



Stakeholder Engagement Round 4

RHIO-T1 Initial Proposals Gas & Electricity Transmission Workshops

Hosted by National Grid & Ofgem

Chesterfield Hotel, Mayfair, London

4th & 5th September, 2012

Introduction

The Talking Networks workshops were held to give stakeholders the opportunity to discuss relevant topic areas with National Grid & Ofgem in relation to the Initial Proposals released on 27th July 2012.

Set out below are the headline points raised by stakeholders and the relevant responses from National Grid & Ofgem.

National Grid Electricity Transmission

Overall Plan

- One stakeholder was concerned about the wider implications of reducing National Grid funding and its impact on timely connection and cost of renewable projects
- The same stakeholder also asked if this work was linked to Ofgem's 'Sustainability Consultation' and took account of industry confidence/acceptability and investment? Ofgem's response was that Sustainable Development is factored into all teams in Ofgem when decisions are made
- A stakeholder expressed concerns about the size of the Willingness to Pay allowance as proposed. They felt it is a small amount for what is likely to be required and generally money may be better spent on new lines. They asked if the 10% figure for undergrounding of new lines had been in the plan throughout which National Grid confirmed it had. They asked what is Ofgem's stretch/ceiling and Ofgem stated that there isn't one as National Grid will submit its application through the planning process, and the funding for



undergrounding will be provided through the regulatory contract to support the planning decision

- Ofgem were asked by a stakeholder if they are prepared to move from the £100m starting figure for existing lines. Ofgem responded by confirming that this amount is to allow work to commence and National Grid's research in this area had provided really good information & analysis. Ofgem added that discussions are on-going on the process and policy that GEMA can sign on to. Ofgem confirmed that the pot of money included Scottish TO's in answer to a stakeholder question of whether National Scenic Areas were included.
- A stakeholder asked if the £100m was weighted by project and Ofgem reiterated that it is a fixed amount to kick start the process
- On network renewal when asked by National Grid as to whether the company should be incentivised, a stakeholder responded by saying as we are a Transmission Owner it is our 'day job' so do we need to be, and we should continue to manage the risk.

SO Capex

- One stakeholder was not in favour of investment that reduced balancing opportunities. However, there was agreement from the remaining stakeholders that reducing constraint costs was an appropriate focus.
- There was stakeholder confusion over why National Grid needed funding of £130m to invest in systems that would save £600-700m; couldn't we just invest anyway as there is such a strong cost benefit? National Grid responded by saying the investments, whilst delivering financial benefits, are primarily required to deal with a SO environment that is fundamentally changing, and that they are necessary to maintain the delivery of the outputs (especially system reliability). The benefits from these investments will filter through into helping minimize the forecast increase in future external balancing costs.
- Stakeholders asked National Grid to provide more information about the calculated £600-700m benefit. Is it a flat profile over the period, or does the benefit ramp up year-on-year? How much of the benefit was associated with reserves (and hence linked to an increase in wind and accuracy of wind forecasting)? National Grid confirmed that it had given this information to Ofgem and will provide further evidence in its detailed response to Ofgem's Initial Proposals later in the month.



- One stakeholder believed renewables connections were increasing in line to meet Govt environmental targets, although the majority of offshore wind is still at application stage. They also commented to Ofgem as to whether their consultants believe that the UK environmental targets will be met, and highlighted a danger that – if they did not – the regulatory deal would not be sufficiently aspirational.
- Another stakeholder believed that uncertainty around the offshore framework, the future of nuclear power, and the re-banding of ROCs that favours biomass, could mean that existing coal plants are retro-fitted to burn biomass. Under this scenario, the SO challenges National Grid highlighted would not materialise.
- Due to this uncertainty, stakeholders thought that it would be pragmatic to revisit funding needs in 2017 (i.e. as part of the mid-period review). It was also suggested that it could be revisited sooner (2014/15?) when policy uncertainty would have reduced. As to the type of funding (an adjustment to baseline or an automatic volume driver), it was felt that it was too uncertain to make that choice today and that this should also be decided at the same time as funding was reviewed (i.e. 2017 or 2014/15).

