

Neil Tansley  
National Grid Gas Transmission

15 May 2018.

Sent by email to: [Neil.Tansley@nationalgrid.com](mailto:Neil.Tansley@nationalgrid.com)

Dear Neil,

## **Gas Transmission Network Output Measures Methodology**

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group.

In the consultation, aspects of the Methodology and its application have been identified that require further work ahead of the RIIO-GT2 price control. We recommend efforts are focussed on ensuring the Methodology is wholly fit-for-purpose for developing the business plan for and undertaking network investment during the RIIO-GT2 price control. We recommend the following:

- **Appropriate supply and demand scenarios should be developed.**
- **Supply and demand conditions and consequential failure rates should not be held constant.**

Also:

- **The NOMs Incentive should be ‘switched off’ for the RIIO-GT1 price control.**

### **Appropriate supply and demand scenarios should be developed:**

The impact of supply and demand conditions has been identified as one of those aspects requiring further work ahead of the RIIO-GT2 price control. It is explained that supply and demand conditions directly affect asset health<sup>1</sup> and “...present[s] a series of challenges for the application of the Methodology...”<sup>2</sup>. National Grid has highlighted the greater variability in supply and demand patterns, compared to patterns the year before, as presenting the most significant operational challenge during 2016/17<sup>3</sup>.

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<sup>1</sup> “Measuring our gas network outputs”; page 18:

[http://consense.opendebate.co.uk/files/nationalgrid/transmission/TN\\_NGGT\\_NOMs\\_Methodology\\_Main\\_Document\\_v1\\_0.pdf](http://consense.opendebate.co.uk/files/nationalgrid/transmission/TN_NGGT_NOMs_Methodology_Main_Document_v1_0.pdf).

<sup>2</sup> “Measuring our gas network outputs”; page 10.

<sup>3</sup> “Our Performance for 2016/17”; paragraphs 27-38:

[http://consense.opendebate.co.uk/files/nationalgrid/nationalgrid/transmission/2016-17\\_NGGT\\_Our\\_Performance.pdf](http://consense.opendebate.co.uk/files/nationalgrid/nationalgrid/transmission/2016-17_NGGT_Our_Performance.pdf).

It is likely that factors that caused the greater variability, such as more flexible power station demand<sup>4</sup>, will continue and could affect the amount of network risk to be managed. It is explained the Methodology has been tested based on certain supply and demand conditions<sup>5</sup>. However, it is not clear the extent to which the greater variability in supply and demand conditions that have occurred, and is likely to occur in the future, have been reflected in the conditions used for testing the Methodology. Given the potential impact on asset health and risk, we recommend the Methodology is tested against a greater range of credible supply and demand scenarios, reflecting the greater variability, and further developed if necessary.

### **Supply and demand conditions and consequential failure rates should not be held constant:**

We disagree with the proposal to hold supply and demand forecasts and their impact on failure consequences constant during a price control period, to avoid swings in risk driven by exogenous factors<sup>6</sup>. It is acknowledged that:

*“...supply and demand to meet current and future requirements will change year on year with the capacity booking process and therefore could be considered an exogenous factor that would lead to either increase or decrease in risk at many sites or regions of the network outside NGGT’s control...<sup>7</sup>”*

As has been recognised by National Grid, investment plans should be programmed to address **actual** network condition/risk and minimise disruption to customers<sup>8</sup>. Therefore, the Methodology should take account of actual conditions and should be able to be used to accurately quantify the consequential impact on network risk.

Holding the supply and demand forecasts and their impact on failure consequences constant could provide a distorted view of network risk. This distortion could render the Methodology inadequate as an investment planning or an asset condition monitoring tool. Further, the proposal does not appear to be compatible with most of the Methodology Objectives, namely:

- (a) the monitoring of the Licensee’s performance in relation to the development, maintenance, and operation of an efficient co-ordinated and economical pipe-line system for the conveyance of gas;*
- (b) the assessment of historical and forecast network expenditure on the pipe-line system to which this licence relates;*
- (c) the comparative analysis of performance over time.*

We note further discussions are required with Ofgem to understand how the impact of changes in failure consequence arising from supply/demand variations will be treated during the RIIO-GT2

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<sup>4</sup> “Our Performance for 2016/17”; paragraph 2.

<sup>5</sup> “Methodology for Network Output Measures – Consequence of Failure”; page 14:

[http://consense.opendebate.co.uk/files/nationalgrid/transmission/TN\\_NGGT\\_NOMs\\_Consequence\\_of\\_Failure\\_v1\\_0.pdf](http://consense.opendebate.co.uk/files/nationalgrid/transmission/TN_NGGT_NOMs_Consequence_of_Failure_v1_0.pdf)

<sup>6</sup> “Measuring our gas network outputs”; page 15.

<sup>7</sup> “Measuring our gas network outputs”; page 15.

<sup>8</sup> “Our Performance for 2016/17”; paragraph 195.

reporting period<sup>9</sup>. This is inconsistent with the proposal to hold the supply and demand forecasts and their impact on failure consequences constant. Planning, reporting and performance assessments should be conducted on a consistent basis. We recommend the Methodology is revised so that the impact of the changes in supply and demand conditions on asset health can be captured.

**The NOMs Incentive should be ‘switched off’ for the RIIO-GT1 price control:**

We note a programme of work to improve the quality of the asset register and other data required to support the Methodology continues to be rolled out<sup>10</sup>. Also, work is ongoing to improve the Methodology so that NOMs targets agreed at the start of the price control can be rebased<sup>11</sup>. Rebased targets are expected to be agreed in 2019, with less than three years remaining of the eight-year price control<sup>12</sup>. As such, the NOMs Incentive cannot be effective because there will be little opportunity to respond to targets. Notwithstanding the lack of opportunity to respond, the current inability of the Methodology to capture the impact of changes in supply and demand condition on asset health can distort targets and out-turn performance. These circumstances create a material risk of inappropriate gains or losses.

We hope you find these comments helpful. Please contact me if you have any questions.

Yours sincerely,

Andy Manning  
Director - Network Regulation, Forecasting and Settlements  
**Centrica Regulatory Affairs, UK & Ireland**

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<sup>9</sup> “Measuring our gas network outputs”; page 15.

<sup>10</sup> “Measuring our gas network outputs”; page 10.

<sup>11</sup> “Measuring our gas network outputs”; page 19.

<sup>12</sup> “Network Output Measures (NOMs) Incentive Methodology”; page 6:

[https://www.ofgem.gov.uk/system/files/docs/2018/03/180326\\_noms\\_incentive\\_methodology.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/03/180326_noms_incentive_methodology.pdf).