



Making a positive difference
for energy consumers

All Gas Distribution Networks and
other interested stakeholders

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Dear Stakeholders,

Decision to approve and direct the Rebased Network Outputs for Gas Distribution Network operators

On 20 March 2019, we¹ published a consultation² on our intention to approve the Rebased Network Outputs of the Gas Distribution Network operators (GDNs).

We received three responses to the consultation. Following consideration of those responses, we have decided to approve and direct the submitted Rebased Network Outputs for all GDNs³.

The following sections set out: the background to our decision; the responses received; our views on those responses; our decision and the reasons for it; and, our direction.

Background: Network Output Measures Rebasing

We have set out the arrangements relating to Network Output Measures (NOMs) in the licences of all gas and electricity networks. As part of these arrangements, licensees have been set Network Outputs, also referred to as Targets, that they are required to deliver by the end of the price control.

Each GDN is required by Special Condition 4H of its gas transporter licence (SpC 4H) to deliver its Network Outputs by the end of RIIO-GD1. This must be done in accordance with the specifications set out in the "Workbook"⁴. The Network Outputs were 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. The Workbooks containing the Targets were published on 1 February 2013 on Ofgem's website.⁵ These were subsequently replaced on 19 December 2018 by modified versions to correct errors that were uncovered during our rebasing assessment process.⁶ We refer to the corrected Targets set out in the Workbooks as the "Original Targets".

¹ The Gas and Electricity Markets Authority. Ofgem is the Office of the Authority. The terms "Ofgem" and "the Authority," "we" and "us" are used interchangeably in this letter.

² <https://www.ofgem.gov.uk/publications-and-updates/gas-distribution-network-output-measures-rebasing-consultation>

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, each GDN has 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>

⁶ The modified Workbooks and reasons for the modifications can be found here:

In order to allow us to assess the GDNs' performances at the end of RIIO-GD1 against their Original Targets, 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.⁷ GDNs are required by paragraph 4H.13 of SpC 4H to convert (rebase) their Original Targets to equivalent monetised risk Targets so as to enable like-for-like comparison. We refer to these equivalent monetised risk Targets as the "Rebased Targets".

Responses to the Consultation on the GDNs' Rebased Targets

Between 20 March 2019 and 15 May 2019, we consulted on our rebasing assessment methodology and our views on the GDNs' Rebased Targets. We received three responses, all from GDNs. The full responses are published alongside this decision.

All three respondents agreed with our rebasing assessment methodology, our conclusion that the GDNs' Rebased Targets satisfy the licence requirements, and supported our intention to approve the GDNs' Rebased Targets.

During the consultation period, Cadent uncovered some data entry errors in its rebasing data submissions for certain sub-components of its Offtake/PRS primary asset category. However, Cadent explained in its response that these data entry errors neither impact its rebased total network monetised risk targets, nor the monetised risk at a primary asset category level. Cadent re-submitted the rebasing data templates with corrected data as part of its consultation response.

Our Views on the Consultation Responses

We note the responses received supported our intention to approve the GDNs' Rebased Targets.

We also note the data issues that Cadent uncovered during the consultation. We are satisfied that the changes do not impact Cadent's Rebased Targets or our assessment of Cadent's compliance with the requirements in paragraph 4H.13 of SpC 4H. As a result, Cadent's Rebased Targets in Table 1 below that were consulted on remain the same; therefore, we do not consider it necessary to re-consult on Cadent's Rebased Targets.

However, we stress the importance of good data quality and how it is the responsibility of all GDNs to ensure that all data they use internally and submit to Ofgem is accurate and complete. GDNs are required to ensure that all data submitted is appropriately assured and to notify Ofgem of any material data errors they uncover. We will ensure that our RIIO-GD1 closeout assessment appropriately considers data cleansing that has taken place during the price control period in order to ensure that GDNs are not unfairly rewarded, and consumers are not unfairly penalised, as a result of any data cleanse GDNs have carried out.

Our Decision

We are satisfied that the GDNs' Rebased Targets comply with paragraph 4H.13 of SpC 4H. We also note that all of the responses received to the consultation supported our rebasing assessment methodology, results and intention to approve the GDNs' Rebased Targets. We have, therefore, decided to confirm our consultation position and approve the submitted Rebased Targets (i.e. Rebased Network Outputs) for all GDNs.

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

⁷ <https://www.ofgem.gov.uk/publications-and-updates/notice-intention-not-reject-modified-gas-distribution-network-output-measures-noms-methodology>

Table 1 below summarises the network level rebased monetised risk position at the end of RIIO-GD1 for each GDN. The associated Workbooks containing the Rebased Network Outputs approved for each GDN have been published alongside this decision.

Table 1: GDNs' Rebased Targets of Monetised Risk at Network Level

GD Network	Monetised Risk (R£m, 2014/15 Price Base) 31 March 2021		
	With Interventions (a)	Without Interventions (b)	Risk Delta* (b – a)
Cadent East of England (EoE)	106.8	141.0	34.2
Cadent North London (Lon)	102.3	132.4	30.1
Cadent North West (NW)	78.3	108.0	29.6
Cadent West Midlands (WM)	64.0	84.5	20.4
Northern Gas Networks (NGN)	142.4	207.6	65.1
Scotland Gas Networks (Sc)	94.9	457.1	362.2**
Southern Gas Networks (So)	232.6	309.5	76.9
Wales & West Utilities (WWU)	157.0	207.1	50.1

*Risk Delta is the Rebased Target for each GD Network.

**The significantly higher Risk Delta for Scotland Gas Networks (Sc) is because of the specific 'Northern Transmission System' project on capacity upgrade which would deliver £306.9m risk reduction.

Cadent Multi-Occupancy Building (MOB) Riser data

In April 2018, Ofgem launched an investigation⁸ into Cadent's record-keeping for MOB risers. In our rebasing consultation, we said that *"we reserve the right to revisit any decision arising from this consultation depending on the outcome of the MOB risers investigation"*. On 22 May 2019, the Authority decided to close this investigation.⁹ The results of the investigation do not change our view of Cadent's Rebased Targets. However, we will continue to pay particularly close attention to Cadent's MOB riser data and will revisit this decision should the need to do so arise.

Our Direction

In accordance with paragraph 4H.15 of SpC 4H, we direct for each GDN that its Rebased Targets and associated Workbook published alongside this decision will apply for the purposes of assessing both its compliance with paragraph 4H.2 and its performance under Part B of SpC 4H.

Yours sincerely

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

⁸ <https://www.ofgem.gov.uk/publications-and-updates/ofgem-launches-investigation-cadent-s-record-keeping>

⁹ <https://www.ofgem.gov.uk/publications-and-updates/decision-gas-and-electricity-markets-authority-close-its-investigation-cadent-s-compliance-its-gas-transporter-licence-standard-special-conditions-a40-a50-and-a55-and-section-9-gas-act-1986>