Electricity SO Incentives

- Some stakeholders were in favour of suspending BSIS for one year. One stakeholder saw the sharing of an incentive/penalty which isn't under their control as high risk, so a delay of one year would allow them to understand the consequences better.
- National Grid explained that the aim was to make system access more flexible, by balancing the cost of operating the system against the need to provide access.
- Some stakeholders were supportive of National Grid's aspiration to make the system more flexible, and linked that to the work being undertaken as part of Network Access Policy development.
- There was stakeholder agreement about the challenge around sharing the financial signals around the cost/benefit of better outage planning. The stakeholders felt it was not yet clear how this should best be incentivised.
- Another stakeholder felt there may be merit in having a BSIS incentive, as Ofgem proposes, that is less prescriptive and broader. However, it must be clear what National Grid should and should not do under any new scheme e.g. if National Grid has done something in good faith then this action should



not be penalised. Also they felt there is a need to carefully define 'business as usual' under Ofgem's proposed approach such that the baseline is understood. This route could increase the transparency of decision making when National Grid takes balancing actions which could be a good thing – potentially leading to greater scrutiny of balancing actions

- One stakeholder stated current models are a black box and that the complexity of these seems to be increasing with the proposed new model where there are a greater number of nodes etc. There is not really any appetite from the industry to investigate the models. More detail is required on Ofgem's proposal in terms of the criteria/test it would apply to determine what is economic and efficient and how they would determine a good or bad investment decision. In addition, they wouldn't want Ofgem's new approach to encourage more conservative behaviour by National Grid due to imbalance of risk – therefore caution should be applied when looking at an alternative to BSIS.

Network Development Policy

- A few stakeholders expressed their wish for the NDP interactive model to be available on National Grid's website. They commented that the model provides a very clear way of showing how difficult investment decisions are made and that the benefits for stakeholders can be seen.
- There was a query on whether the analysis included non TSO costs, e.g. wider cost such as not meeting environmental targets, etc. National Grid confirmed that these are not included.
- On the question of probabilistic weighting versus least regret, Ofgem expressed concern that they can't see scenarios being treated as equal weighting through least regret analysis and therefore prefer probabilistic weightings. They did accept the point that further discussion is required on the strength that probabilistic weightings will be hard to set. Ofgem and a couple of other stakeholders, thought that National Grid was best placed to set the probabilities based on best information on the progress of various generation projects.
- Ofgem also stated that they would like to see a more 'bottom-up' approach to have high convergence between scenarios for the earlier years of the forecast
- On the subject of sensitivities, it was felt that NDP should also cover the aspects of lead times and transmission costs sensitivities – not just generation sensitivities.
- Further comments from stakeholders were about construction projects only deliverable in some cases within a window of opportunity, and hence any delay in decision could easily translate to a number of years of delay to the project



Electricity Ten Year Statement

- Some stakeholders would like to see TNUOS tariff estimations to be made on scenarios to give the generators a better starting point than the contracted background in estimating these tariffs going forward (there will be a more consistent set of assumptions used across industry rather than different companies coming up with differing views).
- There was also a concern with commercial sensitivity of information and even if we restrict the information to groups of MWs in regions, there are bound to be regions that are small enough (with few generation projects) where the omission/inclusion of certain projects will be obvious
- There was a suggestion of providing TNUOS tariffs as averages across 5 years, but does this mean that National Grid administers this information?
- There was a strong feeling amongst stakeholders that scenario based is definitely better
- Ofgem suggested that we need to have some kind of appraisal section in the ETYS which monitors how well the scenarios have performed going forward
- NDP linked question on outputs - there was a query on how much NDP styled outputs will sit in ETYS, the required transfers and capability graphs were definitely identified as a minimum. Ofgem wondered if we need a specific licence requirement to report the outputs of NDP
- There was some confusion over what would be in the Future Energy Scenarios document as opposed to ETYS, but stakeholders were reassured by National Grid that all data that is currently produced (and more) would be in one report or the other.
- Stakeholders asked whether this would be the vehicle for exploring offshore options, i.e. assessing the potential impact of more integrated offshore solutions on the need for onshore reinforcement. National Grid confirmed that this was the intention.



National Grid Gas Transmission

Overall Plan

- There was stakeholder support for the need for an RPE Steel Tracker
- One stakeholder was keen for appropriate funding levels to allow for timely delivery of incremental capacity
- There was support for a mechanistic approach to revenue drivers
- A stakeholder asked why there was a big difference between National Grid and Ofgem on IED costs. National Grid's response was that it is around the definition of the legislation and use of compressors for emergencies.
- Another stakeholder was concerned that charges could become more volatile under RII0
- A stakeholder wanted to know about the timing of the work in the plan and National Grid confirmed it is looking for an incentive for early work to meet cashflow challenge

