Northern Gas Networks

RIIO-2 Draft Determination Consultation Response

Gas Distribution Sector Annex

we are the network

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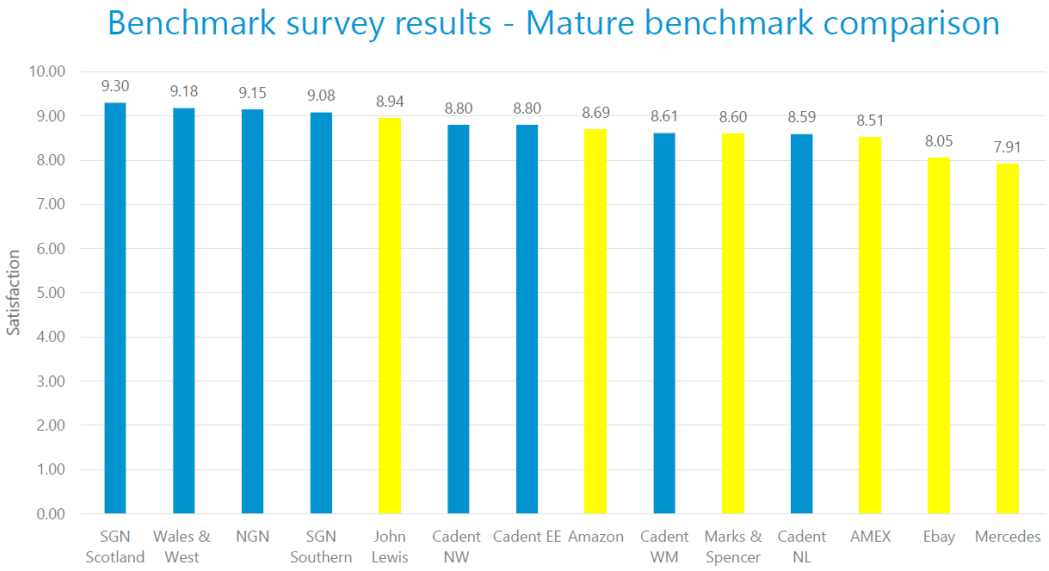
Gas Distribution Sector Annex– Consultation Response

3. Quality of Service – setting outputs for RIIO-GD2

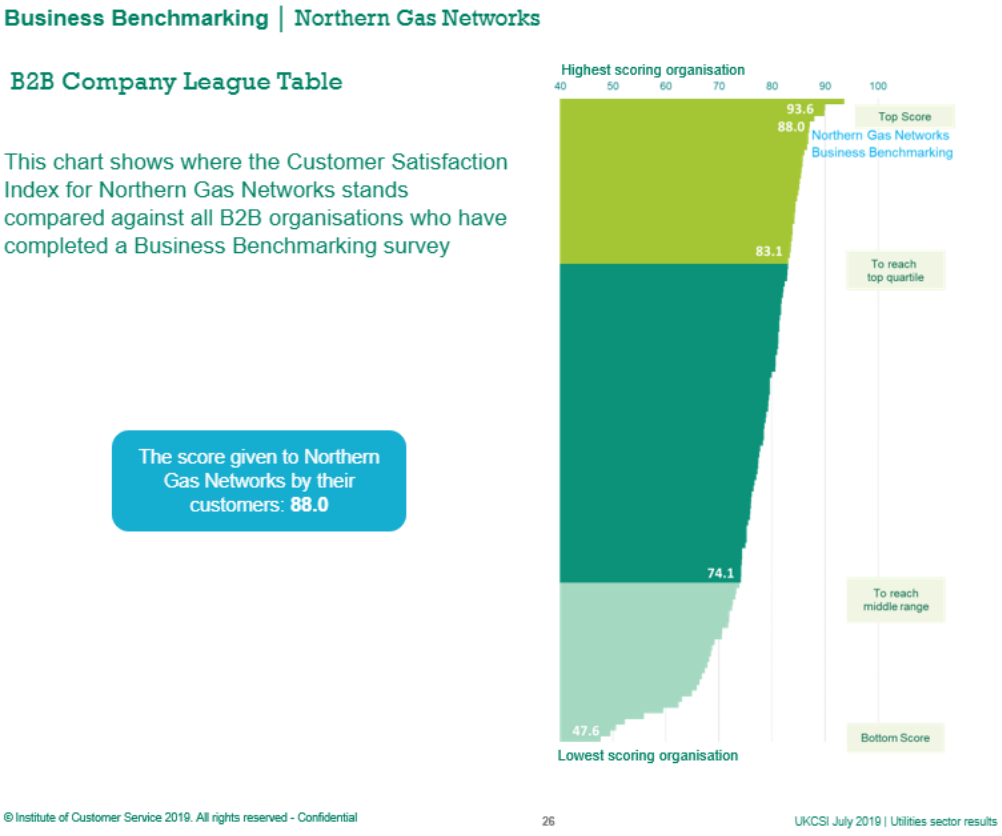
GDQ 1 **Do you have any views on our common outputs that haven't been covered through any of the specific consultation questions set out elsewhere in this chapter? If so, please set them out, making clear which output you are referring to.**

Ref 2.32 Ofgem's proposed penalty position for CSAT Scores.

- Through GD2, NGN has demonstrated its commitment to delivering exceptional customer service and striving to continually improve the experience that it provides. Whilst max reward across the three main service lines was max reward was capped at 9.0, 8.5, and 8.4 for ERR, planned work, and connections respectively, NGN has worked tirelessly to deliver an experience beyond these targets, despite there being no additional incentive payments for this.
- The penalty targets that have been set for GD2 start beyond the maximum reward levels that were set for GD1, and this would imply that companies are being punished for stretching their performance beyond what was expected by Ofgem in GD1.
- In addition to this, NGN does not believe that it is in the best interests of customers to penalise performance for companies scoring above nine out of 10; the penalty target for ERR 9.37, with max penalty at 9.15. Independent external benchmark surveys conducted by TTi Global show that the GDNs are delivering an exceptional level of service compared to companies pan-sector. Whilst NGN supports the stretching target that have been set for achieving incentive payments, we believe that the deadband range should be reviewed to ensure that companies are not penalised for providing an above '9 out of 10' service.



- NGN have been members of the Institute for Customer Service since 2012 and have held the ICS ServCheck Accreditation since 2013. As part of this accreditation process, the ICS independent survey NGN customers, with a survey that can then benchmark against other member organisations/sectors. Below are our most recent results, and again this supports that position that any organisation scoring nine out of 10 is providing an exceptional level of service to their customers, with upper quartile being set at 83.1/100 (8.3.10).



- Finally, ref 2.41, Ofgem have recognised that target set for the complaints metric penalty level should reflect the strong performance in GD1 and has been set within the average range of scores for GD1. Given that this has been the approach for the complaints metric, NGN believes that for consistency this should also be applied to the target setting for CSAT performance.
- NGN would like Ofgem to reconsider the target setting for the CSAT incentive mechanism, to make sure that it reflects both the strong performance in GD1, and expectations from customer and stakeholders.

Disconnection and Diversion Quotations

Ofgem should clearly define how the relevant GSoPs apply to disconnections and diversion quotations. We do not consider the use of 275kWh to differentiate between diversions that fall under GSOP 5 and 6 is possible, as the majority of diversions do not involve premises using gas. We understand this is being discussed in the customer and social working group and offer the following suggestions for incorporating these changes into the SI.

GSoP 5 to include diversions which are:

- less than or equal to 20m in length
- involve a *single main*
- is *low pressure*
- *not larger* than 180mm/6"
- where all the work/digging will be entirely within the land owned by the applicant (i.e. no 3rd party consents/easements required)

All other diversions would fall under GSOP 6 (or be exempt due to being sufficiently complex.).

The high-level exception are as follows and a comprehensive list will be drafted as part of the change to the license agreement.

