OFGEM

OPEN MEETING SERIES

Network Price Control

National Grid Gas Transmission

Record of Virtual Meeting

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ATTENDEES

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Jonathan Brearley	Chief Executive, Ofgem
Akshay Kaul	Regulatory Director – Networks, Ofgem
Min Zhu	Deputy Director, Ofgem
Myriam Madden	Non-Executive Director – GEMA, Ofgem
Simon Wilde	Senior Finance Adviser, Ofgem
Chris Bennett	UK Director Regulation, Head of Gas Transmission Regulation, NGGT
Darren Pettifer	Head of Regulatory Finance, NGGT
Nicola Shaw CBE	UK Executive Director, NGGT
Phil Sheppard	Gas Transmission Director, NGGT
Trisha MacAuley	Chair of the User Group
Will Webster	Member of the User Group
Roger Witcomb	Chair of the Challenge Group
Robert Hull	Member of the Challenge Group

THE CHAIR: Good afternoon. I'm Martin Cave, the Chair of Ofgem and also the Chair of this hearing. Thank you for joining us today at this Network Price Control Open Meeting which was delayed from the spring by the impact of Covid-19. This and similar meetings are the first of their kind for Ofgem and, despite us not being able to be in the same room, we very much encourage you to get involved as it is important that we all hear a variety of voices today.

I am confident that this meeting will allow us to have an open and constructive conversation about the consultation responses and key outstanding areas of difference ahead of our final determination, which will be published later this year.

The company is first given an opportunity to deliver a 20-minute presentation. We also welcome today members of the company's Stakeholder Group and of Ofgem's own Challenge Group. These groups are formed of independent experts convened to review the business plans in detail. They will have an opportunity to feed in their views ahead of our opening to the floor for questions. It is very encouraging to see the diversity of voices registered for today's event. Please ask your questions on the chosen topics by using the Q and A function on the side bar. I'm afraid there may not be time to answer every question but we will consider them all when drafting our final determinations. Questions will also be asked of the company by members of our senior Ofgem team.

We will be making a transcript and recording of these events which you will be able to watch again and will be available on our website once all the meetings have been concluded.

We start with the knowledge that energy networks in general have delivered a good service but at a high cost to consumers. This is well documented through our own and independent evidence. We also know that investment in the energy system is going to have to rise as we meet the net zero challenge at lowest cost to consumers while protecting the most vulnerable.

Our overall proposals unlock unprecedented funding for projects that cut carbon emissions to create a green, fair and secure energy system for consumers now and in the future. This will enable our sector to play a key role in a green recovery.

I would now like to hand over to Akshay Kaul, our Director of Networks, who will give a brief update and set the scene in terms of where we've reached in the RIIO-2 process with NGC ESO. Thank you.

AKSHAY KAUL: Thank you, Martin. Good afternoon, everybody. Let me start by saying a big thank you to colleagues from National Grid Gas Transmission, the NGGT User Group, the RIIO-2 Challenge Group, and all the other stakeholders who have assembled today for your very thoughtful and extensive responses to our consultation on draft determinations which we got earlier in September and over the last few weeks we have been carefully reflecting upon.

Since we received the consultation responses, we have also had very constructive engagement through a series of technical bilaterals, industry working groups and, of course, supplementary questions that we have asked directly with companies or the concerned respondents. As you can appreciate, we are still in the process of working up our final determination proposals. I wanted to take the opportunity today to reflect on the key themes that NGGT have highlighted, and are going to speak about in a moment, but also briefly summarise the progress that has been made so far since draft determinations were published.

I am going to start with a brief summary on totex and then talk a bit about the outputs and incentives, then net zero and the uncertainty mechanisms, and finally finish with a quick note on finance and the cost of capital.

Starting with totex, which is the word for total expenditure or the total expenditure of running the gas transmission system, we have had a number of bilaterals at the working level between our teams in Ofgem and National Grid Gas Transmission to understand better the justification and evidence submitted for a range of investments proposed by NGGT. In many cases, and in particular for the asset health investment which stakeholders will remember was a significant area of difference between us and NGGT at draft determinations, NGGT have provided material additional information and evidence and, in the light of this, we are giving active consideration to revising our totex proposals as we develop our final determinations.

Just for the benefit of wider stakeholders, I did want to mention that the gas transmission controls are somewhat different from the electricity transmission controls that we will talk about later in the afternoon in that they cover both the transmission network itself but also the gas system operators. It is just worth bearing that in mind. That's where we are on totex.

As far as outputs and incentives are concerned, the level of NGGT's incentive package that we proposed in draft determinations is reflective of NGGT's actual RIIO-1 performance. We have proposed performance targets that are stretching in the light of that performance but should provide an appropriate and adequate challenge for NGGT during RIIO-2.

Taking account of the responses that we received from NGGT, the User Group, and other stakeholders to our draft determinations, we are now giving active consideration to making adjustments to a number of these incentives, in particular and including the one on constraint cost management.

Moving on then to net zero and the uncertainty mechanisms, we proposed in draft determinations a number of uncertainty mechanisms to ensure that the price control can flex and adapt to facilitate the delivery of net zero in a wide variety of scenarios. NGGT were broadly supportive of that approach in their consultation response but highlighted that these mechanisms need to be agile to support developing net zero investment projects quickly. We are continuing to work with the transmission owners to ensure that these mechanisms are cohesive and agile, that they cover the different types of net zero investments that we might encounter in the RIIO-2 period, and we are giving active consideration to the setting of appropriate thresholds and time lines for these reopeners to function effectively.

We acknowledge and agree with the views expressed by NGGT and its stakeholders that the package of uncertainty mechanisms for RIIO-2 needs to strike a balance between protecting consumers from less certain costs and introducing undue regulatory complexity. We have engaged with NGGT to understand their proposals for how to make the uncertainty mechanism package better responsive to high levels of in-period expenditure. Good progress has been made in this area but we think more work is required before we can arrive at a firm conclusion for the uncertainty mechanism package for NGGT at final determinations.

I also wanted to mention in this light that we are working with the industry as a whole to look at the question of the agility of the uncertainty mechanisms and what can be done in terms of process of procedural improvements and in terms of the interactions between the company and Ofgem to make these mechanisms as agile as possible.

