

RIO-2 Draft Determination Consultation Response

Northern Gas Networks Annex

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NGN Specific Annex - Consultation Response

1. Setting outputs

1.2 Common Outputs

NGN Q1 What are your views on the values for the common output parameters we have set out in the NGN Annex?

We agree with the common output parameters for average duration of unplanned interruptions and FPNES. Ofgem's proposals align with what we submitted in our RIIO—2 business plan.

In relation to the “average duration of unplanned interruptions”, Ofgem needs to be explicit regarding the exemptions for reporting and ensure these are defined in the SI, especially where an interruption has been caused by a third party and is no fault of the GDN. Whilst our overriding priority is to manage the customer service elements of restoring supply, as this is a penalty-only mechanism, it would be unfair to penalise a GDN for events that are not related to the reliability or operation of the network assets.

We outline the following views on the other common outputs.

NARMs

We are happy for NARMs to remain as a PCD and ODI-F. However, we have significant concerns regarding the proposed NARMs value. This is due to a large proportion of investment that has been removed from the metric and also the new mechanism that Ofgem proposes to use to assess ODI-F which does not appear to have been tested for gas distribution and no detail has been provided on the requirement for changing the assessment mechanism.

We expand on our concerns concerning NARMs in our response to the NARMs annex.

Repex Tier 1 Mains

The PCD and allowances for Tier 1 and the linkage with NARMs is an area of ongoing concern for NGN and discussions between the GDNs and Ofgem have been ongoing throughout the consultation period. We consider that there are still significant issues to resolve regarding:

- how to set baseline unit cost rates based on abandonment diameters/categories;
- how to deal with differences between submitted and delivered volumes/profiles and

- The linkage with NARMs.

We have been unable to resolve these issues with Ofgem prior to the consultation period ending and as such cannot accept the values as they stand. We note the current activity timeline with Ofgem and the other GDNs to further discuss and resolve these issues. We note that the T1 abandonment workloads shown in Table 13 of the NGN Annex are in line with our December submission.

Repex Tier 1 Services

Notwithstanding our concerns highlighted above, we note that the PCD breakdowns shown in Table 15 are consistent with our December submission.

We also note a multitude of errors within the spreadsheets used to calculate baseline allowances. We consider these errors need to be rectified by Ofgem and revised numbers issued at which NGN can provide further comment on the suitability of the outputs.

1.3 Bespoke Output Proposals

NGN Q2 Do you agree with our proposals on the bespoke ODIs? If not, please outline why.

We are disappointed that our ambition to stretch our service offering has not been reflected in formal targets by Ofgem, yet Ofgem indicate they can be delivered at cost to our shareholders. Please note our suite of proposals will be delivered at no cost to customers, however lack of formal targets and the penal nature of the Ofgem's Draft Determination package as a whole, means we would question whether to take forward Shareholder funded improvements without sufficient incentive.

We welcome the four bespoke outputs that Ofgem has accepted but note that the penal nature of the current package proposed by Ofgem, including lack of proposed reward through the CVP leaves very little incentive for NGN to implement the suite of stretching outputs that we have proposed. We consider that our package of bespoke outputs differentiated our plan from other companies and stretches service performance reflecting an ambitious and customer centric plan. Our specific proposals regarding reinstatement and restoration of gas to appliances are key outputs that we consider should be reconsidered by Ofgem.

Reinstatement

Ofgem incorrectly assessed this as a Bespoke licence obligation in its Draft Determination assessment of outputs. We accept that the GSoP performance levels of home working days are minimum standards. In a meeting with the Ofgem team it was raised by Ofgem that's one of the reasons for not accepting this output was that we already had good performance against the GSoP target of 5 working days. Our current performance in this area is 65.24 % within 3 calendar days and 96.53% reinstatement

within five working days. We disagree with Ofgem's assessment that this should not be a Bespoke ODI and with the assessment that our proposed stretch service performance is not worthy of a CVP reward. Customers have shown clear support for this output¹ and want to see improved performance at this stage of the customer journey improved. Whilst our current performance is already beyond the GSoP we want to improve this through RIIO-2 and have proposed a shareholder funded financial penalty if the three-calendar day target is not achieved. We note that our proposal is at zero additional cost to consumers.

