel workbooks are published alongside this letter. Within these workbooks, we have summarised the GDN explanation provided for each licence per asset category, and have included both the 2013 published volume and the proposed FP aligned data tables.

Our views

Based on our analysis, we are satisfied that the corrected Workbooks align with the FP funded workloads that the GDNs have been working towards delivering. We consider these corrected Workbooks properly reflect the FP decision within the GDNs' targets, and therefore do not alter the regulatory deal that the GDNs signed up to in RIIO-GD1.

We intend to publish the final corrected Workbooks alongside our decision.

How to respond to this consultation

We are seeking your views on our proposal to align the GDNs' workbooks with workload allowances set out in our FP. Please send any comments to thomas.mclaren@ofgem.gov.uk by 11 December 2018. Unless stated as confidential, consultation responses will be published alongside with our decision.

Yours Sincerely

Paul O'Donovan
Head of ET Cost Assessment, Systems & Networks

⁷ We launched an investigation into Cadent's record-keeping on 11 April 2018:
<https://www.ofgem.gov.uk/publications-and-updates/ofgem-launches-investigation-cadent-s-record-keeping>

Appendix 1: Summary of Data Amendments per Asset category

The tables below summarise our approach to aligning the workbooks with our FP decisions. We initially selected target data from submitted Workbooks that incorporated identifiable FP workload volumes. Where FP workload volumes were not clear we used the currently published version of the targets. The GDNs were required to provide supporting information to justify any proposed deviations from these targets. Further detail can be viewed in the consultation supporting MS Excel workbooks.

CADENT EOE/LON/NW/WM

Asset Category	Ofgem Workbook Selection	Reason for Ofgem Selection	GDN Recommended Change
Block Valves	Published Data (2012 submission)	Specific workload volumes not stated in FP	No material change
Sleeves (Nitrogen & other)			
LTS Pipelines - Piggable			
LTS Pipelines – Non Piggable			
Distribution Mains (Iron)	FP Adjusted Data (2013 submission)	FP outlined Workloads	Published data offered a more accurate reflection of their RIIO-GD1 target.
Distribution Mains (PE)		FP outlined Workloads	Expected change due to FP or No Material Change
Distribution Mains (Steel)			
Distribution Mains (other)			
Services	Rebased Workbook Submission (2018)	Please refer to section on Cadent's MOB Riser data	Data errors identified
MOB Risers			
NTS Offtakes			
PRSS			
District Governors			
I&C Governors	Published Data (2012 submission)	Specific workload volumes not stated in FP	No material change
Service Governors			

NGN

Asset Category	Ofgem Workbook Selection	Reason for Ofgem Selection	GDN Recommended Change
Block Valves	Published Data (2012 submission)	Specific workload volumes not stated in FP	No material change
Sleeves (Nitrogen & other)			
LTS Pipelines - Piggable			
LTS Pipelines – Non Piggable			
Distribution Mains (Iron)	FP Adjusted Data (2013 submission)	FP outlined Workloads	Expected change due to FP or No Material Change
Distribution Mains (PE)			
Distribution Mains (Steel)			
Distribution Mains (other)			
Services	Published Data (2012 submission)	Specific workload volumes not stated in FP	Change of methodology on how MOB Risers are counted
MOB Risers			Data errors identified
NTS Offtakes			No material change
PRSS			FP documented a change in intervention approach
District Governors			
I&C Governors			
Service Governors			

SGN SC/SO

Asset Category	Ofgem Workbook Selection	Reason for Ofgem Selection	GDN Recommended Change		
Block Valves	Published Data (2012 submission)	Specific workload volumes not stated in FP	No material change		
Sleeves (Nitrogen & other)			Adjustment to align with FP decision		
LTS Pipelines - Piggable			FP Adjusted Data (2013 submission)	FP outlined Workloads	No material change
LTS Pipelines – Non Piggable					
Distribution Mains (Iron)					
Distribution Mains (PE)	Published Data (2012 submission)	Specific workload volumes not stated in FP	Data errors identified or Adjusted to align with FP decision		
Distribution Mains (Steel)					
Distribution Mains (other)					
Services					
MOB Risers	Published Data (2012 submission)	Specific workload volumes not stated in FP	No material change		
NTS Offtakes					
PRSS					
District Governors					
I&C Governors					
Service Governors					

WWU

Asset Category	Ofgem Workbook Selection	Reason for Ofgem Selection	GDN Recommended Change
Block Valves	Published Data (2012 submission)	Specific workload volumes not stated in FP	No material change
Sleeves (Nitrogen & other)			Adjustment to align with FP decision
LTS Pipelines - Piggable			
LTS Pipelines - Non Piggable	FP Adjusted Data (2013 submission)	FP outlined Workloads	Expected change due to FP
Distribution Mains (Iron)			
Distribution Mains (PE)			
Distribution Mains (Steel)			
Distribution Mains (other)			No material change
Services	Published Data (2012 submission)	Specific workload volumes not stated in FP	Adjustment to align with FP decision
MOB Risers			
NTS Offtakes			No material change
PRs			
District Governors			
I&C Governors			Adjustment to align with FP decision
Service Governors			