Finally, let me touch on finance and the cost of capital. We have had significant engagement with NGGT and other stakeholders in this area to discuss the financial parameters of the package and to understand the responses to consultation. We have also had an opportunity now to go through in some depth the CMA's provisional determination for PR19, the water sector controls. Although these are provisional findings and we await the CMA's final decision, even at this stage we do consider those findings an important contribution to the debate on cost of capital for energy networks. We think there are likely to be areas of cross-over but also there are likely to be other areas such as the computation of asset betas, the cost of debt, and the aiming up arguments that the CMA has used which would tend to be more specific to sectoral circumstances, and we would be interested in the dialogue and discussion today in hearing stakeholder views on this read-across from the CMA's reasoning to the energy sector.

In summary, ongoing engagement is key to ensuring that we have the ability to understand the responses and develop a price control that provides sufficient funding for NGGT to continue operating a safe and reliable network, to create value for consumers, and to play a full role in facilitating net zero. We believe we are making excellent progress in developing our positions for final determinations and I very much look forward to hearing reflections from stakeholders through the rest of this afternoon.

Thank you. Back to you, Martin.

THE CHAIR: Thank you for that, Akshay. I am now going to give the floor to the company which will give a 20-minute presentation of their point of view.

NICOLA SHAW: Thank you, Martin, and thank you, Akshay. It's great to be here and thank you for giving us the opportunity to present and to discuss the business plan and the draft determination with you today.

I'm Nicola Shaw. I am the Chair of NGGT and the Executive Director at National Grid. I'm joined now by Darren Pettifer, Head of Regulatory Finance, and Chris Bennett, Director of Regulation. We've also got Tony Nixon, who is Head of Gas Transmission for Regulation, and Phil Sheppard, Director of Gas Transmission, with us and they'll be here to answer questions.

We really welcome these open meetings as an opportunity to explore how we can ensure that the final determinations meet the needs of our customers, our stakeholders, and current and future consumers.

RIIO-2-2 comes at a critical time for us as a nation. We are dealing with the impact of Covid-19 on individuals, on communities and on the economy and, of course, we also need to ensure our network remains fit for purpose both today and tomorrow. The objectives of our stakeholders, our customers, consumers and Ofgem are ones that we share. We need to deliver the value-for-money services that both existing and future consumers want, while also developing and maintaining a reliable, safe and secure network that's flexible in supporting the transition to a low carbon future. That's why now more than ever we need to work together to deliver a final determination that meets the shared objectives, just as Akshay was saying.

In our response to the draft determinations, we identified three priority themes which needed to be addressed for the final determination. These are: how we deliver reliability and resilience of the network; how to remove complexity and volatility; and how to ensure regulatory stability and investor confidence.

Those themes came from extensive stakeholder and consumer engagement that we've been carrying out and in the preparation of our business plan and, importantly, they reflect both what our customers have told us they need and want us to provide and what we require in order to provide it for them. We've really welcomed the collaborative working with Ofgem that we've had progressing us towards a final determination to meet those shared objectives.

In the next 20 minutes, we'll start by sharing some of the positive dialogue, just as Akshay was, across the first two themes, delivering reliability and resilience of the network and removing complexity and volatility, we will spend a bit of time exploring the third theme, ensuring regulatory stability and investor confidence, and we will explain what the final determination needs, we think, as a package of measures that meet our overall shared objectives.

We do offer remedies and will demonstrate how these could impact stakeholders and consumers. We believe that the remedies we outline are straightforward to implement and will deliver a reliable network service to enable the transition to green, to net zero, and to provide a fair return for investors, all without a material impact on consumer bills.

I'm going to hand over to Chris now to talk about some of the progress we've made in the work with Ofgem since the draft determination. I've particularly asked Chris to do this as he has been working so closely with Ofgem over the last few months.

CHRIS BENNETT: Thanks, Nicola. As you heard earlier from Akshay, I along with the rest of my team have spent a lot of time working through the draft determination with Ofgem. I must say, it does feel really collaborative and constructive, recognising that while we're coming from different positions, we are working towards shared objectives.

I'll start by talking about the first priority theme we identified, and that was delivering the reliability and resilience our stakeholders need. Consistently, our stakeholders tell us that maintaining reliability is a top priority for them. We've one of the oldest and most reliable networks in the world but across our network we're experiencing more condition-related issues than ever before. This means, to maintain the current level of reliability, we need to do more. In RIIO-1, we were overspending our allowances by over £300 million to begin to address these issues. We did this in the knowledge that we were bearing this overspend risk but this was necessary to deliver the outputs consumers need from us.

Our RIIO-2 plan includes asset health work to maintain absolute level of risk on the network, assessed through the Network Asset Risk Metrics or the NARMs methodology. We know that Ofgem are aligned on the importance of delivering safe and reliable networks. However, in responding to the draft determination, we signalled that the asset health allowance would not allow us to do this. It was lower than our spending in RIIO-1 and significantly lower than that needed to maintain the level of risk during RIIO-2 and beyond. The draft allowance would see the level of risk on the network deteriorate by 19 per cent over the next 10 years.

As Akshay said, we've provided further data and explanation to support the required volume of asset health to maintain the level of risk on our network. Remedying this would see £115 million added back into our baseline allowance, with associated outputs, to give consumers the assurance that delivery will be tracked and monitored. This will ensure the reliability our stakeholders and consumers need at an additional cost of just 11p on the average annual domestic consumer bill.

Undertaking our asset health works during RIIO-2 needs to be complemented by an appropriate constraint management incentive which avoids customer disruption, supports increased security of supply, and has a positive impact on wholesale market prices. The risk associated with this incentive is one that we are well placed to manage on behalf of consumers, their actions, such as entering into pre-emptive commercial contracts to manage constraint risk and limit the cost consumers would be exposed to in the event of constraints. We believe that the proposals contained in draft determination need recalibrating to better manage potential cost to consumers and, as Akshay said, we are engaging with Ofgem currently on this important topic.

Our second priority theme is to remove complexity and volatility and here too we're encouraged by the positive discussion we've had. This is important to both customers, who want predictable and stable charges, and for our own financial resilience. Within our plan, we proposed a package of uncertainty mechanisms to protect consumers from less certain costs and ensure flexibility where need changes, but the proposals in draft determination increased use of uncertainty mechanisms beyond what we believe is sensible and create a significant lag between our expected spend and our revenues.

The consequence would be greater variability of charges which our customers and ultimately consumers will face. Based on our current predictions, customers would face a 40 per cent increase in charges in the last year of the price control as funding for investments in the period is stored up and then all released in the same year. We know this is unacceptable to our stakeholders.

The other side of the customer bill variability is our own financial resilience. The uncertainty mechanisms create a significant delay between spend and revenue recovery which would drop our financial resilience to significantly below the level targeted by Ofgem.