- The connection/ new service is greater than 20m
- If NGN or local Highways perimetry is required
- Reinstatement cannot be completed due to specialised materials from a third party/ availability/supplier lead time is greater than 20 days for specific PE fittings or reinstatement materials.
- If the weather is not suitable for the completion of survey works
- Works which include crossing e.g.; Highways, Railways, Rivers etc
- Works are within, or likely to affect Site of Special Scientific Interest, nature reserve, scheduled monument, archaeological site, a woodland, marsh, peat bog or coastal wetland.
- Restrictions on property e.g.: listed building, block of flats, public/ planning restrictions
- Where the route of any apparatus will be laid that would affect the landscape/ grounds
- Where works are likely to be affected by special security provisions, e.g. military bases, prisons etc.
- Where works will take place within top tier COMAH sites.
- Where an easement or other legal permit must be obtained from any person other than the person requesting the works.
- Any other works where special difficulties or unusually high costs might occur

3.1 Meeting the needs of consumers and network users

GDQ2 What are your views on the reporting metrics we have proposed for the consumer vulnerability ODI-R?

NGN is comfortable with the metrics that have been proposed, and already have the systems/processes to support these metrics:

- Average Customer Satisfaction for priority services register (PSR) customers
- Number of Fuel Poor Network Extension Scheme (FPNES) connections, and percentage of FPNES target delivered
- Average CO awareness score via a common survey.

We will need to do a review of the common CO survey that has been in place since 2013, and check it is fit for purpose. We all also must agree if/how we represent different respondent groups i.e. those surveys conducted through direct employees, and those surveys conducted through partner organisations. Finally, it may be worth considering getting a benchmark from the GD1 data, as all the GDNs have been doing these surveys consistently for the last eight years.

GDQ3 What are your views on the design of the annual showcase events, including whether they should be held at a national or regional level?

We would prefer the annual event to be a part of an existing conference/event. This would help make sure that we maximise reach. We are also considering holding an individual GDN regional event, aligned to our programme for engagement with our Customers in Vulnerable Situations Stakeholders. We meet with them three times annually; a strategic workshop in February, with two deep dives in July and October covering topics selected by stakeholders. The regional showcase would best align with the February workshop, as this would be a good opportunity to review the projects that have been delivered through the year and gain strategic insight about future projects.

GDQ4 Do you agree with our position to change the FPNES from a PCD to a capped volume driver?

Yes, we agree with Ofgem's position on this. However, we still need to understand what funding mechanisms will be available during GD2.

GDQ5 For GSOP3, is a 48-hour exclusion period for the provision of access to hot water and food in the event of a major incident appropriate? Should this be extended to cover interruptions that are not a major incident?

Yes, we consider that a 48-hour exclusion period is appropriate as there can be operational difficulties in getting food to site.

We do not consider that it is appropriate to extend this to cover interruptions that that are not classed as a major incident. This is due to the range of interruptions that are not

classed as major which range from 1 to250 properties. For example, it would not be appropriate to apply a 48-hour exclusion if only one property was impacted, and it is much more efficient when deploying this response at scale. We note that there are other mechanisms in place within our service offering that can support customers impacted by smaller interruptions that provide more immediate and cost-effective support.

GDQ6 In relation to our proposal to extend quotation GSOPs on entry and exit connections, is it sufficient – in regard to green gas entry enquiries – for these GSOPs to apply to the provision of initial and full capacity studies? Are there other parts of the green gas entry process we need to consider to ensure an improved service provision?

The extension of GSoPs quotations on entry connections for green gas entry aligns with our bespoke proposals submitted as a part of our business plan for biomethane process improvements. However, we note that our proposal was an ODI-R that sought to reduce the lead time for these jobs and improve service to customers.

We consider that the current voluntary standards that all GDNs have in place for entry connections are working well, with no negative stakeholder feedback received. Our preference would be for initial and detailed capacity studies to remain as voluntary standards or an ODI-R in RIIO-2 rather than be extended to the GSoP for the following reasons which also identify areas for improvement in the Green Gas connection process that companies are embedding with a GSoP intervention:

- Due to the bespoke nature of entry connections, the arrangements within the current voluntary standards provide GDN's with a flexible working environment to meet the needs of customers;
- The provision of Detailed Capacity Studies is a paid for service by the customer and the studies provide optioning for connection locations, sometimes across pressure tiers and also operating parameters which can be complex. GDNs engage with customers both prior and during the production to ensure these studies are accurate, complete and meet their requirements. To this end the service is not only about speed but also quality and we consider this could be lost through a GSoP, especially considering that the proposed penalty payment is marginal compared to the size of projects for green gas;
- Analysis for entry connections is becoming ever more complex and bespoke in the changing energy landscape as we move towards Net Zero. Increases in power generation connections and the complexities of pressure requirements for both types of connections also adds further complication. It is vital that working arrangements for entry connections reflect this complex working environment;
- Given the current lower volumes of enquiries we receive, we are able to balance the quality of studies with efficient provision to customers. However, we are mindful that external factors such as Government policy change associated with the Renewable Heating Incentive or future Green Gas Support Scheme could drive a sudden uplift in enquires that we are not in a position to manage without

compromising quality which would go against what customers want and need., and

- Overall, working within a minimum standard GSOP environment for entry connections would not allow for tailored working and could drive the wrong behaviours (for example, customers receiving a less in-depth study than they would have previously, especially if volumes were to increase).

As outlined in our EAP and detailed above we consider that there are several improvements that can be made for the green gas entry process and we are working collaboratively with other GDNs to deliver this in advance of RIIO-2 and provide a standardised offering across GDNs. Due to the bespoke nature of green gas connections, focus must be on end to end customer service and ensuring a well-rounded quality driven process.

As outlined in our EAP, as a part of our Annual Environmental Report we propose to report on progress in embedding any improvements, we do not consider that GSoPs should be extended to these improvements.

GDQ7 What are your views on our consultation position to monitor the provision of and adherence to appointment timeslots for purge and relight activity through an ODI-R? Are our suggested reporting measurements reasonable?

Our customer testing provided clear evidence that in certain situations an appointment system would add real value to customers; specifically, customers who were not at home when gas was restored to the ECV. We refer to these as "carded customers" as a card is left to inform them to contact NGN to arrange a purge and relight. We do not consider it appropriate to offer appointments to all customers, only those who are not present for a purge and relight following restoration to the ECV.

We are uncertain whether the ODI-R as proposed by Ofgem will add real value in RIIO-2 and consider that there is confusion regarding the offering of "Appointments time slots" and "Purge and Relight Activity". Each of these activities relates to different stages of the customer journey and should be treated as such. Our research indicated that our customers priority is to have gas back to the appliance as quickly as possible following reconnection to the ECV (not currently covered by GSoPs). They consider that the job is not complete until they could use the gas again. This was reflected in our business plan through enhanced targets of restoring gas to the appliance in less than two hours following reconnection to the ECV. The provision of appointments then applied if a customer was not present for the initial purge and relight. Customers can contact NGN to arrange a two-hour appointment timeslot to have the activity carried out.

We understand that previous work to investigate application of appointment to GSoPs and the findings that deemed this was not necessary, however, our research indicates that in some circumstances it is, and customers want this flexibility. We consider that the important activity is not the number of appointments offered but the speed at which customers can resume normal activity following an interruption and flexibility to

accommodate their needs. Our suite of bespoke proposals which were mapped against the customer journey clearly reflected this.

The reporting measurements proposed by Ofgem should be amended to focus on speed of restoration to the ECV as this is more relevant to all GDNs. If as a part of the service offering companies propose to provide appointments to improve the customer experience this should be at the discretion of the individual companies and does not need to be reported.

GDQ8 Do you agree with our proposed option to provide Cadent and SGN with consumer funding through totex baseline or a financial ODI reward for collaborative streetworks activities?

Yes. However, we think it is more appropriate for a financial ODI to be established for this type of activity rather than baseline totex given the nature of this type of initiative. We also consider this ODI should apply to all GDNs. The issues being addressed in London are not exclusive and apply to all major urban conurbations across the UK. NGN is involved in various discussions and initiatives with local councils to improve streetwork co-ordination and these should also be eligible for any potential reward under this ODI.

3.2 Deliver an environmentally sustainable network

GDQ9 How should we set targets for the shrinkage financial incentive?