If we accept Ofgem's current proposal of five working days and do not proceed with shareholder funded compensation for our stretch target due to insufficient incentive/reward for our stretching targets, then Ofgem are ensuring that customers receiving poorer service levels than RIIO-GD1 rather than the stretching standards that were encouraged through the SSMD.

Supply restoration to appliances following reconnection to the ECV

In our response to the GD sector annex document we outlined why we consider that an ODI-R is not appropriate for appointments and purge and relight activity. In addition, we do not consider that commonality with other company proposals is grounds for rejecting these bespoke outputs.

Stretching performance on reconnection to appliances once gas has been restored is of critical importance to consumers and the ODI-R as proposed will not improve this to the extent that our bespoke outputs can in RIIO-2. Ofgem's analysis and reason for rejection focuses on the provision of appointments rather than the fundamental objective of restoring customer supply, so that they can use their appliance following an interruption which is what this output strives to achieve. Not incentivising companies to stretch this offering, given the penal nature of the approach Ofgem has taken in its assessment of outputs and the CVP, means customers will receive lower level of service than they otherwise would have achieved. Consequently, we consider that this output should be reconsidered.

Other bespoke outputs

We consider that the mechanisms that Ofgem has included in its framework, such as the EAP and use it or lose allowance, will allow us to deliver the expectations that customers outlined in our plans. We also note our proposals such as diversions have been applied more widely across the industry as licence obligations.

¹ Customer evidence_ Stakeholder Engagement Insights – appendix A4 and Outputs appendix A6 section C24

NGN Q3 What are your views on our proposal to accept the Job completion lead-time including re-instatement ODI? Do you have a view on what the percentage performance target(s) should be and how is it stretching?

We welcome Ofgem’s decision to accept our ODI proposal for completion lead-time including re-instatement. Our proposal for this output requires us to offer a completion date to customers, which is within 20 days of receiving payment or at a time convenient to them.

We propose the follow targets to measure performance against this output in RIIO2.

GD2 PROPOSED	
YR	% completed within 20 days
19/20	34%
20/21	N/A
21/22	33%
22/23	36%
23/24	39%
24/25	42%
25/26	45%

Where a customer does not accept a date within 20 working days, we will complete the works at a time convenient for the customer. The list below details those exceptions to the 20-working day completion, which will have the potential to cause a project to be determined to be a complex connection and will be omitted from the 20 working day completion target.

- The connection/new service is greater than 20m;
- The mains connection is more than 1.2m deep or not classified as a deep excavation, requiring an SCO permit or additional trench support;
- The notice or permit requires more than 10 days’ notice by the local highway authority, e.g. busy high street, traffic sensitive areas: hospitals, main traffic junction, traffic lights or where a notice has been granted to other works;
- Reinstatement cannot be completed due to specialised materials need to be third party sourced, e.g. concrete print, resin or other specialist long lead time items;
- If the weather is not suitable for the completion of reinstatement e.g. low temperature or heavy rain, which will make the conditions unsuitable for grass seed/turf, concrete or resin materials;
- Availability/supplier lead time is greater than 20 days for specific PE fittings or reinstatement materials;
- Works which involve the crossing of, or which are affected by, the presence of motorways, dual carriageways or highways, which have been designated by the Highway Authority to have Special Engineering Difficulties;