In responding to the draft determination, we have provided a number of solutions to these problems and since then we've had productive dialogue with Ofgem to explore the most appropriate remedies.

For many of the proposed reopener uncertainty mechanisms, the needs case has already been established, with uncertainty only in the cost or precise scope of activities. In these circumstances, we can remove volatility by aligning baseline allowances with likely spend and then adjusting from that position using Ofgem's new forecast of outputs approach.

In other areas, we've provided evidence to enable upfront funding to undertake pre-construction activity through our major projects at Bacton and King's Lynn and for the work delivering compressor emissions compliance. Pre-construction work is a relatively small cost for these major projects but it will allow us to progress critical projects without delay at the time when agility and flexibility are critical.

Finally, for those activities required to facilitate delivery of net zero, those that can be considered highly anticipatory and are not "business as usual" activities, we fully agree an uncertainty mechanism is the right approach. This must be supported through an appropriate innovation framework. Take our future grid project as an example. It set out a number of phases to test and trial the ability to transport hydrogen across our existing assets. This project isn't "business as usual" and it currently wouldn't be eligible for funding under either the strategic innovation fund or the net zero reopener proposals. We know our stakeholders want us to take a leading role in driving and enabling the energy transition, and we're fully committed to do this, but we need to ensure the framework allows it to happen.

In summary, we welcome Ofgem's team's openness to discuss these issues and we will continue to work with them so that final determinations include solutions to manage uncertainty in a way that delivers most value to stakeholders and consumers.

I will now hand over to Darren, who will take you through the final of our three themes.

DARREN PETTIFER: Thanks, Chris. Our final theme is how to ensure regulatory stability and investor confidence which cuts across the financial framework and the regulatory framework.

A stable regulatory regime has been a reassuring anchor to attract lay financing over the last 30 years of regulation, it has underpinned financial resilience through the uncertainty of Covid-19, and it will be more important than ever as we move towards a hydrogen economy of the future. However, we believe the draft determinations, if made final, would risk this regulatory stability.

Let me first say that we acknowledge that changes are required to the RIIO framework in order to maintain stakeholder legitimacy. We agree that the returns need to be lower in RIIO-2 than they were in RIIO-1 and we supported the introduction of returns adjustment mechanisms in order to reduce windfall gains and losses.

However, we don't think the draft determinations strike the right balance to maintaining regulatory stability and stakeholder legitimacy. The implication of this would be increased cost to consumers. That's because networks are long-term businesses with an ongoing need to attract investment into the future. Any changes to undermine the regulatory stability in order to drive short-term bill reductions will actually cost consumers more over the long run.

Our principal areas of concern relate to two areas, the first of which is the setting of allowed equity returns, and the second of which is the combined impact of the regulatory and financial frameworks.

Let me first turn to the setting of allowed equity returns. At 3.95 per cent, allowed returns are below those of comparable international energy benchmarks. At a time when we are moving towards a hydrogen economy, and we need to play our part in the green recovery, we don't think such low returns are appropriate. In its recent provisional findings, the Competition and Markets Authority has reached a similar conclusion in relation to PR19 for the water sector, setting a return of 5.08 per cent for the water sector. We have no doubt that Ofgem will consider the CMA's provisional findings carefully but further upward adjustment to these figures is required to match the risk and return for the transmission sector.

We have provided detailed evidence to Ofgem on the high risk in energy compared to water, including evidence that National Grid plc's beta has been 5 to 12 per cent higher than those of the water companies over the whole of the last 10 years in every averaging and estimating technique. This is even before we adjust that plc figure for our lower risk US business.

We've also provided Ofgem with lots of evidence around the view that the outperformance wedge needs to be removed for final determinations. Conceptually, the wedge isn't required if the price control is calibrated correctly, and Ofgem have the tools to do this. Practically, it's inconsistent with the draft determination's opportunities and risks.

I will now move on to the combined impacts of the regulatory and financial frameworks. When layered together, the elements of the draft determinations highlight real challenges in meeting the allowed equity returns. This results from the cumulative impacts of challenges applied from Day 1, combined with a lack of incentives to deliver consumer value.

Faye, if you can put up a chart, I'll walk you through the sort of impacts we see for this Day 1 challenge.

This chart shows the sort of individual and collective impacts of elements of the draft determinations that will hit us from Day 1 of the price control. On the left-hand side in blue is the expected return for the draft determinations of 4.2 per cent before the performance wedge. As you work down the steps, first off in pink is the £86 million of totex savings we would be required to deliver to offset the performance wedge I mentioned earlier. Next, in yellow, shows a further £72 million of totex savings are required to offset the business plan incentive penalty which has been imposed on us. We disagree with this penalty. Rather than encourage a high quality and ambitious business plans, the penalty arises from what we believe to be a highly subjective methodology which disadvantages the transmission sector and penalises for the same perceived failings multiple times. In our view, this should be removed from final determinations, with ambitious activities which add consumer value being recognised.

Now to the orange step that shows that we embedded £83 million on future efficiency in our business plan in December. This included the highest productivity assumptions of any network and is on top of the efficiencies from eight years of RIIO-1 which is already factored into our lower RIIO-2 unit costs. Finally, the green step on the graph shows that on top of this £83 million, Ofgem embedded £224 million of efficiencies in draft determinations. We have serious concerns for the basis of these efficiencies as they appear to be the result of inconsistent comparisons that do not reflect the unique circumstances of gas transmission in a sector of one, flawed econometric methodologies, and simplistic assumptions.
For example, OPEC cost is a benchmark against electricity transmission, even though in practice there is minimal read-across, and the resulting allowances would not enable us to deliver our safety case requirements agreed with the Health and Safety Executive. We've discussed our concerns with Ofgem since draft determinations and believe we have provided a clear basis for the figure to be substantially reduced.

While the individual elements of these items put onto us from Day 1 of the price control are worrying, it is the combined impact of the elements of the chart that probably best highlight our concern with the draft determinations. The cumulative impact is significant, with an overall impact of returns of 150 basis points from Day 1 of the price control. This is shown by the actual RORE on the right-hand side at 2.7 per cent that we would start with.

Put differently, we would only need to deliver the workload funded by the draft determination 25 per cent less to achieve the expected return but, more, this will increase to over 40 per cent once funding *(inaudible)* for large parts of our plan that take effect at the end of the price control are factored in. We do not think this challenge is a credible proposition and the position is made worse by the draft determinations virtually switching off the power of output delivery incentives, directly contrary to the wishes of our stakeholders.

