



Making a positive difference
for energy consumers

All Gas Distribution Networks and
other interested stakeholders

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Dear Stakeholders,

Modification of Special Condition 1A of the gas transporter licences held by the Gas Distribution Network operators

On 20 December 2018 we¹ published a statutory consultation² on a proposal to modify Special Condition 1A (Restriction of revenue in respect of the Distribution Network Transportation Activity: definitions) ('SpC 1A') of the gas transporter licences held by the Gas Distribution Network operators ('GDNs').³

We received two responses to the consultation. Following consideration of those responses, we have decided to modify SpC 1A in the manner set out in the consultation, save for the correction of a minor typographical error. The licence modification notice is published alongside this letter. These licence changes will take effect from 28 March 2019.

This letter summarises the background to our decision, the responses received and our views on those responses, and next steps.

Background

Networks Outputs Measures (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"⁴ were published on 1 February 2013 on Ofgem's website.⁵

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/statutory-consultation-proposal-modify-special-condition-1a-gas-transporter-licences-held-gas-distribution-network-operators>

³ The term "GDNs" refer to the onshore gas distribution network operators (Cadent Gas Limited, Northern Gas Networks Limited, Scotland Gas Networks Plc, Southern Gas Networks Plc and Wales & West Utilities Limited).

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-gdn-operators-and-reasons-decision-pursuant-section-23-and-38a-gas-act-1986>

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). The GDNs' actual delivery at the end of RIIO-GD1 will be reported in accordance with the new monetised risk NOMs Methodology.⁶ 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".

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 Final Proposals ('FP').⁷ While this was substantially the case, we discovered through the course of the rebasing process that some elements did not fully align.⁸ It was therefore necessary to correct the target misalignment before concluding our rebasing assessment.

Process for correcting and rebasing 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 (closed on 12 December 2018).⁹ On 19 December 2018, we published our decision on the amendments to the Workbooks and the corrected target Workbooks¹⁰, which aligns them with RIIO-GD1 FP.
2. **Statutory consultation on a proposal to modify SpC 1A of the GDNs' licences to refer to the corrected Workbooks** (Closed on 22 January 2019).

In order to give effect to the correctly aligned Original Targets, we need to modify SpC 1A by amending the definition of 'Workbook' in 1A.4 so that it references the corrected target Workbooks published on 19 December 2018. The proposed changes to SpC 1A were shown in Annex 1 to the statutory consultation notice.¹¹

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 decision on rebasing in April/May 2019.

Responses to the Statutory Consultation

We received two responses to the statutory consultation. A summary of the responses and our views on them can be found below. The full responses are published alongside this letter.

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

⁷ <https://www.ofgem.gov.uk/publications-and-updates/riio-gd1-final-proposals-%E2%80%93-overview>

⁸ FP set out our decision for RIIO-GD1 taking into account respondents' views from Initial Proposals. 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.

⁹ <https://www.ofgem.gov.uk/publications-and-updates/consultation-alignment-gas-distribution-networks-gdns-workbooks-final-proposal-decisions>

¹⁰ <https://www.ofgem.gov.uk/publications-and-updates/decision-alignment-gas-distribution-networks-gdns-workbooks-final-proposal-decisions>

¹¹ https://www.ofgem.gov.uk/system/files/docs/2018/12/181220_stat_con_licencemod_notice_final.pdf

Northern Gas Networks Limited

- supports the proposed licence modification
- satisfied that the December 2018 workbooks will be referenced in the licence

Wales & West Utilities Limited

- supports the proposed licence modification
- supported the modifications to Health and Risk targets in phase 1 of the NOMs rebasing consultations

We note the responses received support the proposed licence modifications and agree with them. However, it is necessary to correct one minor typographical error in the proposed licence modifications set out in the statutory consultation notice, by changing the date of '20 December 2018' to '19 December 2018'.

Our Decision

Having considered the responses received to the statutory consultation, we have decided to modify SpC 1A in the following way:

- replace in the definition of 'Workbook' the words "as published by the Authority on 1 February 2013" with "as published by the Authority on 19 December 2018", and
- replace the text in the 'Workbook title' column with:
 - "Schedule 2: Appendix to Special Condition 4H Specification of Network Outputs – Cadent EOE – Final"
 - "Schedule 2: Appendix to Special Condition 4H Specification of Network Outputs – Cadent Lon – Final"
 - "Schedule 2: Appendix to Special Condition 4H Specification of Network Outputs – Cadent NW – Final"
 - "Schedule 2: Appendix to Special Condition 4H Specification of Network Outputs – Cadent WM – Final"
 - "Schedule 2: Appendix to Special Condition 4H Specification of Network Outputs – NGN – Final"
 - "Schedule 2: Appendix to Special Condition 4H Specification of Network Outputs – Scottish Gas Networks – Final"
 - "Schedule 2: Appendix to Special Condition 4H Specification of Network Outputs – Southern Gas Networks – Final"
 - "Schedule 2: Appendix to Special Condition 4H Specification of Network Outputs – WWU – Final"

Next Steps

Our decision notice is published alongside this letter. The modifications to SpC 1A will come into effect on 28 March 2019.

We will shortly 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/May 2019.

Yours Sincerely

Min Zhu
Deputy Director, Systems & Networks