- Works which involve the crossing of, or which are affected by, the presence of a railway line or tramway;
- Works which involve the crossing of, or which are affected by, the presence of a river, stream, estuary or canal (navigable or otherwise), body of water, aqueduct, or a drainage channel;
- Where works are in, or likely to affect, a Site of Special Scientific Interest, nature reserve, scheduled monument or archaeological site;
- Where works are situated within, or likely to affect, a woodland, marsh, peat bog or coastal wetland;
- A connection to a listed building;
- Connections to existing blocks of flats where any service pipe will terminate more than two stories above the adjacent ground level or where internal risers are requested;
- Connections to new blocks of flats where any service pipe will terminate more than five stories above the adjacent ground level;
- Works which involve any requirement for a public enquiry or planning permission, including planning permission associated with any buildings including meter houses;
- Where the route of any apparatus involves a significant (greater than 2m) change in elevation within a short horizontal distance e.g. a cliff or retaining wall;
- Where any apparatus will be laid in contaminated ground, disused slag heaps or rubbish dumps;
- Where any apparatus will be laid in land likely to suffer from severe subsidence or other significant ground movement including the laying of apparatus near to disused mine shafts / workings;
- 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, and
- Any other works where special difficulties or unusually high costs might occur

1.4 Bespoke Licence obligations

NGN Q4 Do you agree with our proposals on the bespoke LOs? If not, please outline why.

Ofgem rejected all the proposals for bespoke Licence obligations that NGN submitted in its business plan. We note that many of these relate to the doubling of GSoP payments which Ofgem applied across the industry. As NGN already makes this payment in RIIO-1 there is minimal impact on the service offering in RIIO-2.

We noted in our response to Q2 that Ofgem have incorrectly classed our proposal to improve reinstatement times for customers following planned and unplanned interruptions as a licence obligation rather than a bespoke ODI. This bespoke proposal was an ODI (F) to further improve performances for reinstatement and had clear support from our customers. Our customers stated that the job was not completed until full reinstatement and we have left the premises for all jobs. This ODI (F) is also clearly linked to our proposal for job completion time including reinstatement which was accepted by Ofgem as a bespoke output. We understand Ofgem's decision not to apply this as a GSoP, however, we consider that it should be included as a bespoke ODI as there is clear and demonstrable customer support for this initiative across two output areas. It also represents a clear opportunity to stretch service performance and clearly articulates NGN ambition to be industry leading.

1.5 Consumer Value propositions

NGN Q5 Do you agree with our proposals on CVPs? If not, please outline why.

As outlined in our response to Q37 of the Core Document, there is a lack of analysis and evidence supporting Ofgem decisions on individual proposals, and inconsistency in its approach across companies. Based on the information provided, our interpretation of Ofgem's process is that it has been subjective and not akin to the rigour and evidence provided by companies in their submission.

We welcome the reward that has been proposed for CVP 7 (subject to our response to NGNQ6), however, would challenge Ofgem's assessment of some of the proposals that have been rejected, as we consider that they deliver clear benefits with clear customer support beyond what is currently being delivered or expected from companies in RIIO-1.

We consider that overall, NGN has submitted the most ambitious and efficient business plan with clearly evidenced proposals. We also have a clear track record of delivering and maintaining a safe and reliable service offering. The CVP and BPI were proposed as a mechanism that would differentiate our plan as sector leading and we do not consider the CVP had adequately differentiated our plan from other companies. We note that many of our proposals are supported through further shareholder investment and are

at no incremental cost to customers. Without sufficient incentive there is little motivation for NGN to pursue service beyond minimum standards and in several areas, we consider that Ofgem's proposals through the Draft Determination will leave consumers in a worse position.

Outlined below are areas that we believe should be reconsidered for reward by Ofgem.

Tree Planting

This proposal was rejected based on CSR grounds. However, the proactive planting of 40,000 trees goes far beyond baseline CSR and is a target we will be held to regardless of further CSR work as a result of remediation activities that we undertake where we interfere with the environment. Our proposal is not an offsetting approach but a way that we can proactively invest in Air Quality and Biodiversity improvements that we cannot otherwise achieve as a result of our operations. In that context we consider it extends beyond BAU activity but remains within our business footprint. We accept that restoring Biodiversity or planting trees where we have made an impact is BAU practice and this is reflected in our EAP where we commit to making biodiversity improvements at over 200 sites, however, this CVP is in addition to that activity.