You can put the slide down, please, and I will just finish off. The size of the challenge in meeting expected returns matters, not just for us and our investors, but for consumers and broader stakeholders. It discourages us from undertaking new innovative projects and seeking new efficiencies as we will be forced to be risk averse. The magnitude of the gap needs to reduce for final determinations to improve investor confidence and ensure incentivise to innovate and deliver consumer value. We have provided substantial additional evidence to Ofgem which we believe will enable them to address this problem in final determinations.

I will now hand back to Nicola.

NICOLA SHAW: Thanks Darren. So I started by saying that we have got a clear set of objectives that we share in RIIO-2, from us, from our stakeholders and from Ofgem, and we've been really welcoming the hard work that's gone in and the constructive engagement from Ofgem with us over the last few weeks.

I think today we can see how engaged our broader stakeholder community is and I would like to take the opportunity to thank all of you for your continued engagement. Without it, we wouldn't be confident that we've put forward a plan that meets your needs.

This period is framed by the backdrop of the ongoing Covid pandemic which makes this effective engagement harder to achieve than ever and we recognise the length Ofgem is going to in order to deliver the outcomes we all want. The open meetings are a very welcome step. Thank you for giving us the opportunity to begin the session and I look forward to hearing from everyone else.

As Chris and Darren have explained, we believe we've made some really constructive progress since the draft determinations and that further remedies we've talked about can deliver a reliable network service, enable the green transition to net zero, and provide a fair return for investors. They can be applied without a material impact on bills.

So we look forward to discussing this further.

THE CHAIR: Thank you, Nicola and colleagues, for those very clear presentations. As we've said, we now turn to the User Group's views which they will now give. Thank you.

TRISHA MACAULEY: Good morning, everyone. I'm Trisha MacAuley and I'm the Chair of the National Grid Gas Transmission User Group.

To give some background on who we are for the benefit of stakeholders, there should be some slides going up but, I can talk through them. Thank you. Our members represent gas transmission system users and future users. They're there to represent their constituency and not the company but our members have gone from organisations like the Community Energy Users Council, who have an independent consumer advocate, the Association for Decentralised Energy, Oil & Gas UK Energy Innovation Centre, Green Alliance, Leeds City Council, Total, SGN.

Our role is, over the course of the development of the business plan, to challenge National Grid Gas Transmission to demonstrate that it was listening to its stakeholders and ensuring that the stakeholders' priorities were woven into the fabric of the business plan and then for us to challenge and scrutinise that plan using a stakeholder lens.

Financeability was not within our scope and neither were we set out to duplicate the role of Ofgem in terms of economic regulation, cost assessments or engineering cost assessments.

We challenged National Grid Gas over an 18-month period. We had 15 field day meetings, 12 of them with the company, very, very many deep dives and *(inaudible)* relationship on topics to understand over a long period of time what the issues were. We were exposed to National Grid's very, very early thinking on the business plan and then all the way through the various iterations of that plan.

We put a detailed report in on the business plan. Our overall conclusion was that the business plan was stakeholder-led and that the extent and quality of the justification in the plan was good.

Our focus in this process within the draft determination is to look at the implications of that determination and the business plan for stakeholders and that's our clear focus. Stakeholders want a safe, reliable network that proactively facilitates net zero at lowest cost to consumers.

We are working with National Grid on an enduring role for the Group. They came to us quite early in the process and said they saw the benefits of the Group and we are working with them to hold them to account through RIIO-2 and towards RIIO-3. So we're setting in place those governance engagements and we want to work with Ofgem on that.

I'm going to hand over to Will Webster from our Group and Will is going to cover the first theme of reliability and resilience.

WILL WEBSTER: Thank you, Trish. Just a quick introduction, I am Will Webster. I work for Oil & Gas UK, I'm on both the electricity and gas user groups. I've spent the last 20 years in both sectors, including time at RWE and the European Commission.

As Trish said, we saw it as our job to provide challenge, particularly on the process and assumptions in the putting together of the business plan. We're not here to review the costs and efficiency itself in a detailed way and try to reproduce the job of the Regulator, and that's what we sought to do over the 18 months or so that we were involved.

That required us, however, to have a clear understanding on how the business plan itself was compiled, particularly on the larger expenditure areas, so the asset health part of the NGGT business plan, and we particularly focused on the core assets, so pipelines, valves, compression, et cetera. We were less able to spend time on some of the issues relating to say cyber security or information technology, so we tried to concentrate on the things that were of the most interest to stakeholders.

The process followed, which we understood and welcomed, was a stakeholder-led process, so starting with the views of stakeholders, going into the overall risk assessment model that was referred to earlier, the NARMs model, and then down into detail on some of the assets and interventions that NGGT expected to make. By the end of that process, we in the User Group had a clear understanding of how that process had been followed.

I think you've already heard a bit from Ofgem and NGGT on how they are now working together. I think our observation on the draft determinations is the same processes were followed in the draft determination but in a somewhat different order, so it was starting from the asset side and then back up through the risk model, and then to the impact on consumers. I think that produced what we saw as a pretty different outcome and what you've heard already is that there's a lot of work going on to iron out how those differences arise and to arrive at something that's a pretty consistent view between Regulator and regulated business, and we would encourage that to be addressed.

I think the thing to highlight from a network user's perspective is network users, on both the injection and the withdrawal side, place a high value on reliability. The cost of getting this wrong doesn't end up with a regulated business, it ends up with users. Those costs can be significant if it introduces more risk into the buying and selling of gas onto the network, leading to more constraints, for example. This brings in risks and costs that ultimately get passed on to consumers.

So we are very encouraging of all of the work going on to bridge these differences in the process that has been gone through and we are encouraging of that. Essentially, that's what we recommended as part of our comments on the DD and that's essentially dealing particularly with the asset health and reliability side and that's the area where stakeholders have a really strong view.

Thank you very much.

TRISHA MACAULEY: Thank you, Will. Could that slide go back up, please, but I'll carry on talking. Thank you.

Complexity and volatility on the framework, one of the key areas for real life National Grid Gas with quite a large outstanding challenge was to see it providing more leadership on net zero at pace. In our report on the business plan, at that point we said there was a good balance between baseline funding and uncertainty mechanisms and that the scope of the uncertainty mechanisms was adequately defined. However, we do welcome Ofgem's intent regarding adaptive regulation in what is an uncertain world but, from a stakeholder perspective, we've got concerns on the delivery of the intent.

