

Gas Transmission

Welcome to the webinar on our response to Ofgem's RIIO-2 draft determination

8 October 2020

- Thank you for joining us
- We will be starting at 10:02
- Please put your phone on mute

nationalgrid



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Charon
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Adelle
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Tom
Edwards



Before we start...



This webinar should last approximately one hour



All callers will be placed on mute



You can message us via the webex chat function and we will take Q&A at the end of the presentation.

Agenda

- ▶ **1. Overview of the RIIO-2 process and our business plan**
- ▶ **2. Ofgem's draft determination (DD) for NGGT**
- ▶ **3. Our response to Ofgem's draft determination**
- ▶ **4. Next steps and questions**

1. Overview of the RIIO-2 process and our business plan

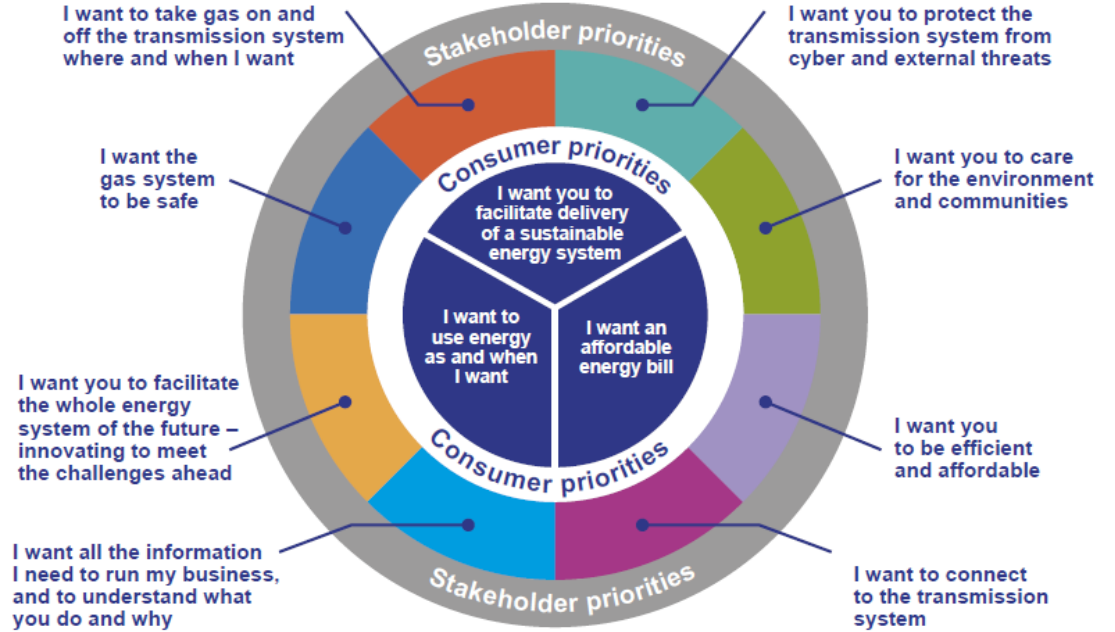


RIIO-2 timeline

RIIO is Ofgem's process for setting outputs and funding for energy network companies (Revenue= Incentives + Innovation + Outputs)

Activity	Date
Gas Transmission business plan submitted	9 December 2019
Independent User Group report published	19 December 2019
RIIO-2 Challenge Group report published	24 January 2020
Draft determination published	9 July 2020
Draft determination consultation closed	4 September 2020
Open meeting	16 October 2020
Final Determination	December 2020
RIIO-2 starts	1 April 2021

We developed our plan with you



Thank you for your help in developing this plan.

2. Ofgem's draft determination for NGGT



National Grid Gas Transmission headlines

- **Totex allowances:** 40% reduced in totex baseline from £2.6bn to £1.6bn
- **Uncertainty Mechanisms:** 20% of baseline moved to uncertainty mechanisms to fund works when scope and costs are clear
- **Efficiency:** 13% reduction in costs including a 1.2% ongoing capex efficiency challenge and 1.4% opex efficiency challenge
- As a result of Ofgem's proposed actions for National Grid Gas Transmission results in reductions of around **0.95%** in gas transmission network charges in RIIO-2. This could reduce the average annual household bill by around **9 pence** per year.

3. Our response to Ofgem's draft determination



We have serious concerns with DD and its consequences

The DD cuts our proposed business plan baseline allowances from £2.60bn to £1.53bn and reduces the outputs we proposed in our business plan.