NGN previously outlined in both discussions with Ofgem and via our submitted BPDT that we forecast average system pressures will increase over the course of GD2, therefore any future targets should take into consideration the impact that our replacement programme has on network pressures. Our asset base will year on year become more plastic and the process uses an insertion technique and subsequently requires increased pressures to meet customer demand. Aside from this, the main driver for our pressure increases is to reduce the overall cost and disruption of reinforcement for our customers and improve customer experience. For these reasons we do not agree that targets for GD2 should be set based on GD1 performance.

Using an average of the 2017/18 to 2019/20 values is less representative than using our 2019/20 figures due to the progress made in replacing our metallic mains with PE over the period. The composition of our network has changed since then and therefore a 3-year average of gas conditioning and pressures figures would not accurately reflect the current mains population.

NGN feel our 2019/20 performance figures for pressure and gas conditioning are best utilised as the base year targets. These figures are more representative of business as usual and are already formalised and recorded. We do not believe that the 2020/21 performance can be confidently forecast as there is too much uncertainty surrounding covid 19 impacts on customer demand, the future availability of staff to carry out the pressure management work and gas conditioning work and the overall impact on our replacement work. Furthermore, a severe winter would impact heavily on our outturn

position following a series of mild winters. We do not feel that this current year will be representative when compared with previous years.

We would encourage a continuation of the method used in GD1 to set our base target on the year 2019/20 but then take into consideration our future forecasts of average system pressure, gas conditioning and length of lead yarn treated to inform future baselines for the GD2 years.

GDQ10 Do you have any views on what clarifications are needed to ensure a consistent method of calculating the benchmark shrinkage volumes?

We seek clarification from Ofgem regarding why the method proposed to calculate a benchmark shrinkage volume to compare with actual shrinkage volumes, is deemed to be the most suitable and accurate way.

As outlined in our April correspondence and discussed during our meeting on 13th May, we do not believe the methodology laid out for BPDT Table 2.17 accounts for the increase in pressure GDN's have to overcome due to laying more plastic pipes via insertion technique. Furthermore, both services and medium pressure mains are included in the pressure / MEG impact calculation. However, pressure / MEG only influences the low pressure leakage calculation in the shrinkage model. We have presented an alternative method which we believe to rectify these issues which is provided in the supporting PowerPoint document - NGN RIIO2 DD_GD ANNEX_GDQ10 Supporting Information.ppt

GDQ11 Do you think a deadband should apply to the financial incentive? If so, please provide evidence as to how this could be quantified.

We agree with the logic and principle behind the dead band proposal suggested by Cadent, however we believe the key issue that needs to be addressed foremost is getting the methodology clarified and understood, whilst setting fully justified targets for MEG and pressure. It is difficult to fully understand how maximum and minimum values of the dead band would be calculated without an understanding of where the targets will be set. Once this is worked through, we believe that would be the time to investigate whether a dead band is appropriate and fair.

We generally support the cap and collar as it could protect consumers and GDNs from windfall gains and losses. It could help mitigate against any unforeseen circumstances during our forecasting process, such as a prolonged harsh winter which causes us to increase our pressures higher than expected or a new large industrial connection with increased pressure requirements.

GDQ12 What are your views on our consultation position for the four GDNs' EAP proposals in RIIO-2 as set out in this document?

We welcome and support Ofgem's consultation position with respect to the four GDNs' EAP proposals.

We note that in paragraph 2.144 of the Draft Determinations Gas Distribution Annex Ofgem stated that they encourage NGN, SGN and WWU to strengthen their ambition in the area of embodied carbon by setting a target to reduce the amount of carbon embedded in new infrastructure during the course of RIIO-2. NGN wish to reiterate the commitment in our RIIO-2 Environmental Action Plan (Section 6.3.1) that we will:

"*develop and adopt tools to monitor, report and reduce embodied carbon on our key new RIIO-2 projects. Following identification of an appropriate measurement method and a period of baseline monitoring (during 2020/21 and 2021/22)* ***we will establish an embodied carbon baseline and reduction target to be achieved by end RIIO-2****. We will communicate this target with our supply chain, in conjunction with our Supplier Code development, and report our progress and performance in our AER*."

We consider that this commitment meets Ofgem's requirement to set an embodied carbon target to reduce the amount of carbon embedded in new infrastructure during RIIO-2. Our embodied carbon baselining assessment commenced in June 2020 in conjunction with an MSc dissertation student.

We note that in paragraph 2.148 of the Draft Determinations Gas Distribution Annex Ofgem stated that they expect all companies to retain ISO14001 accreditation during RIIO-2. NGN confirm that we will retain our existing ISO14001 accreditation (held since 2000) during RIIO-2.

GDQ13 Do you agree with our consultation position to include progress on biomethane in GDN's AERs, alongside standard connections data?

Yes, this proposal is consistent with what we included in our Business plan.

GDQ14 Do you have any other comments in relation to this section?

As stated in our response to GDQ12, NGN confirm that we will retain our existing ISO14001 accreditation (held since 2000) during RIIO-2.

3.3 Maintain a safe and resilient network

GDQ15 What are your views on the proposed set of Workload Activities for the Tier 1 mains replacement PCD?

We support the use of 8 workload activities broken down by:

- Cast / Spun Iron: Low and Medium pressure
- Ductile Iron
- Both of the above broken down into the 4 diameter bands for Tier 1

We do not support the use of a further four categories – decommissioned and not replaced, again by the four diameter bands for Tier 1. Our lay to abandonment ratio has

been over 98% in RIIO-1 and has consistently trended upwards, we expect it to average 99% in RIIO-2, and so very little work would be captured in this category.

In addition, this work is exclusively a very small part of larger replacement projects as we have no large abandon only projects left. Any unit rate would not be materially different to full replacement. The work would attract the same overheads, design costs and streetwork costs, and would still require work in the field, just marginally fewer materials and a short reduction in time on site from within an overall much larger project. Identifying and allocating costs to this work is difficult and would require assumptions.

GDQ16 What are your views on our proposal to adjust allowances for the Tier 1 mains replacement PCD on the basis of mains decommissioned?

We would support basing the PCD on mains decommissioned, as it was in GDPCR1. This more clearly aligns to the HSE targets we have agreed, encourages us to optimise project design and minimise lay, and is a one-step PCD. Using lay as the driver would necessitate introducing more steps to account for lay to abandonment ratios.

GDQ17 What are your views on our proposed approach to setting unit costs for the Tier 1 mains replacement PCD?

The benchmarking process, including the disaggregation down to Tier level, should deliver an overall Tier 1 allowance which will include relevant regional factor adjustments. Setting the unit costs then becomes a simple allocation, using the expected abandonment workloads and a cost 'curve' based on submitted unit costs. Ofgem propose this cost 'curve' should be based on industry average with regional factor adjustments. The regional factors will already have been taken account of in the disaggregated allowance and so no further adjustment is necessary. We would also support using company specific cost 'curves' rather than industry average. We know that all GDNs use individual allocation methodologies when allocating costs across diameter bands as well as mains and services. If there is a mismatch between the company specific and industry average data, this could lead to a set of unit costs that could lead to dysfunctional decision making to deliver a different mix of work which may not be in customers interest.

GDQ18 What are your views on our proposed Allowance Adjustment Mechanism and Allowance Adjustment Restrictions for the Tier 1 mains replacement PCD?

In general, we support the introduction of a workload driven PCD as we believe it is appropriate for the GDNs to be funded for the workload volume and mix they actually deliver in order to protect consumers. The proposed solution appears to be a simple mix calculation if we over deliver on volume, so only mix is adjusted, whereas it's a volume and mix calculation if we under deliver, so volume and mix are adjusted.

We believe it should be volume and mix on both sides. We do not anticipate any material over or under delivery, in particular over a five-year price control, but do not see why we

should be penalised for any over delivery. Our stakeholder engagement clearly demonstrated our customers were in favour of more repex work not less, and any over delivery would only pull forward work we would be required to complete by 2032 anyway. Customer bill impacts would be minimal as this is 'slow' money and funded over 45 years. A £1m overspend at the end of the price control would add less than £25k to our annual revenue, which is less than 1p for each connection to our network.