Increasing complexity will require cultural and organisational change in the company and the Regulator. We think a net zero reopener is sensible but, if triggered only by Ofgem, we are concerned about the risks to stakeholder expectations of that leadership at pace by National Grid Gas Transmission, and effective, proactive and innovative whole systems collaboration. So that's going to be a balance that's going to have to be got right and I'm pleased to hear Akshay saying that there's constructive dialogue involving that.

Again, based on the fact that we've got some users of the system on our Group, we are questioning the impact of that shift in the balance towards adaptive regulation with in-period decisions on charges and pass-through costs, impacting on gas shippers and suppliers and large industrial and commercial customers. We are concerned that these customers could face charges that are unpredictable and unstable.

So I'm going to leave it there, just to finish and say that our Group met last week. We're very encouraged by the dialogue that has gone on between the company and the Regulator and, hearing from Akshay today, that's very reassuring.

So, with that, I'm going to hand back to yourself, Martin, and thank you for giving us that opportunity.

THE CHAIR: Thank you, Tricia and Will, for that contribution. Can I just remind you at this stage that if you want to ask any question about what has been said so far, you can do so using the Q and A function on the side bar, and we'll be getting to those questions in about 10 or so minutes.

First of all, I have to introduce Roger Witcomb, who is the Chair of Ofgem's Challenge Panel, for his Panel's judgements about what has been said so far.

ROGER WITCOMB: Thank you, Martin. Good afternoon, everybody. First, can I introduce my colleague, Bob Hull, who has now appeared on the screen. Bob will be known to many of you. He has worked for both National Grid and for Ofgem but is currently resolutely independent of both of them.

Can I start by saying how much of what Trish said from the User Group we agree with. In particular, we are completely happy with the idea of adaptive regulation with a lower than previous baseline expenditure, with additional expenditure being dealt with by uncertainty mechanisms of one sort or another.

There may be a bit more there than perhaps there should have been. I was struck very much by both what Akshay and indeed what the Group speaker said about the amount of new information that appears to have been exchanged between Grid and Ofgem since the draft determination and possibly before that as well. We can only operate on the information that we had at the time of our final report back in January. We are not in a position to comment on new information.

One of the things we were quite clear on in our final report is that the NGGT plan was not complete, was missing important pieces of information, which may have become available, but their late arrival certainly doesn't help the engagement process which Ofgem have, I think, quite rightly instituted. I just make that point.

I think we also agree entirely with what Tricia was saying that while these uncertainty mechanisms are absolutely inevitable, there is no alternative, it does put an awful lot of stress on both Ofgem and the companies not just to respond but to initiate what needs to be done in a timely way and to respond to it and for NGGT to deliver it to pace. What needs to be done for net zero is still unclear. What is clear is that a lot will need to be done at some stage in the future. So that process, I think, is a very important part of where we go on from here.

Just quickly on stakeholder engagement generally, we think it has been effective both in terms of what we've been able to do and see and what the User Group and indeed what the company has done. I'm sure that has all been taken into account in the draft determinations but it's quite hard to find out and to discern from the Ofgem's DDs what difference this stakeholder engagement has made, where the views of stakeholders have been taken into account and where they haven't. I think it would be good if Ofgem could, in their final determination, make that a bit clearer so that we can see that the process is working well and can improve it going forward.

There is still a lot of clear water between the Ofgem and the NGGT views on totex. Perhaps I could pass over to Bob at this stage to set out some of our views on this really rather large topic.

ROBERT HULL: The point I would make to start with is that it is obviously a tough time for consumers at the moment and what we're looking for in our conclusions was really that the minimum necessary baseline was set for totex, based on the evidence that is available.

The narrative that we did was very much looking at the current run rates of expenditure. We note that the NGGT bid was about over 50 per cent higher than current run rates and the Ofgem proposals are much closer to current run rates.

We also note that the gas demand is decreasing and we think more could have been done by NGGT to take advantage of that over time.

So we welcome that there are uncertainty mechanisms covering a lot of the expenditure that's in place and, indeed, that efficiency improvements are expected to be there. I think one overriding point I would make is that, given this big difference, we really weren't very confident about the justifications that were provided in the plan and we had a lot of reservations about things like how future demand had been taken into account and things like replacement of control systems, whether that was necessary at this point in time. So there was lots of detail there that I am pleased is being addressed and will be addressed between now and final proposals.

I think overall we welcome that there is more evidence, there is constructive discussion, because we think this should be the minimum necessary investment with uncertainty mechanisms, and hopefully that's the way it's proceeding.

ROBER WITCOMB: Thanks, Bob. Moving on to the other big issue, of course, which is finance, first of all a brief word on the outperformance wedge which Ofgem is proposing. I have to say I recoiled when that was first proposed. I couldn't see the point of it and thought it was, as it were, the wrong instrument for attacking the problem. The problem, of course, is quite an intractable one, which is one of asymmetry of information, not just in gas transmission, not just in the power sector, but in regulated utilities generally both in the UK and elsewhere. The regulated entities have consistently outperformed the regulatory settlement and that's entirely a consequence of the asymmetry of information. It's very hard to see what we are going to do about it. However much information National Grid pass over, NGGT, they will always know more than Ofgem, they will always know an awful lot more than us. So there does need to be some way, I think, of redressing that balance, and the way I have characterised the outperformance wedge is that it's the worst way there is apart from all the others. So if anyone can find a better way of addressing this really chronic issue for Regulators worldwide over the long period, then let's have it, but at the moment we can't see an alternative to the wedge which seems to us to be set at about the right level.

The other issue, of course, is WACC and the cost of capital. Again, we are at something of a disadvantage. As I suspect most people on this call will know, we supported the Ofgem position back in December 2018 on the methodology document and then again at draft determination. We believe actually that since Covid began, the relative position of utilities such as NGGT has actually improved in the market so we, if anything, would say we would encourage Ofgem to be even tougher on rates of return than they were then but since then, of course, we've had the CMA provisional decision on the water sector and, again, it's early days. We haven't looked at this in huge detail but, on the basis of some fairly quick conversations with other impartial investors in the sector, we see no reason at all to change our view, which is that the Ofgem proposals are sound and the right ones to take the industry forward.

Bob, have I missed anything?

ROBERT HULL: No. I think that's it.

ROGER WITCOMB: Good. In that case, smack on time, I will pass back to Martin. Thanks very much.

THE CHAIR: Thank you, Roger and Bob. Now we're moving on to the Q and A period which Akshay will orchestrate. As I've said, there's a huge opportunity, we've got 35 minutes, 40 minutes, to ask the company questions, and I hope that many of you will take an opportunity by using the Q and A facility on the side bar to record them. I will pass over now to Akshay.