In its reasons for rejecting this proposal, Ofgem state that Cadent is planting four trees for every one cut down and site this as a comparable metric. We agree that where normal operations impact the environment, positive restoration to a state equal or better than when the work was carried out is important. We also implement these practices as BAU as outlined in our EAP and environmental strategy. However, we don't consider that this is a comparable metric to our proposals to proactively plant trees, which only has a positive aspect and no negative impact on the wider environment. We also request any evidence that you have seen to support your assumption that Cadent's approach is comparable. On this basis, for a single network Cadent would need to have cut down 10,000 trees to plant 40,000 to achieve similar levels of performance. When applied to Cadent's total network areas it would also equate to cadent proactively planting 160,000 trees.

We consider that the benefits case for this CVP is very robust, clearly supported by customers and delivered at no additional cost and should be reconsidered by Ofgem due to the significant benefits that it will deliver. We would also point to the inconsistency in assessment between Gas Distribution and Transmission companies regarding CVP proposals that were awarded for biodiversity improvements:

- NGET, Caring for the Natural Environment, rewarded on the basis that increasing natural capital of its land is beyond BAU. We consider that the planting of trees is consistent with caring for the natural environment and will also deliver increased natural capital and biodiversity improvements. It also provides wider social and environmental benefits as we are not restricting this to our own sites but working strategically to ensure that it delivers wider social benefits where our customers want them.

- NGGT - Caring for the Natural Environment - as above.
- SHET – Biodiversity – No net Loss – We support this proposal for SHET, however, we do not understand, on available evidence, how our proposal for tree planting cannot also be worthy of reward. Our analysis demonstrated clear biodiversity benefits and would constitute significant net gain. We again stress that this is all in addition to BAU improvements (which include improving natural capital at over 200 of our sites) outlined in our EAP and delivered at no cost to customers.

On the basis that similar projects have been rewarded in Transmission and there is clear demonstrable biodiversity benefits for proceeding with our proposal, we consider that it should be reconsidered for reward by Ofgem.

Customer Reinstatement in 3 Calendar Days

This proposal was rejected by Ofgem on the basis that our enhanced GSoP ODI for reinstatement was dismissed. We outline our response to this being rejected as an output in our responses to questions two and four. We also note that faster reinstatement also greatly influences our ability to meet the bespoke output for job completion time for connections which has been accepted as a bespoke output by Ofgem. We consider that Ofgem has taken a very narrow view of the benefit that this proposal will deliver and focussed on a reason to reject rather than appreciate the wider demonstrable customer benefits that will be realised.

We acknowledge Ofgem’s proposal to shorten the reinstatement time (within the GSoP) for PSR customers to working days, however, our target of three calendar days for all jobs still surpasses this and we consider our ambition of addressing this clear improvement in customer service is stretching and differentiates our approach. We also note that it extends beyond interruptions to connections work as well. This improvement is also being delivered at no incremental cost to customers in RIIO-2.

The GSoP target of five working days, does not drive greater performance than RIIO1 and in RIIO1 we have already applied the double payments that Ofgem has proposed. Whilst an internal KPI would drive performance at a cost to shareholders, we would question why an associated reward is not available to balance this risk. We also note that without this support from shareholders, were NGN to only perform to the minimum standard this would be a decline in service to consumers.

In a meeting with Ofgem to discuss this CVP, it was noted by Ofgem that current performance against the three-calendar day standard was good and by rewarding NGN it was seen as a foregone conclusion for achieving a reward. We note that our proposal applies compensation at the improved standard rather than the GSoP minimum. We also note, as outlined in our response to question two, that current performance is not 100% and it is extremely challenging to and costly to move from 65.24%, which is our current three-calendar day performance to 100% to implement the improved service level. There are diminishing returns to improving service levels approaching 100%,

meaning the effort required to close the gap increases greatly and can only be achieved through our ambitious efficient Totex model.

