



Making a positive difference
for energy consumers

All Gas Distribution Networks and
other interested stakeholders

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Dear Stakeholders,

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

On 27 November 2018, we¹ consulted on the alignment of the Gas Distribution Networks' (GDNs') Workbooks to RIIO-GD1 Final Proposals (FP)². We received three non-confidential responses to our consultation³, which we have considered in coming to our decision.

We have decided to apply the amendments proposed in our consultation to the GDNs' Workbooks in order to properly align them with FP. This letter summarises the background to our decision, the responses received and our views on those responses, and next steps.

Background

NOMs targets

Each GDN has a set of Networks Outputs Measures (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"⁴ were published on 1 February 2013 on Ofgem's website⁵.

In order to allow us to assess the 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 Methodology⁶. GDNs must therefore convert (rebase) their "Original Targets" to

¹ The terms 'the Authority', 'we' and 'us' are used interchangeably in this document. The "Authority" means to GEMA, the Gas and Electricity Markets Authority.

² <https://www.ofgem.gov.uk/publications-and-updates/riio-gd1-final-proposals-%E2%80%93-overview>

³ <https://www.ofgem.gov.uk/publications-and-updates/consultation-alignment-gas-distribution-networks-gdns-workbooks-final-proposal-decisions>

⁴ 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.

⁵ <https://www.ofgem.gov.uk/publications-and-updates/riio-gd1-modifications-special-conditions-gas-transporter-licences-held-gas-distribution-network-qdn-operators-and-reasons-decision-pursuant-section-23-and-38a-gas-act-1986>

⁶ <https://www.ofgem.gov.uk/publications-and-updates/notice-intention-not-reject-modified-gas-distribution-network-output-measures-noms-methodology>

equivalent monetised risk targets to enable like-for-like comparison. We refer to these equivalent monetised risk targets as the “Rebased Targets”.

Issue with the GDNs’ 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 discovered through the course of the rebasing process that some elements did not fully align⁷. It was therefore necessary to correct the misalignment of the existing targets before we could assess the appropriateness of the Rebased Targets that the GDNs are working towards.

Alignment of the GDNs’ current NOMs targets

In our November consultation, we presented proposed amendments to the GDNs’ Workbooks. The amendments to the Workbooks fell into three categories:

1. Changes between Initial Proposals (IP) and FP in the GDNs’ allowed workloads. The asset categories impacted by these changes were:
 - Distributed Mains – all GDNs
 - Services – all GDNs
 - Governors – NGN and WWU
 - LTS Pipelines – SGN and WWU
 - PRS – SGN
 - MOB risers - WWU
2. Cadent Multiple Occupancy Building (MOB) Riser data. Cadent updated its Workbooks to provide the best available view to date of its total asset data for MOB risers.
3. Other asset data corrections. The GDNs identified and corrected data errors and/or inaccuracies in their published Workbooks.

We were satisfied that the proposed amendments to the Workbooks aligned with the FP funded workloads that the GDNs are working towards delivering. We considered the corrected Workbooks properly reflected the FP decision within the GDNs’ targets, and therefore did not alter the regulatory deal that the GDNs signed up to in RIIO-GD1.

Consultation

To allow stakeholders the opportunity to provide their views on the proposed alignment of the GDNs’ Workbooks with FP, we published a consultation on 27 November 2018, which closed 12 December 2018. We received three non-confidential responses.

A summary of the responses and our views on them can be found below. The full responses are published as secondary documents to this decision letter.

NGN

- Satisfied that the aligned targets reflect the discussions through the Safety and Reliability Working Group (SRWG) and reflect the information that NGN supplied.
- Does not consider it appropriate to revisit these Workbooks through the RIIO-GD1 close-out process, as this would introduce further inconsistency into the process and could constitute “cherry picking” between the old and new methodologies.

Cadent

⁷ FP set out our decision for RIIO-GD1 taking into account respondents’ views from Initial Proposals. By publishing the GDNs’ workbooks that were submitted prior to FP, the data within those workbooks will not have included FP decisions or workload adjustments.

- Supports the work completed to align GD1 Asset Health Workbooks with RIIO-GD1 FP.
- Noted that through the course of RIIO-GD1, it continues to improve its understanding of its asset base and the representation of these assets within the NOMs methodology that has been jointly developed with Ofgem through the SRWG.
- Understands that the review and acknowledgment of restated asset volumes, since FP, will be considered within the consultation on the GDNs' Rebased Targets.

WWU

- Supports the need for the original Health and Risk Workbooks to be updated to reflect FPs.
- Satisfied that they reflect the asset intervention workloads allowed in RIIO-GD1.

As regards NGN's concern in respect of revisiting the Workbooks, our intention is to only use the new NOMs methodology and the Rebased Targets in the RIIO-GD1 close-out process. We are, however, conscious that the GDNs data error corrections have not been validated by us as part of the process. Therefore, our intention is to validate the data error corrections during the RIIO-GD1 close-out process.

Our Decision

After careful consideration of the consultation responses, we have decided to approve the amendments to the Workbooks set out in our November consultation. The corrected Workbooks are published alongside this decision.

The reason for our decision is that the amended Workbooks better align with the workload allowances set out in FP and provide an accurate representation of the GDNs' workloads for RIIO-GD1. This will enable us to conduct a robust comparative analysis of the Rebased Targets.

Where data adjustments have been made due to data errors/inaccuracies, we intend to review these during the end of period assessment of RIIO-GD1 to confirm the appropriateness of the Rebased Targets. Additionally, at the end of period assessment, we will consider the results of the ongoing record-keeping investigation into Cadent's MOB risers, launched by Ofgem earlier this year⁸.

Next Steps

In order to give effect to the correctly aligned Original Targets, we need to modify each GDN's Gas Transporter Licence so that it references the corrected target Workbook. We will shortly publish a statutory consultation on proposed modifications to the licences to amend the Workbook reference and definition in Special Condition 1A (Restriction of revenue in respect of the Distribution Network Transportation Activity: definitions).

Following the licence modification, we intend to then consult on the GDNs' Rebased Targets. We will consult for 56 days on the rebasing assessment methodology and our views on the GDNs' Rebased Targets. We expect to be in a position to publish our decision on rebasing in April 2019.

Yours Sincerely

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

⁸ We launched an investigation into Cadent's record keeping on 11 April 2018. Further details can be found at <https://www.ofgem.gov.uk/publications-and-updates/ofgem-launches-investigation-cadent-s-record-keeping>