AKSHAY KAUL: Thank you, Martin, and thank you to all our speakers for their incredibly clear and cogent presentations. As you've heard, I think the bones of contention in this debate are relatively clear. There's the question really about reliability which customers care a lot about and the sufficiency of funding to maintain a reliable network. There's a stress on the uncertainty mechanisms and the ability to operate them at pace and, as Roger said towards the end, there is the ever-present problem of the cost of capital and how to set that in the right place.

I actually want to start the Q and A with a stakeholder question that was very, very prominent before the open hearings which we couldn't run in the summer for perfectly understandable reasons. I thought I would start with that because it's a very important foundational question and then turn to the Panel for further questioning.

This is the question, Nicola and Chris, really about the size of the gas network, the capability of the gas network. I think Bob briefly mentioned that we've seen 20 years of decline in gas demands and there are plausible scenarios which continue that decline into the future and consumers rightly worry about whether they are paying for a gas network that is basically oversized. Some of you and colleagues have been doing some formidably complex and complicated work on what is known as the capability review for the gas transmission network but this is a good opportunity to explain to the wider stakeholder audience, what is National Grid doing to ensure that the gas transmission network enacts capability in the right way and consumers are not paying for what may turn out to be an oversized gas transmission system.

NICOLA SHAW: Akshay, thank you. I agree, it is a central question and a very important one, hence the level of work we've done, I think unprecedented work really, thinking about how to make the transmission system work effectively.

I'm going to ask Phil to answer in detail but, just to talk about this balance we need to strike, our customers have been really clear with us that being able to take gas on and off the network at the times they want it and where they want it is vitally important. In order to do that, we have a fleet of compressors, engines, that move the gas around. So getting the right balance between the accessibility and openness of the network and the compressor capability to do that is a very big part of this question. We do plan to reduce the number of compressors we have available for the period in RIIO-T2, but over the period to 2030, given the scenarios we have run, but we need to make that judgement very carefully because the effect on our customers would be significant if we got that wrong.

Phil, do you want to say a bit more in detail about that?

PHIL SHEPPARD: Yes, thank you, Nicola. So we have done an awful lot of work over the last 18 months to try and describe the capability of the network. It is a complex issue. It's a difficult process to go through in terms of modelling and then communicating that modelling.

Fundamentally, average gas demand has been dropping for some time. The peak demands, the demand we need to meet in the worst winter that we can expect, hasn't dropped as much. We still have a licence obligation to meet what is called a 1-in-20 gas demand, so it's the coldest winter in 20 years. We don't get those very often but the network has to be capable of doing that.

Just as important, as Nicola said, is also the flexibility of the network to move gas from A to B. A good example of the practicalities of this is that last May, at the start of the summer, we had very high imports of LNG coming in at Milford Haven. That's very usual. You would expect high quantities of LNG arriving in the winter. So the network had to be capable of meeting customers' expectations of moving nearly record demands into the centre part of the network.

So how do we describe this to our stakeholders? In fact, we have simplified the network into seven large zones. We've looked at the demand across all the various scenarios in each of those zones and then we've looked at how do we transport energy across each of those zones? What are the import and the export requirements? By running scenarios and by explaining that to our stakeholders, and understanding the sensitivities around obviously the impact on wholesale price if we prevent people bringing gas on the network or preventing customers taking gas off the network, we've been able to plan the closure of 30 per cent of our compressor fleet by 2030, so over the next 10 years.

We are starting that process now and part of our commitment to our stakeholders and what will be reflected in our licence is going to be an annual review of that network capability. So as we get further certainty over the usage of gas between now and 2030, and as we get towards net zero, if we can accelerate that, then that's what we'll do. If we need to maintain some services because the demand isn't dropping off as quickly or there are particular customer needs, or the balance of imports from Europe is changing, then that gives us the flexibility to review it on an annual basis and make sure we're not over-engineering or actually over-investing in the transmission network.

A simple point, perhaps, is that sometimes you can think of some of our gas network as a motorway. Just because the average demand on a three-lane motorway has been reducing doesn't mean on the August bank holiday you're not grateful for all three lanes.

AKSHAY KAUL: Very good. Thank you, Nicola, and thank you, Phil, for that explanation. Let us turn now to a round of Panel questioning and I want to start with our CEO, Jonathan Brearley.

JONATHAN BREARLEY: Hello, Nicola and team. Thanks for all the hard work you've put in this.

Can we just start by talking *(inaudible).* You've talked about risk and reliability but can you explain how you've explored the trade-offs between cost and risk when … *(inaudible)*

NICOLA SHAW: … look at the costs of continuing with existing equipment and the risks and how we estimated the risks to our customers and not being able to provide the assets overall. We did estimate that in quite a full way. Tony, I know, can provide the details behind that but, just for the time being, let me say we think it would cost us about £9 million a year to continue with the six compressors that we are going to take off the network but there's a risk of between £200 million and £1.5 billion a year if we get that wrong, hence this is of extreme importance to our customers and hence why we, as Phil was saying, are going to propose to take this forward on a year-by-year basis to keep checking it and to make sure we have got the right balance. Thank you.

MYRIAM MADDEN: *(Inaudible – technical issues)* We know that NGGT provide Ofgem cost and *(Inaudible – technical issues)* Could you say how you plan … *(Inaudible – technical issues).*

NICOLA SHAW: We absolutely want to be transparent with both Ofgem and our customers. We think it's an important part of our role as a utility and as a network provider. I was going to ask Chris to provide detail on how we're going to set about that for T2 but I don't see him on the screen so I'm going to ask Tony to pick it up, if he could.

TONY NIXON: Thanks, Nicola. I think I got the question. How are we going to make sure we provide the right information as part of our business plans and going forward? Absolutely, we feel that we met the minimum information requirements to deliver that plan. We provided two full plans during the provisional process to give confidence that we were providing the right information before we finally submitted our plan in December for that further scrutiny.

As an example, Ofgem have indicated one of the things they felt we failed was on our Hatton justification. We hadn't provided sufficient information. This was something that was being discussed already with Ofgem during RIIO-1, so we had already presented the case, and a couple of weeks before the business plan was submitted Ofgem already agreed and confirmed with us the needs case for that work.

So we are engaging with Ofgem and the team about have we got this right, have we provided the right level of information, and absolutely where there is a need to provide more, we will do so, and we should then reflect that in any future minimal information requirements going forward.