Our benefits case is clear and robust and wider than the GSoP that Ofgem has based its assessment on. We consider this CVP should be reconsidered by Ofgem.

Community Partnering and Hardship Fund

We note that Ofgem has rejected both CVP proposals based on CSR grounds, however, sought fit to include them as bespoke outputs for NGN. We consider that the acceptance by Ofgem of both these proposals as a bespoke output indicates that this activity is within NGN's footprint. In its DD, Ofgem state that "NGN's proposal is Likely to have clear benefits for local communities and delivered at no additional cost to consumers" and "NGN's proposal is supported by stakeholders and is likely to have clear benefits to consumers who need support but have been unable to access it via other routes". We consider that this contradicts the reason for rejection by Ofgem and as such we do not agree with Ofgem's assessment that these proposals constitute business as usual CSR or are related to activities outside of NGN's footprint. We also note the NGGT proposal for 0.3% of major project spend to community initiatives which was accepted as a CVP. We consider that Ofgem have taken an inconsistent approach to their assessment given that NGGT has had a CVP proposal for community initiatives rewarded that will deliver comparable benefits to what the Hardship Fund and Community Partnering fund will deliver.

We have outlined a detailed and comprehensive benefits case for both proposals and as Ofgem has included these as Bespoke ODIs we consider that this is evidence that the proposals are not BAU CSR and that they should also be rewarded for the customer value that they will deliver through the CVP.

Restoration of Gas to Appliances:

We proposed two CVP proposals regarding provision of appointments and restoration of gas to the appliances. As outlined in our response to question two of NGN Annex and question seven of the GD sector specific document, we consider there has been confusion in the differentiation of appointments and purge and relight activity. We accept Ofgem's position on appointments given the previous consultations that have occurred for considering these in the GSoP. However, we do not agree that faster reconnection to appliances should be rejected on the same basis, as they relate to different parts of the customer journey. Our customer research indicated clearly that our job was not done until gas was available for use by customers and faster restoration standards drives a significant service improvement for customers. We note Ofgem's comments regarding proposals from other companies, however, we consider that our proposal is differentiated from these due to the ambition of a less than two hours target and also the fact that this will be delivered at no additional cost to customers. On the basis of value, we consider this proposition is clear and will deliver industry leading

service improvements with compensation to customers where we fail. As such it should be reconsidered for reward.

NGN Q6 Do you agree with our proposal to accept the CVP for Enhanced Repair for Gas Escapes?

Yes, as outlined in our business plan submission we consider there are significant benefits from completing these gas repairs, however we disagree with Ofgem’s reduction of the proposed reward for this mechanism.

We note the performance metrics to deliver this CVP were included within our business plan submission. For clarity and completeness, the performance metrics are presented below again.

Performance Metrics

We will improve the percentage of outstanding escape repairs completed year on year from current position to Target performance of more than 89% for seven day repairs and more than 98% for repairs completed in 28 days.

	2021/22	2022/23	2023/24	2024/25	NGN TARGET END RIIO-2 2025/26
OUTSTANDING REPAIRS COMPLETED IN 7 DAYS	85.9%	86.6%	87.4%	88.2%	>89 %
OUTSTANDING REPAIRS COMPLETED IN 28 DAYS	95.7%	96.3%	96.9%	97.4%	>98%

Performance will be assessed based on the percentage of repairs completed within the timescales.

These performance targets are clearly related to the total reward as they relate to achieving a percentage completion by end RIIO-2 with yearly improvements, consequently Ofgem can determine what proportion of the reward has been delivered at closeout.