There is a proposed 2% upward allowance adjustment cap for mix variances. If there is a cap at all this is too tight. The only reasons our actual mix would change from our forecast would be because dynamic risk scores could drive us to target a different mix, which is then likely to also affect the building of the most efficient projects. Both are in the interests of consumers, and we have in effect seen this in RIIO-1, as we evidence in the RRP commentary every year.

Mains laid workload mix	Tier 1		
	Business Plan	**Actual**	**Variance**
<=75mm	39%	27%	(13%)
>75mm to 125mm	45%	62%	17%
>125mm to 180mm	14%	11%	(3%)
>180mm to 250mm	2%	1%	(1%)
>250mm to 355mm	0%	0%	0%
>355mm to 500mm	0%	0%	0%
>500mm to 630mm	0%	0%	0%
>630mm	0%	0%	0%

The table above summarises the position in RIIO-1 to date. Most mains are laid in the bottom two diameter band Tiers. When compared to the RIIO-1 Business Plan there has been a significant shift towards the second tier from the first, which is more expensive work.

GDQ19 What are your views on our proposed Workload Activities for the Tier 1 services PCD?

We agree that the workload activities should include both domestic and non-domestic relays and transfers. It should also clearly state it covers both metallic and non-metallic services. We do replace a small number of PE services due to condition. We and the

other GDNs have always reported these in the RRP and the BPDTs. These should be captured within the PCD as well to ensure funding varies accordingly.

GDQ20 What are your views on our proposed approach to setting unit costs for the Tier 1 services PCD?

We would adopt the same process as outlined in our answer to GDQ17. Again, we do not believe the unit costs should be based on industry average, for the same reasons as highlighted in GDQ17.

GDQ21 What are your views on our proposed Allowance Adjustment Mechanism and Allowance Adjustment Restrictions for the Tier 1 services PCD?

In general, we support the introduction of a workload driven PCD as we believe it is appropriate for the GDNs to be funded for the workload volume and mix they actually deliver in order to protect consumers. The proposed solution appears to be a volume and mix calculation for over and under delivery, unlike the mains PCD. We support this, but again do not support a cap for over delivery for the same reasons outlined in GDQ18. Any movement is likely to be outside of our control, will have very minimal bill impact, and will be in the interest of consumers as we improve the safety and reliability of the network.

GDQ22 What are your views on our proposal for a common PCD for capital investments?

This PCD covers discrete projects and is there to protect consumers if these projects are not delivered. For NGN it covers the Trans Pennine Rail Electrification diversion work and Overcrossings. We have no issue with the PCD and the areas covered.

GDQ23 What are your views on our proposals for delivery, clawback and deliverables for the capital projects PCD?

As outlined the PCD allows for 100% clawback for full or partial non delivery which is clearly unacceptable and would incentivise us to avoid even starting these projects. This is clearly not in the interests of consumers. Even delivering 1% less than planned could lead to full clawback with a potential exposure in the region of £30m.

The Trans Pennine project which is estimated at £19.47m is particularly problematic as we are not in control of the scope of the work or the timing, and it involves many long lead time items. Hence, we proposed it should have an uncertainty mechanism. Recently the scope and order of works changed completely as we were instructed to deliver works starting at the opposite end of the rail line, with different deliverables at different points. New funding by government was proposed to speed this work up in the last month, which may again change the deliverables. This clearly doesn't work under the proposed PCD.

Overcrossings at £8.25m is more within our control but is managed on a risk basis which could lead to some movement in work delivered. It again involves some long lead time items as well as complex engineering solutions, and delivery could be impacted in the last year by unforeseen issues such as flooding and landslip, the key reasons for the project. Again, a full clawback would be highly inappropriate under these circumstances.

GDQ24 Do you agree with our approach for funding physical security for the GD sector? And do you agree that in light of the proposed baseline totex that the physical security PCD is no longer required for the GD sector?

Yes. NGN has not proposed any security upgrades as a part of the PSUP and considers that site security for other sites should form a part of baseline totex allowances. We agree that the existing governance of the PSUP programme is adequate to ensure delivery of these mandatory obligations with Low risk to customers. In the event of a policy change that revises site requirements for PSUP we support a reopener mechanism as outlined in our response to Q19 of the Core consultation document.

GDQ25 Do you consider that the enhanced obligations framework for exit capacity and the additional information being sought are appropriate?

The enhanced obligations framework and the proposed initial buildings blocks appear appropriate to support the transparency and consistency of efficient booking processes. This will formalise and enhance the current processes that NGN already have in place to determine and secure our flat and flex capacity and pressure requirements with NGGT.

NGN believe the GD1 Exit Capacity Incentive has successfully encouraged GDNs to minimise the cost of booking sufficient NTS exit capacity to meet their one-in-20 peak demand obligations. The incentive has driven the right behaviour, price signals and operational efficiency under the current Exit Capacity Regime. We agree that the new postage stamp pricing methodology invalidates the GD1 incentive and putting in place a new incentive now whilst there is a Capacity Access Review place does not seem feasible, however we would encourage Ofgem to work with GDNs on a modified incentive for the GD3 price control. This should allow enough time for industry to develop elements of a more flexible and efficient Exit Capacity Regime where products and processes are in place to allow us to match our bookings to our expectation of offtake demand, whilst reducing our pass-through charges and supporting any locational network growth. A GD3 whole system incentive would pose a good opportunity to support changes that will be required with the expected increases in biomethane injection and hydrogen production.

There are flaws with the current Exit Capacity regime which can cause inefficiency in our bookings and these are beyond our control. The NGGT Exit Capacity Release Methodology places user commitment on any enduring booking made by GDNs, whether NTS investment is triggered or not. Should the Capacity Access Review fail to find a solution to unjustified user commitment then GDNs would open themselves up to scrutiny for being 'inefficient' if, for example, a large connected site closes and frees up capacity which we can't release back to NGGT. Aside from user commitment, the

substitution methodology could also hinder booking efficiency as capacity is substituted away from an offtake, leaving no unsold capacity up to baseline. If a GDN in an area with little or no unsold capacity releases capacity back to NGGT they run the risk of that capacity being substituted elsewhere too, and there are no guarantees that capacity could be available should demand increase at the offtake. This should be taken into consideration too. We would urge Ofgem to ensure that NGGT have representation from their Network Planning and Capacity Teams at the Capacity Access Review workgroups to ensure that collaboration is timely and adequate.

We believe that changes to UNC licence and NGGT Exit Capacity Release Methodology will be required to support the proposed enhanced obligations framework and allow us to match our bookings to our peak day forecasts via a flexible regime. We would encourage Ofgem to put in place a license obligation for NGGT to ensure that the assessment of our capacity bookings is transparent and understood by industry. We would suggest that substitution methodology and analysis is included in this to allow GDNs to understand where capacity may be substituted from. Whilst we recognise and agree that a whole system view on demand and capacity is crucial, we believe independence between NGGT and GDNs for producing peak day forecasts should be maintained. Discussions around the placement and sharing of risk between GDNs and NGGT have recently taken place at the Transmission Workgroup, we would like to continue these discussions whilst developing the enhanced obligations.

Currently NGGT capacity processes and arrangements for GDNs and Direct Connects are the same; however, we feel consideration should be given to allowing different arrangements to GDNs due to our requirement to comply with UNC and the Safety Case.

We suggest that the new obligation to set out how we have complied with your requirements for efficient booking forms part of the Long-Term Development Statement which is published in October each year. An additional section relating to Exit Capacity bookings would enhance the assessment of future demand, LDZ forecasts and network developments.

4. Cost of Service – Setting baseline allowances

4.1 Approach to GD Cost Assessment

GDQ26 Do you agree with our proposal of using a top-down regression model?

We support Ofgem's cost assessment framework and Toolkit approach to benchmarking, as we believe it provides a practical and robust approach to assessing relative efficiency between gas networks. Our understanding is that a top down regression model was used after a review of various models with different levels of aggregation and over different time periods, with different CSV make ups. Ultimately the outcome was similar across all models; hence the Totex model was used, rather than a mixture of top down / bottom up models in RIIO-1.