SO Incentives

- One stakeholder supported the logic of aligning Constraint Management incentives but was wary of a potential loss of transparency due to merging of Entry/Exit schemes. A number of stakeholders agreed that it would be good to get a better understanding of the Constraint Management scheme and effects on different users, including a better understanding of the practical implications and how that may change industry behaviour
- Some stakeholders are suspicious of change so would want National Grid to provide information on whether constraint costs were driven by exit or entry. This transparency would ease concerns in terms of cost efficiency.
- Stakeholders also expressed concern over the removal of the ability to raise an IAE and would prefer it to be retained, with another stakeholder preferring greater thresholds (c£10m)
- A number of stakeholders stated that they would prefer shorter incentives to avoid being locked into something where the environment may change over the period, especially now this is 8 years, but balanced against the challenges of year on year tracking. A couple of other stakeholders expressed the view that long term schemes allow investment trade off but not for all schemes



- One stakeholder thought the maintenance incentive was right as it would encourage National Grid to stick to its plans. Another stakeholder supported this in terms of UNC obligations and had concerns over the company's ability to 'impose' late changes for 'planned maintenance'. One stakeholder would like flexibility in maintenance so was keen for an incentive to deliver this and was unsure if longer term schemes are any use to power stations. However, another stakeholder disagreed on the latter point as they prefer more notice on outages
- A couple of stakeholders wanted clearer communication and also suggested we should have a central point of contact for maintenance. One stakeholder stated they were delighted that there would be an incentive in this area as they feel National Grid's behaviour needs to change in this area. A further question was raised about the make up of company's resource and is there a formula for requesting weekend work
- Other stakeholders agreed that it is the short term changes with little notice that is the issue and that maintenance we should be doing anyway should be efficient. Therefore a downside incentive only is appropriate in this area
- Some stakeholders do not understand why Ofgem want to increase National Grid's exposure to buy back costs
- One stakeholder felt risk premium should be incorporated into TO control and that a cap/collar is essential for the Constraint Management scheme to avoid big risk exposure. Another stakeholder felt that this issue has no impact on them and is between National Grid and Ofgem, although they felt assertions that buy backs will increase if National Grid can't meet its incremental lead times are scaremongering. Ofgem stressed that they are seeking industry views on the two cap/collar options.
- The same stakeholder thinks that the Shrinkage incentive should drive minimisation of costs and that incentive shouldn't force National Grid to buy gas at particular times and it is for National Grid to determine optimal purchasing strategy. They also feel D-1 is most useful forecast although they feel our forecasts haven't been as accurate recently.



Market Facilitation (NGGT & NGET)

- Following National Grid's explanation of the current position, balance of role and the shortfall in allowance of £16m (£82-£98m), one stakeholder stated it felt like a big commitment for National Grid on these issues and they were supportive of our role and concerned that proposals could undermine this.
- The same stakeholder, supported by Ofgem, reiterated their support for european interaction as this will be important and needs to be progressed. They did not want to see National Grid's role undermined in this area due to lack of funding as they see the workload increasing
- Ofgem would like more information on the workload to make a better judgement on what is required to meet the european commitment and they feel it is a judgement call on how much the value is and the Uncertainty Mechanism is designed to account for this.
- One stakeholder made it clear that they would not want to pay more to allow National Grid to lobby on its own agenda in Europe, partially as this maybe contrary to their views. If National Grid was representing others' interests then they would be more supportive of funding.
- Another stakeholder asked whether this potential reduction in National Grid resourcing in this area meant industry would have to pick up more mod developments?
- A different stakeholder feels that a full role in european developments enables future impacts to be managed so agrees with the incentive and a consensus that National Grid should be taking a leading rather than lagging role generally. However, there needs to be a balance between funding National Grid work and industry processes.
- An additional stakeholder view supported National Grid taking a leading role in codes, as the company does it well now, although it could do it faster. Also accepted MIPI needed re-engineering and REMIT needs to be incorporated into National Grid's role but not chargeable.
- One stakeholder enquired about how direct billing would work but Ofgem stated that this was not the intention of their proposals.
- A number of stakeholders sought confirmation of why 19 FTE's was the right number and is that just for gas – which National Grid confirmed it was.
- A number of others asked if unit costs had to be set by 2013, and National Grid stated discussions are on-going, including the format of the methodology.



- Another stakeholder asked what would happen if we don't have the capacity in the future and National Grid's response was that we would manage on day/use long term system products

Connections & Capacity

- One stakeholder cited the main issue as the upfront work prior to construction taking 7 years. Feels innovation needed here otherwise there's a risk of investment and customer projects going elsewhere. Doesn't want our infrastructure to take 2 years longer than others as investment difficult 5years+.
- They suggested an approach with 3 months to submit an application and then quickly narrowing to sensible options and the risk being taken on by the consumer. They felt frustrated that this opportunity isn't highlighted more.