The following exception would apply:

- Pandemic incident
- Severe weather conditions

Reward Calculation

In paragraph 2.32, Ofgem outlined that it has revised the proposed reward for this CVP, on the basis that NGN summed gas volume reductions as if the leaks were ongoing rather than resolved at a later point in time. We do not consider this assumption is correct.

Ofgem has provided the assumptions that it applied in recalculating the revised reward amount and whilst we understand the approach taken, we do not agree with the revised figure. Ofgem has taken an in-year value rather than the cumulative impact of the emissions. Our benefits calculation only counts leakage from detection to repair (including temporary fixes before job completion) at the same rate, which we argue is a reasonable assumption that is the gas leaked from each incident.

We accept Ofgem's point that these gas leaks would be repaired at some point; however, if performance remains steady or didn't improve, then the number of repairs not fixed would continue to leak year on year, whether it is the same leak or a new leak prioritised in a work basket. We also note that as gas escapes are reported they are prioritised based on risk, so it would be possible that leaks classed as low risk i.e. in a remote field that pose no material safety risk, may be allowed to continue to leak year on year. Our proposal is based on improved working arrangements and upskilling and means that we will aim to fix these at the outset, rather than raising another job for completion so that the impact is not cumulative.

We also note that all our proposals were based on 2018/19 discounted costs in line with Ofgem CBA methodology. Whilst we consider our analysis is robust and the reward submitted should stand, any reward given should be on an undiscounted basis to ensure consistency between networks and because the reward is assessed and given at close out of RIIO 2. We would also welcome clarification that rewards will be adjusted for inflation and real carbon price changes in line with wider costs. This ensures that the value at the time of reward reflective of the effort required to deliver the improved service and outcomes throughout GD2, net of any cost pressures outside of networks' control.

NGN Q7 What are your views on the baseline values for the Tier 2A iron mains volume driver?

The baseline values are in line with our Business Plan Submission and so are acceptable.

NGN Q8 Do you agree with our proposals on the bespoke UMs? If no, please outline why.

The majority of our bespoke Uncertainty Mechanisms have been included in a mechanism of some sort, and we have commented on these new mechanisms elsewhere in our response.

The one area that has not been addressed is excavation disposal costs in association with street works. We believe this still needs to be addressed and have set out our proposals in our response to GDQ53.

2. Innovation

NGN Q9 Do you agree with the level of proposed NIA funding for NGN? If not, please outline why.

Ofgem has approved our proposal of £11.5 million in NIA funding over RIIO-2. However, since the submission of our Business Plan there has been further progress through the Hydrogen Programme Development Group (HPDG) on the industry-agreed programme of work required to be delivered to BEIS to inform a policy decision on heat. In response to the rapid development of this work we have revised our work programme and are seeking a further £4.4 million in NIA funding in RIIO-2.

Specifically, this increase in NIA will allow NGN to accelerate delivery of key HPDG-related projects, support the conclusion of the H21 work programme and progression on to live 100% hydrogen trials in RIIO-2.

We consider our increase is reasonable and in the best interest of consumers. Importantly we consider that NGN is well placed to support accelerated delivery of the HPDG work programme with its strong track record over RIIO-1. Our rationale is set out below:

- *Increased costs are known and justifiable* – Since establishment of the HPDG (facilitated by BEIS and with membership representing Ofgem, BEIS, HSE and all GDNs), it has developed an industry-agreed work programme for delivery, that will provide BEIS with the evidence base on the potential of gas networks to convert to 100% hydrogen, to inform its policy decision on heat.

Specifically, the Network Safety and Investment Board (NSIB) sub-group has developed a work programme for completion by end of 2022, consisting of 24 projects at a total cost of circa £10 million. It has been agreed through this sub-group that each network will lead on the areas that they have demonstrated expertise in. For NGN, this will require delivery of additional projects relating to existing gas assets under seven bar, consistent with our H21 work programme.