In general, this approach appears to be reasonable. However, there are a few points to note:

- The other models have not been shared for review and checking. It's clear from our initial reviews of the Totex model that has been shared that there are significant errors which may change the outcome, meaning that there is a possibility when these errors are corrected for all models another conclusion would be reached;
- As the other models haven't been released in detail the GDNs cannot check the full details of the claim the outputs were the same, which opens Ofgem up for criticism or challenge that they cherry picked a model;
- Using one model means the same efficient challenge to all activities, whereas there may be differences across activities. This could impact the fairness of various PCDs which will used the benchmarked activity level allowances to set targets.

GDQ27 Do you agree with our proposed approach to benchmarking modelled costs at the 85th percentile?

We do not support benchmarking costs at the 85th percentile. Ofgem state they used the 85th percentile as they acknowledge the benchmarking cannot be accurate, there will be noise and modelling errors when you have limited data points with inevitable inconsistencies in some of the data, and so using the frontier is not appropriate. This performance is unlikely to be achievable by any GDN. We would agree with these criticisms of the model.

It fails to acknowledge that by using the 85th percentile there is little incentive to deliver further savings and indeed is a poor reward for past performance for the frontier company. It does not reflect the effort and costs needed to deliver the level of business change needed to make performance improvements – such as the DSP model we implemented in Repex, the changes in Terms and Conditions we have delivered in all areas, and the over 55s severance package we offered which has reduced our employee average age from over 50 to below 40. A large part of this was funded outside Totex and will cost c£60m by the end of RIIO-1. T&Cs). Importantly setting the allowances at the 85th percentile will not lead to similar investment in future. This cannot be in the customer's long-term interests.

Ofgem also say they it is appropriate to move away from upper quartile benchmarking due to the historic high levels of outperformance they have seen in the GDN sector when this has been used. This logic doesn't follow for two main reasons. Between Draft and Final Determination, hundreds of millions of pounds were added back in to Allowances after pressure from the poorer performing GDNs outside of the regression process. Without this there would have been considerable differentiation in performance against the Allowances and RORE across the sector. Also, and in particular for a frontier performer, there is a ceiling on what can be achieved in terms of big structural changes that deliver efficiency. Much of what we have achieved in RIIO-1, the DSP model, new Terms and Conditions, changing the workforce age profile, can't be repeated.

GDQ28 Do you agree with our proposed approach to estimating embedded ongoing efficiency and values calculated?

We are supportive of the proposed approach to estimating embedded ongoing efficiency and values calculated. However please see the response to Core Document Q11 regarding our view on the fairness of the additional challenge. As has been pointed out via the SQ Process and recorded in the Ofgem Error Log, the NGN embedded efficiency figure hasn't been compounded unlike the other GDNs and the CAGR calculation appears to have been calculated referencing the wrong year.

4.2 Normalisations

GDQ29 Do you agree with our proposed pre-modelling normalisations?

The Labour and Urbanity normalisations are very similar to those undertaken in RIIO-1, with updated data inputs. We note the Labour adjustments are lower than RIIO-1 because the wage differentials have reduced between the South East and the rest of GB. The Urbanity adjustments is very similar to RIIO-1.

We do believe the Sparsity normalisation could be improved, as outlined in our submission. Using Xoserve data rather would give a better idea of where our actual gas connections are, as opposed to the ONS population data used in conjunction with data on districts with gas network coverage. Ofgem's view was that using Xoserve data, we presume by itself, doesn't take account of large distribution pipes in remote areas where there are no customers. There are two flaws with this argument. Firstly, we did not suggest the Xoserve data should be used independently of other data. It could be used with the data on districts with gas network coverage, substituting the ONS data. Our argument has always been we have more gas customers in semi-remote locations and using Xoserve data in this way would answer that. Secondly, there is an assumption here that we get many leaks reported from large pipes in remote areas, and this drives where we locate our resource. This isn't the case, and when we do the 97% emergency response target was partly set lower than 100% acknowledging we will not be able to meet all remote calls in the one and two- hour standards.

We agree with the adjustments related to historic costs – large capex projects, IT, gas holders, cyber security, PSUP, MOBs, streetworks, land remediation, growth governors, SIU, Xoserve, PPF etc

We have queried via the DDQ process some of the normalisations associated with Capex projects valued at more than £0.75m. The value normalised is much greater in two GDNs than all of the other six GDNs, and it is important to ensure this is carried out on a consistent basis. Capex reporting can be completed at different levels of aggregation which could be driving the difference. The same two GDNs also have

much higher Technically Assessed values for Capex as well. This has also been queried via the DDQ process for similar reasons.

4.3 Regression Analysis

GDQ30 Do you agree with the selected aggregation level, estimation technique and time period for our econometric modelling?

As referenced in GDQ26 we think the Totex top down approach is reasonable, with the caveats outlined there. Even though the aggregation level is at the Totex level, the driver is still based on the bottom up activity drivers. Again we would like to see the other models to ensure the accuracy and detail in the models.

We support the use of OLS for the estimation technique and note that other techniques were explored as an alternative.

We support the use of 13 years as the time period for the analysis. This clearly gives more data points in what is a limited pool of data which, assuming correct normalisation both historically and for future costs, should ensure increased statistical confidence. Ofgem again state that using other periods gave similar results. Again we would like to check these models and this conclusion, given the significant errors we are seeing in the current models, which may change the outcome.

GDQ31 Do you believe we should take into consideration revised cost information for the remainder of GD1 including 2019-20 (actuals) and 2020-21 (forecast)?

Covid-19 means the 20/21 forecasts are likely to be unchanged materially from our BPDT forecasts because we cannot accurately predict the wide-ranging impacts. In any case these impacts should not be used as they could adversely affect accuracy of the models. Covid-19 also had a short and limited impact in 2019/20 actuals, and we would therefore not recommend the use of this data, for the same reason.

GDQ32 Do you agree with our selected cost drivers for Opex?

We support the use of External Condition Reports for Repair, and the Emergency CSV for Emergency (based on Customer Numbers and External Condition reports). As discussed at the various CAWG meetings however we believe these two areas should be bench marked together as they are part of one end to end process, and the delineation between the two may not be consistent across all the GDNs.

We believe the Maintenance MEAV should be replaced with a CSV derived from the historic data Ofgem now have in the RRP, using the asset counts/lengths and for the assets in question, and the cost of maintenance seen for these assets over at least the RIIO-1 period. This is not dissimilar to using a synthetic unit cost, and is more closely linked to the actual costs of maintenance over a significant period, which can fluctuate in the short term. The main issue with MEAV is that the replacement cost used is not

a good guide for how much a particular asset costs to maintain, in particular for assets such as LTS pipelines which cost a considerable amount to build but relatively little to maintain because of the projections built in.

The majority of Operational and Customer Management costs are directly driven by Emergency and Repair, with a small element by Maintenance. We believe therefore that this split should be obtained from the GDNs and the costs should be benchmarked in conjunction with Emergency, Repair and Maintenance above.

The balance of the costs includes System Control, Asset Management, and Business Support. These are largely driven by the relative size of the network, and the number of employees, recognising that you don't necessarily need to employee more resource just because you have more but similar assets. A CSV could be created for these areas based on MEAV and the number of employees, tested for best fit.

GDQ33 What are your views on our proposed approach to the synthetic cost driver for repex?

The driver includes all but diversions which are assessed separately, and now includes services not associated with replacement. This is an important inclusion as it now recognises the interplay with Opex, as it is the PREs and subsequent Repairs that drive this cost.

The CEPA appendix looks a sensible approach to deriving the unit costs – and apart from some minor errors we have fed back we are comfortable with the results.

GDQ34 What are you views on our proposed repex workload adjustments?

Ofgem's proposed reductions in NGN's Mains Replacement workloads (as set out in Section 3 of the NGN Annex, and summarised in Table 25 of the Sector-Specific Annex of Ofgem's Draft Determination) is a cause for very significant concern.

At the heart of Ofgem's proposals is the assumption that no action is required to manage the significant current and escalating future risks associated with these ageing and poor condition assets.