AKSHAY KAUL: Thank you, Nicola and Tony. Let's move on then to the next round of questions from our Deputy Director for Gas Transmission, Min Zhu. Min, over to you.

MIN ZHU: The question is about the uncertainty mechanisms. Please tell us what area of the uncertainty mechanisms framework do NGGT consider is most important for Ofgem to reconsider?

NICOLA SHAW: Chris, I would like you to answer this.

CHRIS BENNETT: Min, in the conversations that we've had, I think it can be provided, and hopefully I said in my speech, the first bit is we think for some of the preconstruction money for Hatton, King's Lynn, some of the compressors, we think there's sufficient certainty around we need to do that work. The debate is around cost and scope and therefore we believe it would help by providing preconstruction money within the baseline.

We then think when you look at what was in DD and the dialogue that we have had, for a lot of the compressors we know the work is again going to be required but we don't quite know what the cost is going to be of the scope. So, again, I think the conversations we've had on forecasting and outputs would really help try and match more clearly the likely spend that we're going to spend with the allowances and that would solve two things. Firstly, by matching allowances and revenue more closely and then adjusting the outputs around that it would help to solve some of the financeability issues but it would also help solve some of the variability in charges which our stakeholders and consumers have said that they would like to avoid.

So unlike this afternoon when we get on to electricity, which I think is a bit more difficult, I think for gas it's minor changes that are required to the mechanism to enable us to crack on, and then just tweaking the innovation framework to enable us to proceed with some of the hydrogen trials that we want to run, such as the future grid project that I mentioned in my speech earlier.

AKSHAY KAUL: Thank you, Chris, and thank you, Min. Let's take our next question now from Simon Wilde, Senior Financial Adviser to Ofgem. Simon, over to you.

SIMON WILDE: Thank you, Nicola and team, for your presentation. In light of your *(inaudible – technical issues)* may I just ask what level of additional comfort you are now feeling based on the discussions that we've been having on forecasting UMs and on the baseline move and indeed on Moody's confirming the UK energy Triple-A rating for regulatory stability and predictability? To what extent are some of your financeability concerns receding, conditional on the progress that we are all making?

NICOLA SHAW: Thanks, Simon. Darren will do a detailed response, I know. I think the first thing to say is though it has been really helpful, Min and Akshay have been reaching out to make sure they understand the detail in the plan and any further information that we've submitted which has been, I think, a good illustration of a continuing process that helps us all make sure we've got the right answer when we get to final determination. So I'm very positive about that as a good illustration of regulatory approach.

Darren, can you say something about where you think that leaves us in relation to the overall financeability?

DARREN PETTIFER: Thank you, Nicola, yes. I echo your points, Nicola, and welcome the work we've done with Min and Simon over the last few weeks and months.

In the draft determinations it was clear there were a couple of assumptions that weren't quite clear and therefore we were seeing much more problems with financeability than you were in your draft determinations. I think where we've got to now is we've both agreed there were some issues around the delay of revenue from uncertainty mechanisms and the impact that would have back onto our financeability.

So I must be heartened by the conversations around forecasting of outputs. It is something we proposed quite early on to you and you latched on pretty quickly to and saw the benefit of it, so that's good and very welcoming. Also I understand the conversations between Tony and Min have gone really well in terms of baseline levels and making sure there's enough upfront to adjust the revenues.

So we're definitely in a better place than we were at draft determinations around financeability. I think as you referenced, Moody's coming out with Triple-A for Ofgem and the regulatory views around that is a positive for both sides, I think. I still think there's other things outside of financeability though, as I referenced in my speech, that are at risk of probably undermining a bit of that. I think if we can get to the right place for final determinations, then it should be okay, but just the level of the layering of challenge is causing us a problem, and also that some adjustments need to be made for the return as well on the back of the CMA's outcome for PR19 and the detailed elements to make sure that while debt financeability we can sort, equity financeability is also considered, to make sure the attractiveness of the sector is still there in the future.

AKSHAY KAUL: Thank you, Darren. Simon, any supplementaries from you?

SIMON WILDE: Thank you for the answers. I think on the equity side, as Akshay has said, we need to reflect on the CMA and reflect on the significant differences that there are between energy and water *(inaudible – technical issues)*

AKSHAY KAUL: Thank you, Simon. Can I just ask as a supplementary on the question of the User Group and this was confirmed from your customers on the volatility of charging, would the introduction of the forecasting of output sufficiently deal with that concern in terms of volatility of charging or do you think more needs to be done?

NICOLA SHAW: Darren?

DARREN PETTIFER: Yes, it has definitely improved. As Chris talked about, there's a dual side to this. It improves the financeability but it also improves that stability of charges so it should mean more of a stable bill charge through the period.

AKSHAY KAUL: Very good. I'm going to take a question now from stakeholders, Citizens Advice. First, to comment, I think they make the point that they don't think the business plan incentive penalises the transmission sector. They feel it's in the interests of consumers that companies should be encouraged to provide the right information and, when they don't do so, there should be a penalty.

There's a question, I think, to National Grid about whether you feel you have provided sufficient information now in the next round of *(inaudible)* but also a broader question around hydrogen and the use of your assets for hydrogen.

The question is what proportion of the network is hydrogen compatible and when and how will you make changes to make it so?

NICOLA SHAW: Thanks, Akshay. I'll take the question on the BPI and then ask Phil to talk about hydrogen. I think it's probably worth setting a bit of context. We absolutely agree with Citizens Advice and Stew that we should be providing detailed information and we should be communicating effectively with our stakeholders. That's always a challenge. We have a number of different stakeholders who want different levels of information about different parts of the network in different places and want it aggregated in different ways, just as we've talked about in a 200-page business plan with multiple justification reports with extensive details thereafter and the problems of timing, the Hatton compressor decision coming in November and our business plan being submitted in December. These things all just add to the layers of difficulty in making sure we are transparent at all times and we want to work on that with you and we think we are making steps forward.

In relation to incentives, I think the level of difficulty of this is illustrated by the extent of the proposed penalties on all networks, over £140 million, whereas very low, I think only just around £1.5 million, in relation to upside to any company for doing well. So I think it illustrates the difficulty in this space but we will keep working on it with you and I hope we will continue to find a way forward.

Phil, would you like to talk about hydrogen?

PHIL SHEPPARD: Yes, thank you. Hydrogen is obviously very exciting. We've been working very closely with Ofgem and looking at how we can deploy hydrogen across the existing assets. There's clearly benefits for consumers, for society in general, but also from a planning and amenity and a communities perspective in reusing our assets for carrying hydrogen.

