31st July 2019

nationalgrid

National Grid Gas Transmission (SO) RFPR submission narrative – 2018/19

Introduction

This narrative supports the submission of the National Grid Gas Transmission (NGGT), System Operator (SO) Regulatory Financial Performance Reporting (RFPR) pack. Given the current requirements of the Regulatory Reporting Pack (RRP) narratives overlap with those of the RFPR narrative, we make reference to the published RRP narrative as required to avoid duplication.

As per the RFPR Regulatory Instructions and Guidance (RIGs)[1], the following sections are not required for input and thus have not been published or commented on within this narrative.

- RORE
- Innovation
- Financing - The SO element is an allocation of TO net debt and financing cost and is reported in the TO RFPR.
- Net Debt - The SO element is an allocation of TO net debt and financing cost and is reported in the TO RFPR.
- Dividends

Revenue

Collected revenue and the Maximum Allowed Revenue (MAR) for 2018/19 is explained in the Revenue RRP narrative (Appendix I, pp.141-146). In accordance with the RFPR Regulatory Instructions and Guidance (RIGs), we have not completed the forecast section for allowed revenue.

Totex Performance

Overview

For an overview of our totex performance, please see the Performance Summary in the C&O RRP narrative (pp.9-11). No additional judgments have been included within the RFPR tables that impact totex performance.

The sole adjustment is rephasing allowances to align with our spend profile compared to those in the PCFM. This better matches allowances to the level of incurred or forecasted expenditure, providing a more accurate view of in-year performance. We have presented the impact of the re-phasing allowances as a single line on the R4 totex tab. This is appropriate as re-phasing does not affect the overall level of allowances recognised over the RIIO-T1 period.

Output incentive Performance

Forecast output incentives are assumed to be an average of the actual earned incentives in T1 to date, unless the incentive has ceased. This methodology is in line with TO. In the case of the Greenhouse Gas incentive, 2019 value has not yet been determine and thus we have applied the

[1] https://www.ofgem.gov.uk/system/files/docs/2019/04/rfpr_guidance-decision_2.pdf

average historic performance to 2019 as well as future years whilst we wait for direction from Ofgem.

Full detail of our historic output incentive performance for SO is included within the C&O RRP narrative:

- Maintenance incentive – Section V, p27
- Constraint management – Section V, p28
- Transportation Support Services – Section V, p30
- Demand Forecasting Incentive – Section V, p31
- Residual balancing – Section V, p32
- Shrinkage incentive – Section VI, p37
- Greenhouse gas incentive – Section VI, p39

RAV

(2018/19 Price base)

The RAV table utilises the PCFM published in November 2018 to calculate the adjusted RAV balances.

The RAV for net additions (after disposals) is based on a PCFM with totex updated as per C&O RRP19, and the enduring value adjustment row further, reflects the rephasing adjustment noted above.

The closing RAV in 2021 has reduced from 171.8m in RFPR18 to 154.2m in RFPR19.

The R9 – RAV tab contains a logic test on row 32 that does not operate correctly due to an error in the formula logic. Hence the logic test may return as false, but this does not represent any error in the table. A detailed explanation of the error has been submitted to Ofgem in a separate note.

Tax

(2009/10 Price base)

Forecast tax performance for 2019 is £1.8m.

Ignoring the impact of financing performance, residual tax performance continues to be minimal. This is in line with our expectations, and deviations are primarily a result of forecasting variances, partially offset by the 'dead-band' benefit received on lower corporation tax rates.

The allocation of the NGG tax attributable to TO and SO is in line with the allocations used within our underlying accounting systems and is reflected in the Statutory Accounts. There are no specific allocations made for the RFPR tables.

The forecast tax allowance is derived from the PCFM post enduring value adjustments.

Pensions

(2009/10 Price base)

Pension deficit payments were broadly in line with the prior years. The only notable change is the adjustment of £0.1m for the Pension Payment History Allowance (PPH), which is forecast for the remaining periods of T1. The pension scheme valuation is performed tri-annually, the valuation presented in the 2018/19 RFPR is therefore the same valuation as that presented for 2017/18

Data assurance statement

The RFPR submissions have been completed in line with the Ofgem Data Assurance Guidelines (DAG) process. This mandates a fully documented 2 level review process. The overall submission and regulatory judgments have been signed off at Director level.

Basis of any estimates and allocations

Where allocation between NGGT (TO) and NGGT (SO) has been required, this has been done on a RAV basis.