Ofgem's position is based upon a number of significant errors in both fact and in interpretation of both NGN's and its own obligations. These are detailed below:

a. Disallowance of Full Programmes of Work

Ofgem's proposals has disallowed mains replacement workloads across full categories of pipelines based on a target aggregate/average payback period of 16 years. This approach ignores a number of practical/engineering facts relating to these assets:

- A population of these assets will fail during the RIIO-GD2 period due to poor condition and will need to be replaced;
- A population of these assets will fail during the RIIO-GD2 period due to interference damage from third parties and will need to be replaced;

- A significant proportion of these assets are in very poor condition and exhibit a payback period significantly less than the arbitrary 16 years selected by Ofgem; and
- Without replacement, the safety, reliability and environmental risk posed by these assets will need to be managed through alternative interventions including additional inspection, maintenance and repair;
- Ofgem's application of a 2037 cut-off to companies' mains repex CBA implies an assumption that these mains will not continue to form part of the energy network beyond this date, which is factually incorrect; and
- Ofgem's CBA is flawed because it fails to take into account relevant considerations / relies on irrelevant considerations and there is no supporting impact assessment.

b. Ofgem failed to have regard to, or to give appropriate weight to, its broader duties

Ofgem's position represents a failure:

- to protect the interests of consumers with respect to the environment. We estimate that Ofgem's decision will result in an additional 38,000 tonnes of carbon equivalent emissions of methane over the RIIO-GD2 period;
- to protect the public from risks to public safety due to the high deterioration and potential failure rate of these assets and the decision to not fund any asset risk management of these assets;
- to secure a diverse and viable long-term energy supply (e.g. because contrary to Ofgem's assumption, these mains will be needed as part of the energy network beyond the 2037 cut-off date adopted by Ofgem);
- to take into account guidance from the Health and Safety Executive and the requirement for NGN to manage the safety risks associated with these assets;
- to secure that NGN is able to finance its regulated activities. Given Ofgem's decisions on the broader financial package and in particular the expected cost of equity, leaving shareholders unfunded to maintain and manage the risks of these assets has not been considered in the assessment of the longer-term financial viability of the business.

NGN's proposal to remedy this situation is for Ofgem to reinstate in full the mains replacements workloads disallowed in the Draft Determination. We have included in our response to this consultation a separate report providing all the necessary detail for Ofgem to reconsider its position in this area. This document includes further detail on the issues raised above and highlighting the limitations of the Ofgem's CBA approach in determining the DD outcome. This document is accompanied by a full suite of updated Cost Benefit Analysis models for each category of mains replacement workload that illustrates the strong CBA and Customer case for allowing this work to be delivered in RIIO-GD2.

The analysis illustrates clearly that delivery of the work programme put forward in our original business plan is in both the short and long-term interests of consumers and the outcomes they stated in their engagement with us on this issue.

We are very firmly of the view that failure to remedy this position at Final Determination that we would be required to seek redress on this issue from the CMA.

GDQ35 Where we have disallowed workloads, should we consider making corresponding adjustments to Opex costs? If so, how do you think this could be done?

As set out in response to GDQ34 above, we fundamentally disagree with the disallowed workload because the analysis undertaken, CBA and NPV calculations all suggest this workload is in the best interests of customers, who in any case were supportive of more Repex work during our stakeholder engagement, not less.

If Ofgem chose not to accept the string evidence that supports this replacement expenditure, then there would need to make significant corresponding cost increases elsewhere. This this is not just limited to Opex, it will also impact Capex and Repex. This will be a complex, difficult and time-consuming exercise, and will require networks to resubmit all BPDTs with costs on, with the appropriate governance and internal sign offs that requires. The key reasons are:

- Repex attracts a considerable Overhead Recharge, and this will need to be looked at, reallocated where appropriate across Opex, Capex, and the remaining Repex activities;
- The same applies to the back office, planning and data management activities that sit in Repex, which will need to be reviewed and reallocated in Repex;
- Within Repex project delivery the unit costs submitted are based on the current integrated projects we deliver, which in most cases contain projects across all Tiers. The disallowed workloads will mean a reduction in these integrated projects, efficiency and higher unit costs elsewhere, as well as potentially an increase in the volume of open cut work we undertake, as many of the larger pipes in the disallowed workload are open cut to allow upsizing and insertion elsewhere.
- There will be large impacts in Opex across Emergency, Repair, Operations Management, Customer Management, and back to Other Services not associated with Mains Replacement in Repex. All of these costs increase to manage the increased workload associated with both failing assets across the network and increased monitoring activities.

Clearly therefore this is a complex process that will require significant additional data/information from each of the network sot determine the scale and scope of the impact of Ofgem's determination across the business. However, we would reiterate that the business case for completing the work as proposed in our business plan is very

strong and represents the best value for customers in terms of cost and service in both the sort and longer term.

GDQ36 What are your views on our proposed approach to the synthetic cost driver for capex?

The driver includes Reinforcement (no difference between General and Specific), and Connections; covering mains and services, with Fuel Poor now added in, which is appropriate.

The CEPA appendix looks a sensible approach to deriving the unit costs, and apart from some minor errors we have fed back we are comfortable with the results.

GDQ37 What are you views on our proposed capex adjustments

Our workloads in the areas covered here were allowed in full.

4.4 Non-Regression Analysis

GDQ38 Do you agree with our assessment of non-regression costs and our proposed adjustments?

We note our Land Remediation costs have been allowed in full, and that our MOBs costs have been reduced slightly, whereas our Growth Governor costs have increased slightly, both when compared to industry costs. We have reviewed these and, in the round, accept the adjustments.

Overall, our street works costs have been reduced by £0.3m p.a. as Ofgem have disallowed any costs relating to 'penalties' on the assumption that these costs are fully within the GDNs control and are levied by HA's due to failure by a GDN or its contractors. However, this is not the case. The majority of the payments are for Section 74 overstay charges, with the balance being in TMA and NRSWA fixed penalty notices, most often driven again by our siteworks being there longer than expected. There are two main reasons why we 'overstay'. The main one being that inevitably when we start a job, whether a planned replacement or connection, or an unplanned repair, as soon as you open the road and start work complications can occur which mean different resource and / or equipment may be needed, and more time. This is particularly the case with unplanned repairs in Opex, which drives most of the cost. The other reason is that HAs are reluctant to allow us more than the typical average time they see us complete works in. This inevitably means we will be 'penalised' for above average jobs; yet gain with no credit for below average jobs. The only way to avoid most of these penalties would be to invest significantly more upfront in pre works for all jobs, such as trial holing. We do this where it is economic, but not in all cases.

For context we are comparing £0.3m against gross expenditure across repair, connections and repex of c£125m, so less than 0.2%. Our streetworks costs reduced materially in RIIO-1 when compared to GDPCR1 as we introduced new processes and ways of working to mitigate these costs and believe we operate in the most economical way.

The other area assessed is Smart Metering. Please see our answer to GDQ52 for our comments here.

4.5 Technically assessed costs

GDQ39 Do you agree with areas selected for technical assessment?

Yes, we believe these are appropriate.

GDQ40 Do you agree with our proposed approach?

Ofgem allowed in full the expenditure for Trans Pennine Rail Electrification but disallowed £0.5m for the other proposed bespoke outputs. (Need cross ref – what are we saying in outputs section??)

Our IT and Telecoms Capex has been reduced in line with the recommendations in the Atkins report. The assessment criteria Atkins used was not shared as part of the SSMD process and it is disappointing to see our costs reduced on the basis of something we had no prior knowledge of. We have now submitted a considerable amount of extra detail covering all IT and expect further dialogue in this area. At final proposals we will need clarity on which projects have been disallowed if any in order to ensure we can effectively operate the Non-Operational IT and Telecoms Capex Re-opener. We have not been able to obtain this clarity for Draft Determinations.

4.6 Disaggregation of Allowances

GDQ41 Do you agree with our proposed disaggregation methodology?

The methodology looks to be appropriate, but the detailed calculations and amendments will need updating and reviewing for Final Determinations. We expect once the errors have been corrected in the current Benchmarking models and further consideration is given to disallowed areas of expenditure there will be considerable changes to the final Totex allowances.

This process also needs to link closely with the RIIO-2 RIGs development process and the level of reporting / commentary / analysis Ofgem will require in RIIO-2 to monitor GDN performance. Both the allowances and workload / projects we will need to deliver need to disaggregated to an appropriate level to support annual reporting.