Nicola mentioned our future grid project. That's a good example. We've got 52 of these in the plan but this is a good example that we are demonstrating that we can carry hydrogen at 2 per cent, 20 per cent and 100 per cent in our existing infrastructure. We are building that capability up at Spadeadam. It's a collaborative process with each of the gas distribution companies and obvisly involves the HSE and Ofgem. We need to demonstrate the safety but we're going to re-purpose existing assets to demonstrate that that capability is there.

There are all sorts of technical issues. People talk about steel embrittlement with hydrogen, but there are ways of addressing that by blending small amounts of oxygen, so we have demonstrated that. We are collaborating across Europe. We have shared information with other companies that are doing similar activities in Europe and actually there are already two pipelines that are carrying hydrogen that were existing transmission network.

So the programme of work and the advance to net zero for us is demonstrating what the capability of our network is, what the economics are, what the benefits are for consumers and communities and planning and not having to build a new hydrogen transmission network, depending on what role hydrogen will play in the economy.

We are also collaborating on carbon capture usage and storage. Obviously, there is a potential usage for some of our pipelines in carrying CO_2. Our network connects obviously all the distribution networks but also connects all of major industry so if we need green steel, we need green concrete, then hydrogen clearly has got a role to play in that and our network is in the right place. That's the reason we are doing these projects, to demonstrate that we can reuse this capability.

AKSHAY KAUL: Thank you, Phil and Nicola. Can I ask as a segue to that question, I think Chris mentioned that one of your hydrogen trial projects is potentially not eligible for the innovation funding that we're proposing to make available either through the strategic innovation fund or through the net zero reopeners. Could you just explain that for the benefit of the Board, why you feel that your hydrogen efforts will not be capable of being funded through one or more of these mechanisms?

CHRIS BENNETT: I might pass this to Tony who is closer to this one because I think the intent is there. Tony, do you want to get into the specifics of why it falls between the gaps.

TONY NIXON: Thanks, Akshay. This is, I think, the problem with gas transmission being in a sector of one. People tend to focus on gas distribution networks or electricity transmission system. We do have some bespoke things and we have to test hydrogen and the properties and the complexities of the transmission system.

When we looked at the mechanisms that were proposed, there was a gap, and I think some of the GDNs have found this and we've been working with them. The gap sort of manifested itself as some of the projects are only small to test the feasibility of some of these, which means we can't apply it to the strategic innovation fund. The threshold has been set at £5 million for that. They're also not eligible for a net zero reopener because they're not as well defined as they need to be to roll out something going forward.

The northern network innovation allowance, it's not really innovation, this is trialling and testing a capability to deliver, above "business as usual". I think we can all recognise hydrogen is not a "business as usual" activity.

We have a portfolio of about 52 projects or phases that we need to go through and our best estimation at the moment over the five years for those projects would be about a £45 million funding gap. So we need to come up with a way of doing that. In our business plan, we set out a road map that we would be ready in 2026 to have tested all of those assets, be ready to transmit hydrogen on our network. If we delay, if we can't find a way to progress those at speed, we could delay that, and I think that won' be in consumers' interests.

I know we've been working with your team and Michael Wagner on the GDN side about is there a separate mechanism we can put in place that can access that money, obviously signing off through the Ofgem committees, but access that so we can get on with that important research and deliver for customers, and that is what we are trying to do, just make sure clear funding can be accessed when necessary.

AKSHAY KAUL: Thank you, Tony. I admire and applaud everyone's patience and resilience with the technology. I think we've had a good run of it for the last eight or ten minutes so I don't want to push our luck too much further.

Let's just go back to Jonathan because I think his first question did get a little interrupted. Jonathan, any further questions from you before we go to closing remarks?

JONATHAN BREARLEY: No. I think that's everything from me, Akshay. I think we've answered the question. We got there in the end.

AKSHAY KAUL: All right. Very good. In that case, let me hand over to our CEO, Jonathan Brearley, for some closing remarks.

JONATHAN BREARLEY: Thanks very much, Akshay. Can I say thank you to everybody involved, so to the National Grid Gas Transmission team, particularly Nicola and her team, to the Challenge and stakeholder groups, to all those of you who have joined us for the questions today and equally to the Ofgem team that put so much work into this process as a whole.

I do want to say thank you to all of you for the hard work that goes into these price controls. They are billion-pound decisions we are making on behalf of consumers and I know how much work is done on all sides to try to get to the right place in our final determinations in December.

Before I conclude, I would like to reiterate some of the things that Martin said in his opening remarks. We know these price controls are critical. We know they play a critical role in supporting the green recovery and in helping the country get to net zero. Indeed, as Nicola mentioned upfront, I do think there is strong consensus on the strategic direction of travel. We all agree, I think, that these price controls need to show lower returns than their predecessors. We also agree that there needs to be greater efficiency and there is a clear recognition from all of us, including Ofgem, that we accept the need for greater net zero investment. Equally, I recognise we do differ on the extent of that change that we wish to see.

Since our draft determination, we have seen huge evidence from companies and stakeholders and look forward to working with them over the coming months to get towards our final determination.

Coming on to NGGT and the conversation we've had today, there is consensus. All of us agree that we need a reliable network and I think all of us agree that we need an adaptable regulatory framework to allow the transition to that future network that we've been describing today, in particular, to allow trials to support hydrogen, noting some of the concerns raised by National Grid around our innovation funding.

There is a lot we need to work together on, for example, the nature of a net zero reopener. You raised today issues around preconstruction funding, cash flow, and forecasting of outputs to manage some of the potential volatility that that might mean. Equally, we all do need to work together on what that future network might mean, how it evolves over time, and reassuring customers that we won't be investing in something that ultimately they don't need because we have transitioned elsewhere.

As ever, in a price control, there will be a healthy debate around many remaining areas. Just to highlight a few, clearly, we are going to continue to discuss efficiency, accepting that there is a huge amount of evidence that has come forward for us to consider around engineering. There is clearly a debate about returns and finance and I note the comments of NGGT but also the comments of the Challenge Panel both around the revenue side, around run rates compared to the existing regime, but also around returns.

Finally, I note that we are continuing to have a conversation on the business plan incentives.

Overall, I do want to say thank you all for your hard work. Thank you again for bearing with some of the technology issues we've faced today. This is an important debate and one we are determined to have in a public forum where stakeholders can engage. Thank you, everyone, for engaging and I'll close this session now. Thank you.