Whilst we share Ofgem's stated objectives for RII0-2, the DD currently fails to meet the needs of our customers and stakeholders and is not in the interests of current and future consumers because it:

- 1. Introduces significant risk to the reliability and resilience of the network**
- 2. Creates unnecessary complexity and volatility in the framework, and**
- 3. Erodes regulatory stability and investor confidence.**

Introducing significant risk to the reliability and resilience of our network

You told us reliability and resilience is as a top priority. Based on this, our business plan included asset health work to maintain the absolute level of risk on the network.

The proposed reduction in baseline asset health investment will not allow us to maintain the level of risk on the network and will see the level deteriorate by 19% over the next ten years.

The consequence of increased risk on the network can impact reliability. Reliability issues can lead to constraints and limit the ability of our customers to bring gas on and off the network where and when they want.



Remedy needed: increase asset health volumes and associated output commitments to maintain network risk.

Unnecessary complexity and volatility introduced in the framework

Uncertainty mechanisms and volatility of charges

Ofgem has far extended our proposed robust package proposed of UMs, many introduce an unnecessary level of regulatory burden, complexity and uncertainty on us and our stakeholders.

Based on current predictions, customers would face a 40% 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.

Remedies needed:

- Provide ex ante allowances for pre-construction works based on our evidence of efficient costs.
- Provide baseline allowances for UMs where the need is clear and more closely match expected spend and revenue through forecasting of outputs.

Eroding regulatory stability and investor confidence

The DD offers limited reward to drive better performance and service levels for both customers and consumers.

The result is a framework which will erode regulatory stability and push capital away from the UK energy sector at a time when significant investment is required, increasing costs of delivery for consumers.

Framework parameters:

- disproportionate, unjustified BPI penalty;
- flawed methodology in setting efficiency targets;
- dampened incentives, combined with multiple penalties and ex post clawbacks;
- stifling innovation

Financial parameters:

- inadequate allowed equity return;
- inability to achieve allowed returns.

Eroding regulatory stability and investor confidence - framework

Ofgem has damped the incentives for networks to reduce cost and drive service improvements to the detriment of current and future consumers:

- Output Delivery Incentives scaled back
- Network Asset Risk Metric provides no incentive to innovate or focus on reducing risk at the lowest cost across our asset renewal expenditure
- Headline incentive rate (sharing factor) down

Remedies needed:

- Review new information that demonstrates the consumer value of ODIs and set improved incentive values that would drive service improvements for consumers
- Accept our alternative NARMS mechanism for the that simplifies regulatory regime whilst maintaining protection for consumers
- Reassess the treatment of high and low confidence costs to increase the totex sharing factor

Eroding regulatory stability and investor confidence - framework

Stifling innovation

The combined mechanisms and design outlined in DD could slow down our progress to ensure the UK is hydrogen ready by 2026.

There is a lack of detail provided on the proposed Net Zero and innovation mechanisms. Ex post reviews and excessive efficiencies will make it extremely challenging for us to drive the innovation needed across our day to day activities.

Remedies needed:

- **Allow NGGT to trigger net zero reopener uncertainty mechanism to facilitate hydrogen developments**
- **Increase the Network Innovation Allowance to bridge the gap between Net Zero and Strategic Innovation Funding mechanisms**

In summary

- Since publication of DDs we welcome the constructive dialogue we are having with Ofgem on these issues and urge Ofgem to consider the evidence presented in our response, which supports our proposed remedies, for Final Determinations.
- The impact of these remedies will not have material impacts on the household bill but a revised package will deliver a reliable network service, enable the green transition to net zero and provide a fair return for investors.
- To support our response, we have commissioned an independent expert organisation to test consumer preferences in light of current economic circumstances. The results of this research are included within our response and clearly and consistently show **consumers' preference for investment in reliability and net zero above short term bill reductions** across the various demographic groupings.

4. Next steps and questions



Next steps

- ▶ Ongoing informal consultation on licence changes
- ▶ Open meeting on 16 October
- ▶ Final determination in December 2020
- ▶ Formal licence changes consultation ends in January 2021
- ▶ RIIO-2 period starts on 1 April 2021

Questions?

Please get in touch to discuss further

Get in touch with:

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Register for the open meeting by [clicking here](#)

[Visit our RIIO-2 business plan page here](#)

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