The NSIB has identified 16 projects relevant to NGN's area of expertise at a total additional cost of circa £4.4 million (approximately 0.2% of total revenue in RIIO-2). These projects underpin our ask for additional NIA funding and are summarised in the table below:

PROJECT NAME	DESCRIPTION	COST	
1	Analysis/validation of components on existing equipment	This project will review soft parts within equipment such as diaphragms, valves etc. that are currently used within the network for use with hydrogen.	£437,000
2	Initial hydrogen strategy	Following on from the proposed National Grid project to blend/de-blend at the network off-take this project will review the options available to GDNs for the transportation of hydrogen within the above 7bar network.	£90,000
3	Services	This project will undertake leakage testing of different services removed from the network or recreated (including different configurations, diameters and materials).	£118,550
4	I&C customers	This project will review the industrial and commercial customers connected to the gas networks.	£64,250
5	Wider impact of hydrogen	This project will review the impact of remaining equipment in the network (e.g. filters, slam-shuts, wafer check valves etc.).	£500,000
6	MEG requirement	This project will undertake a desktop study to look at whether gas conditioning, MEG is still required and identify possible mitigations (e.g. encapsulation of joint and that compatibility).	£100,000
7	Permeation testing for older polyethylene	This project will test permeation of old PE pipe.	£100,000
8	Review of the ATEX/DSEAR	This project will review the ATEX equipment across the gas network to determine compatibility with DSEAR.	£300,000
9	Gas odourisation equipment	This project will confirm and test odorant injection equipment for use with hydrogen (e.g. comparability and capability to deal with the increased volumes).	£500,000
10	Operation of data loggers and instrumentation	This project will check operation of the existing dataloggers with hydrogen, as well as compatibility of any other instrumentation.	£1,000,000
11	Hazardous Areas updating for hydrogen	At the end of SR25 development and while it is out for comment, determine the impact on existing site equipment.	£500,000
12	Internal Technical Standards/Operation Procedures	This project will update internal procedures and standards.	£1,000,000
13	Modelling – Sectorisation for larger trial	This project will analyse the network of a larger community to determine the size of the potential sectors, venting and purging areas etc.	£600,000
14	Updating Shrinkage Models	This project will update the shrinkage models for permeation through the PE pipework.	£300,000
15	Training plan and course development for network staff	Following on from the various projects across the networks, this project will develop a course(s) that will be required prior to full conversion.	£750,000
16	Flow modelling validation	This project will build upon the work already undertaken by metering flows into more complex areas of the network that include domestic, commercial and industrial users.	£434,900
TOTAL FUNDING REQUIRED TO DELIVER HPDG NSIB PROJECTS		£5,545,500	
FUNDING APPROVED IN DRAFT DECISION		£1,140,000	

We note our responses to SQs 11 and 12 in March, which stated:

- SQ11 – Our NIA proposal submitted in the Business Plan was still current, at £1.1 million in NIA funding required to support hydrogen projects over RIIO-2; and
- SQ12 – We continued to consider that our innovation programme was ambitious given we were seeking fairly significant match funding to support ongoing activities.

At the time of our response, NGN was continuing to work with the HPDG to develop the industry-agreed work programme and it was too early for NGN to understand the implications on its NIA proposal for RIIO-2. Since then, we have worked with the HPDG (including Ofgem) to confirm this programme and are now in a position where specific projects and their costs are sufficiently certain to underpin an increase in our NIA.