5. Adjusting baseline allowances to allow for uncertainty

5.1 Consultation Position for RIIO-GD2 Specific UMs

GDQ42 **Do you have any views on our common UMs that haven't been covered through any of the specific consultation questions set out elsewhere in this chapter? If so, please set them out, making clear which output you are referring to.**

Joint Office Pass Through proposal

Costs associated with the delivery of code administration for gas are currently borne solely by Gas Transporters to deliver our obligations in Standard Special Condition A12. During the RIIO1 period policy changes to move from code administration services to a more strategic code manager role have been proposed through the BEIS/Ofgem Code Governance review. We support these changes and consider that moving to a lower carbon future will result in the need for further significant changes to the Uniform Network Code (UNC) to ensure that the gas community arrangements are fit for a greener future.

We agree that changing the costs associated with operation of the Central Data Service Provider (Xoserve) to be on a pass-through basis as they are largely uncontrollable should also apply to costs to operate the Joint Office of Gas Transporters, the UNC Code Administrator. Costs for the running of this activity are driven by the level of change being proposed to UNC including delivering costs associated with Ofgem driven Significant Code Reviews (SCRs) which require a UNC Modification to implement them. As the level and complexity of UNC Modifications are unpredictable in nature, we believe that the rationale for making Xoserve costs pass through applies equally to the Joint Office costs.

By making these costs pass through transporters would not be subject to uncontrolled UNC change costs relating to policy changes or proposed modifications from the shipper community.

Theft of Gas (4.10-4.15)

NGN believe that the current neutrality mechanism associate with Standard Condition 7 has been successful in encouraging networks to undertake proactive investigations into suspect network theft of gas. The proposal to change this to a TIM incentive may result in lower values being passed back to consumers through network pricing if levels of investigations cannot be increased significantly. Networks are only able to recover monies from theft of gas in accordance with our Gas Act Schedule 2B paragraph 9 schemes and where there is no registered shipper or supplier at the relevant supply meter point. A significant amount of network cost associated with theft of gas is currently related to calls passed through to the emergency call centre relating to

supplier related theft and meter tampers. Costs associated with this activity should also be included within any incentives to investigate theft of gas.

The proportion of network responsible theft, compared to that associated with supplier theft, is relatively small and the introduction of a new incentive to allow networks to retain a proportion of the monies collected is unlikely to deliver significant additional recovery to be passed on to consumers through network pricing. NGN remains supportive of making the passing through of net theft monies more streamlined in RIIO2.

GDQ43 What are your views on the proposed re-opener for Tier 1 stubs?

We do not believe it is appropriate for these costs to have been disallowed in the first place and therefore the proposed re-opener should be removed. These mains are and remain part of the HSE Enforcement Policy on Iron Mains, which currently makes them part of our mandatory replacement programme and should remain so until there is a formal decision by the HSE to amend the policy. Any reopener should be reframed to allow the removal of the costs and workload from our allowance if this happens.

Without an explicit exemption from the HSE, Ofgem's position not to allow this workload affords NGN no protection under PSR13 in the event of an incident associated with one of these mains. In addition, a proportion of these mains pipes will be classified as Seed Pipes and their risk score will dictate their priority for replacement during RIIO-2. This overrides Ofgem's unofficial definition of a 'Stub End'.

In addition, Ofgem's approach to a single reopener window in 2022 does not allow sufficient flexibility if any HSE review is not complete and the necessary changes to the Enforcement Policy have not been approved at that point. It is not clear at this point what the result will be, and whether any change may happen, a partial change, or a full change.

There is an assumption that in cancelling this work that if the result is that we still need to complete Tier 1 Stubs that we can just pick this work up again and complete it on time. This is flawed – the work is often complex, in difficult locations which require local authority approval, and in many cases requires specialist resource which we will lose in the meantime. Delaying the work will place both operational and commercial pressures, and likely lead to higher cost.

GDQ44 What are your views on our proposal to introduce a <7bar diversions re-opener?

We welcome the introduction of the reopener but believe several improvements are required.

Currently the reopener is limited to below seven bar assets. We believe this should be expanded to include above seven bar assets; indeed, the HS2 project we put forward

for just such a reopener will involve more above seven bar assets than below. There is no logic to exclude these.

In addition, the reopener is limited to non-rechargeable diversions. We believe it should include rechargeable diversions as well. Many such diversions are not fully rechargeable as under statute for certain activities we are obliged to discount the cost which limits the amount we recover, which can be a considerable amount. This in particular applies to rail and road driven diversions, and often to major projects, such as the Tyne Tunnel and A1 diversions.

We do have some visibility of future diversions, but the work is not directly in our control and can vary materially, in particular for larger projects. Consequently, one reopener window in January 2022 is not appropriate and would suggest additional windows in 2023 and 2024 as well. The reopener threshold of 1% of annual average base revenue is too high and we suggest 0.5% is more appropriate, as this work is not within our control and both ourselves and customers should not benefit from any movements.

GDQ45 What are your views on the triggers and windows for the MOBs safety re-opener?

We welcome the introduction of the reopener, and note the triggers are to be discussed and consulted on through the Licence Drafting working group, which we believe is appropriate.

Two reopener windows are proposed (in January 2022 and 2023) to cater with uncertainty around when new requirements could take effect. We believe this is too narrow and that it may take longer to receive detailed guidance and then recommend changes to our specific policies, and so the windows should be extended to cover 2024 and 2025 as well. This reopener will be only used once, and so we see no reason not to include this flexibility.

GDQ46 What are your views on our consultation position to address bespoke decarbonisation of heat re-openers through our proposed innovation stimulus, Net Zero and Heat Policy re-opener mechanisms?

We are supportive of the common mechanisms that Ofgem has set out in its Draft Decision, instead of adopting various bespoke decarbonisation of heat reopeners.

In the very short-term, key to the progression of hydrogen projects in RIIO-2 (and beyond) is delivery of the safety case and we reiterate the importance of accelerating work for H21 (including trial and pilot projects) through the NIA and SIF.

Beyond delivery of the safety case, significant progress can be made in the short-term to stimulate the hydrogen supply chain (following successful delivery of HyDeploy 1 and 2) and support a gradual transition from hydrogen blending through to 100% conversion. In RIIO-2, Ofgem has an opportunity to act decisively and utilise the

reopeners to support progressing this hydrogen pathway, which is being increasingly acknowledged as the most cost-effective pathway for achieving the UK's net zero targets.

In terms of specific feedback relating to the Net Zero Reopener, we have provided this in response to Question 22 from the Core Document.

In relation to the Heat Policy Reopener, we ask Ofgem to provide clear guidance on what information it will require from gas distribution businesses to support this assessment process. We suggest the following:

- Ofgem should seek the same information it does for Totex proposals through Business Planning processes (as well as adopt the same approach to assessing proposed project costs, where possible).
- Ofgem should set out clear assessment criteria for project proposals, specific to the Heat Policy Reopener. For example, these criteria should include:
    - How will the project contribute to the achievement of the UK's Net Zero target?
    - How does the project contribute to relevant industry work programmes? (e.g. the Hydrogen Programme Development Group (HPDG))
    - Why is it appropriate for gas consumers to pay for the project?
    - Are the project costs efficient? Is there appropriate third-party involvement (and funding) to spread costs equitably?
    - Why should the project be funded through the Heat Policy Reopener (compared to other mechanisms)?

We also encourage Ofgem to consider introducing a "planning allowance" that would enable networks to be ready to act (and mitigate delay risk) by the time a policy decision has been made. This would provide networks with an agile and flexible funding stream to support significant project planning activities required to develop a proposal for consideration under the Heat Policy Reopener.

GDQ47 What are your views on the questions set out in paragraph 4.57 of this document in relation to large hydrogen projects?

We are supportive of the large hydrogen projects that other GDNs included in their Business Plans but acknowledge Ofgem's position regarding the uncertainty associated with these investments and also the reliance on delivering the hydrogen safety case (through projects such as H21 and HyDeploy). Notwithstanding these limitations, we do consider that Ofgem could be more flexible in enabling short term low regrets investment associated with these larger projects to lay the foundation for future wider expenditure. We consider that this would be low risk, allow the safety case to be evidenced and also ensure efficiency of costs recovered from customers over the long-term. Detailed recommendations relating to increasing the flexibility of the Net Zero Reopener in response to Question 22 from the Core Document.

We also note that, as outlined clearly in our Business Plan, for hydrogen to be safely distributed through gas networks it is essential that the safety case is proven. Our existing programme of work through H21, HyDeploy and the HPDG, in collaboration with other GDNs, is working towards delivering this and we are making good progress.

Our Business Plan outlined the Consumer Value Proposition (CVP) NGN is delivering through its hydrogen pathway (including H21 and HyDeploy), which estimated direct benefits of approximately £7 million within NGN's network area and a further £34 million across the rest of the UK, on the basis that these projects "unlock" the significant potential of hydrogen in the UK.

In the short term, it is imperative that Ofgem continues to support and where relevant, appropriately fund these streams of work that the wider industry is so dependent on. Put plainly without a safety case we simply cannot progress to large-scale deployment of hydrogen network projects.

GDQ48 Do you have any other comments in relation to this section?

It is important to note how quickly the development of the hydrogen economy in the UK is progressing. Since submission of our Business Plan in December, we already have greater clarity on the forward programme of work required to deliver the evidence base needed on the potential of gas networks to convert to hydrogen. Networks will no doubt continue to progress this view over the coming months and years, and we ask Ofgem to adopt a flexible approach to support changing network requirements wherever possible. Importantly, Ofgem's focus should be on how it can enable value-added net zero investments in RIIO-2, rather than adopting a conservative, cost-focused approach to assessing project proposals. We also consider the Net Zero Advisory Group (NZAG) to have an important role in contributing to the various uncertainty mechanisms in operation in RIIO-2. We support the establishment of the NZAG, which will play a key role in ensuring alignment between government objectives and Ofgem's ability to fund networks in a timely and relevant manner. We also consider:

- The NZAG should have a role in assessing triggers for both the Net Zero and Heat Policy Reopeners, with Ofgem;
- Ofgem should ensure there is a clear path for networks to be able to access the NZAG (whether individually or through the Green Investment Taskforce).

GDQ49 What are your views on our proposal to introduce a new domestic connections volume driver?

This reopener applies to domestic, new and existing customers only, excluding fuel poor and non-domestic customers. The logic is that volumes are increasingly uncertain, in particular they are sensitive to Government Heat Policy. However as there is a separate reopener for Heat Policy anyway, we are not sure this reopener is required in addition to that one.

It is suggested that if a reopener is introduced, GDN specific unit costs will be set, based on industry average with adjustments for regional factors. It is not clear exactly what this means. The benchmarking process, including the disaggregation down to Connections, should deliver an allowance which will include relevant regional factor adjustments. Setting the unit costs then becomes a simple allocation, using the expected workloads and a cost 'curve' based on submitted unit costs. We believe should be company specific, in particular if they are to be set on a net rather than gross basis, as recovery rates vary between networks.

GDQ50 What are your views on our proposal to continue with the large loads re-opener?

We proposed this should be an uncertainty mechanism and so support the re-opener.

GDQ51 Do you agree with our definition of a 'large load' to use for this re-opener?

The definition is that the load should pass the economic test and require specific reinforcement upstream of Connection Charging Point which is not chargeable to the load. This is appropriate.

However, we believe there should be more than one window in January 2022 to reopen and would suggest additional windows in 2023 and 2024 as well. The reopener threshold of 1% of annual average base revenue is too high and we suggest 0.5% is more appropriate, as this work is not within our control and both ourselves and customers should not benefit from any movements.

GDQ52 Do you agree with our proposal to continue with a smart meter rollout re-opener?

WWU and NGN both proposed a smart meter reopener as we believed the cost impact was uncertain and timing difficult to forecast as smart metering roll out plans have constantly changed. The rate of installation seen to date is also not consistent in all areas either which means GDNs have seen different impacts and are likely to see different impacts in the future. The only national data available via the BEIS Smart Metering Working Group shows that, as of 19/07/2020 4.6m SMETS2 meters have been installed in GB, of which 834k were in the North (in this case 'North' roughly correlates to anything north of the M62). That is c.18% of installs. Even taking into account disparities between population sizes in the north and south of the country, this still shows that NGN can expect an increased rate and number of smart meter installs in GD2 to hit future targets, and historically have seen lower impacts.

Cadent and SGN – based on their greater experience to date – both proposed an allowance based on predicted workloads and intervention rates and have received an 'adjusted' allowance assuming an intervention rate of 2.5%.

Smart metering is a national issue with national suppliers and national installers, but has clearly been progressing at different rates. We believe all GDNs should be treated

the same way when setting allowances and re-openers in this area, and that WWU and NGN should not be unfairly disadvantaged when Ofgem have accepted there is an issue from the information Cadent and SGN have been able to provide.

In the Uncertainty and Risk Appendix to our business plan we estimated smart metering could impact our costs by £1.25m p.a. when volumes increased and prevented us mitigating any cost increase through down time. This was based on an assumed unit rate of £160 per intervention and the profiled workload we expected to see over the RIIO-2 period, which we expected to increase by between 70-100% from the rates seen earlier in RIIO-1.

We have updated this analysis with our latest forecast of installations, using the same unit rates and Ofgem's assumed intervention rate of 2.5%.

	RIIO-1			RIIO-2				
	Apr-19	Apr-20	Apr-21	Apr-22	Apr-23	Apr-24	Apr-25	Apr-26
Installed	971,400	1,128,370	1,193,370	1,449,111	1,704,852	1,960,593	2,216,334	2,472,075
Increase from prior year		156,970	65,000	255,741	255,741	255,741	255,741	255,741
Interventions at 2.5%				7,033	7,033	7,033	7,033	7,033
Assumed Unit Cost				£160	£160	£160	£160	£160
Allowance				**£1.1m**	**£1.1m**	**£1.1m**	**£1.1m**	**£1.1m**

As at April 2020 we had 1,128,370 Smart Meters installed in our Network out of a total of just under 2.5m directly connected domestic customers. All the indications are installations will be significantly reduced this year – we have assumed a near 60% reduction. This would mean c255k installations a year throughout RIIO-2, a near 70% increase from those installed in 2019/20, to complete the programme by 2026. Using the 2.5% intervention rate and our assumed Unit Cost, which is right at the bottom of the unit rates Cadent and SGN have been allowed, this would suggest an allowance of c£1.1m p.a.

We do not believe a smart meter re-opener is needed assuming the above is accepted, any variances from this forecast will be managed through the Totex incentive mechanism, which seems appropriate given the materiality of the costs.

GDQ53 Do you agree with our proposal to continue with a common street works re-opener?

We support the introduction of a street works reopener but believe it should be expanded to include the likely impact of enforced legislation to do with excavation disposal associated with street works. We identified this as a separate reopener in our submission. We have included further evidence as to the likely impact of this on our costs, including third party expert review which confirms our cost impact analysis as reasonable and in accordance with current and likely future costs for waste analysis and disposal (see attached documents: NGN RIIO-2 DD_GD Annex_GDQ53 support information_1.xlsx and NGN RIIO-2 DD_GD Annex_GDQ53 support information_2.pdf).

This shows that costs could increase by £4.0m from c£2m p.a to c£6.0m p.a. but the final value and timing are unknown.

We identified that we expected street works cost to increase by at least £2m p.a. in our Business Plan submission, but again they are uncertain as to timing or final costs, and so they were not included in our base costs.

This equates to a potential increase of c£6.0m p.a. or £30m over RIIO-2, a material amount. Under normal circumstances we would look to mitigate these costs as much as possible. However, as the 1% of base revenue threshold is applied annually this means we would be unlikely to be able to reopen before costs reached c£8m p.a. or £4m under the aggregation of re-openers mechanism. This gives us little incentive to mitigate the costs. We would be better off letting costs flow through and re-opening when costs exceeded £4m p.a. Clearly this is dysfunctional. We believe the threshold should be decreased to 0.5% p.a. or applied over the full 5 years. Alternatively, a reasonable estimate of cost increases should be added to Totex, with any variances managed through the Totex Incentive Mechanism.