- We also note the ongoing work in relation to the HPDG System Transformation sub-group. Some of the work programme being developed through this sub-group will consist of projects suitable for NIA funding, however the work programme is still being refined and confirmed. We will continue to liaise with Ofgem over the coming months to confirm any additional NIA funding we will require in RIIO-2 to deliver this work programme. *Identified costs relate to projects that meet NIA criteria.* Projects identified through the NSIB are small-scale (they do not meet the materiality threshold for the Strategic Innovation Fund), at a low TRL and are clearly focused on research and development activities. As such, these projects are well suited for funding through the NIA. Specifically, these projects will provide the essential evidence to support decarbonisation and a policy decision on hydrogen. Consequently, they are a critical element in the energy systems transition network innovation requirement.
- *Alignment to Ofgem priorities* – As Ofgem states in its Draft Decision documents, it will provide innovation funding, “to do more research and development into green energy, including low carbon alternatives to gas heating, such as hydrogen.”² Ofgem has also made it clear that its Net Zero priority for the gas sector in RIIO-2 is to ensure it provides GDNs with what they need to deliver the hydrogen evidence base to government. Since submission of our Business Plan in December 2019, the HPDG has developed an industry-agreed work programme for delivery, which has had significant stakeholder input and validation. As such, we consider it appropriate to seek additional NIA funding to enable us to accelerate delivery of our component of this programme.

² Ofgem, *RIIO-2 Draft Determinations - Core Document*, July 2020, page 5.

- *Consistent with stakeholder expectations* Our engagement has shown that stakeholders are supportive of networks adopting an ambitious approach to decarbonisation. Specifically, they are supportive of networks delivering business as usual ‘plus’ investments, despite these investments incurring additional costs.³ We consider this marginal increase in our overall expenditure requirements in RIIO-2 is consistent with stakeholder expectations of our role in supporting the achievement of net zero targets by 2050.
- *Supportive of green recovery* Since submission of our Business Plan, we have also been asked to consider opportunities to contribute to the green recovery, given the significant economic impacts of Covid-19. Not only are we intending to accelerate delivery of these projects (targeting completion by end 2022), this work programme will accelerate progress being made towards the development of a hydrogen economy in the UK and the benefits that this new industry will deliver. In a recent report released by the Hydrogen Taskforce, it’s estimated that development of a hydrogen economy in the UK could contribute £18 billion in GVA by 2035 and support 75,000 additional jobs.⁴
- *Strong track record of delivery* NGN has a strong track record of delivery and as such are in a credible position to seek this justifiable increase in our allowance.

In RIIO-1, we have spent on average 97% of our NIA allowance, with only minor variation year-on-year. In 2018/19 and 2019/20 we marginally overspent our allowance. This consistency over RIIO-1 is demonstrated in the table below:

	2013/ 14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	AVERAGE
NIA MAXIMUM ALLOWANCE (£M)	1.18	2.13	2.65	2.41	2.36	2.55	2.65	-

³ Northern Gas Networks, *Business Plan 2021-2026*, December 2019, page 100.

⁴ Hydrogen Taskforce, *Economic Impact Assessment - Summary*, August 2020, <https://www.hydrogentaskforce.co.uk/wp-content/uploads/2020/08/6-EIA-report.pdf>, page 2.

COSTS PASSED THROUGH TO CUSTOMERS (£M)	1.13	1.98	2.59	2.33	2.29	2.55	2.65	-
PERCENTAGE OF NIA SPENT	95%	93%	98%	97%	97%	100%	100%	97%

NGN has a strong commitment to both innovation and delivering the required evidence base needed by government to make an informed policy decision on the potential for gas networks to convert to hydrogen. Our H21 work programme is testament to this commitment and the additional NIA funding we are seeking in RIIO-2 will enable us to accelerate delivery of the remaining evidence required by government.

As stated in our Whole Systems Strategy: “We are proud of our significant contribution to this area so far and are committed to delivery of all phases of our H21 work programme in order to provide the necessary evidence to support a policy decision on heat that will contribute to the achievement of our Net Zero emission targets by 2050.”⁵

We welcome ongoing dialogue with Ofgem regarding this request and are happy to provide further information as required. We also note the importance of all GDNs having sufficient access to funding to accelerate delivery of the evidence base for government, as well as support initial investments in hydrogen projects.

⁵ Northern Gas Networks, *Whole Systems Strategy*, December 2019, page 9