Energy UK

The trade association
for the energy industry

# RIIO-T1: Ofgem Initial Proposals for National Grid Gas Transmission

## Consultation Response

**Overall Package**

Energy UK welcomes the opportunity to comment on Ofgem's Initial Proposals for this first price control settlement under the RIIO framework. We have engaged with the stakeholder processes through the Talking Networks events and provide comments against specific questions below where we have a viewpoint.

**Questions in Outputs, incentives and innovation Supporting Document**
**CHAPTER: Three**
**Question 3:** Do you have any comments on our Initial Proposals on NGGT‟s output and incentives?

We agree with Ofgem's general approach, and welcome the position regarding the development of new approaches for the release of incremental capacity. Namely not to prescribe the outcome and allow the industry to develop these, however we look forward to Ofgem's continuing engagement in these issues to ensure that proposals meet Ofgem's expectations and are not subject to veto at a late stage.

**Question 4:** We welcome your views on the appropriate permits arrangements from 1 April 2014 if no other changes to the incremental capacity arrangements have been made?

A permit allowance of £19 M is to allow National Grid to move the obligated lead times for incremental capacity that may be signalled in the first year, if we have understood this mechanism correctly then it would allow 2000 MWe CCGT generation to be deferred by three years. This may be sufficient for CCGT related exit investment, but clearly any storage investment is in larger increments than any single CCGT project. In any event it would seem sensible to consider any allowance that might be necessary from April 2014 taking into account any signals that might have been given in the rollover year and for exit capacity in the first year of the new price control period. As the QSEC entry capacity auctions will be held in March 2013 it would be difficult to take this into consideration for permits from April 2014, but perhaps it should be considered in some way.

**Question 5:** We welcome your views on the two options on constraint management tools retained in our Initial Proposals. Are you aware of any evidence that might help us in judging between these two options?

Since constraint management tools are only rarely used there is limited evidence to draw upon to determine whether the costs assumptions used in the modelling are reasonable or whether the idea of combining the entry and exit incentives is appropriate. We also have concerns that this has only been bought forward at a relatively late stage, limiting the time available to fully consider the implications.

We acknowledge that from a physical system perspective, when a constraint occurs, there are a number of ways that this can be resolved; including increasing or decreasing flows at entry or exit, buying back capacity and DN flow swaps. We agree that combining the existing incentives into one could encourage better decision making if the constraints of the current individual scheme were removed. However the cost drivers of the various options and the impacts on shippers / customers are diverse. The industry needs to more fully understand how NG will assess which actions are most appropriate in terms of cost efficiency and effectiveness in addressing a particular constraint. We accept the material provided at the Transmission meeting on 18th September provides more comfort with respect to this issue and now consider that combining the schemes could be appropriate but only if additional information is provided to explain actions taken, so that there is no loss of transparency over the type of actions taken.

We would also welcome further information on how the target setting process will work when uncertainty mechanisms are triggered, for example how this may interact with permits or a scenario where permits cannot be utilised. Furthermore we are unclear as to why the target proposed by NG for 2019/20 is three times that of the previous year when it is only based on ex ante investment and that is fairly flat across the whole RIIO-T1 period.

With respect to whether caps and collars are a feature of the incentive scheme, we consider it is important that NG remains incentivised to manage constraints efficiently at all times. Such incentives may be reduced if a cap is met early in a formula year, so removing the caps may achieve this. We understand NG has concerns over the removal of caps / collars in case of unforeseen circumstances which could lead to high costs. We have limited information other than paragraph 3.36 in the outputs and incentives document, which seems to suggest that the maximum downside is £23M and maximum upside is £11m, which seems not unduly extreme, but the targets may need to be recalculated to establish a neutral outcome as the starting point.

**CHAPTER: Seven**

**Question 7:** Do you consider that our proposed baseline for NGGT (TO) has been set at an appropriate level?

Yes and we agree it is reasonable to move the IED compliance costs to an uncertainty mechanism given that the legislation is yet to be transposed into UK law and there remains some ambiguity over its application. However we would note that the more of NG's allowed revenue that flows through uncertainty mechanisms the greater the uncertainty in charges derived from these revenues. We expect the issue of pricing volatility to be addressed further in the conclusions to the charging volatility consultation and hope this considers how clarity in revenue adjustments and the consequences for charges can be communicated to industry and consumers at the earliest opportunity.

**Question 8:** Do you consider that our proposed uncertainty mechanisms for NGGT (TO) are appropriate?

Broadly yes, although we are aware that no steel price tracker is to be included, this seems to be an issue of concern for NG, but perhaps one that it should manage rather than expecting customers to carry such risks. However we would also be concerned about this if it were to jeopardise the delivery of incremental capacity in any way.

**Question 9:** Do you agree with our proposals to expand the provisions of the reopener mechanism for NGGT to cover a number of additional cost areas?

The inclusion of these cost areas seems reasonable

**Question 10:** Do you agree with our proposed materiality thresholds of 2 per cent (subject to the efficiency incentive rate) for the reopener mechanism in relation to asset health shocks?

No strong view here

**CHAPTER: Eight**

**Question 15:** Do you agree with our proposals in relation to uncertainty with respect to Xoserve‟s costs?

We agree this is appropriate pending a decision on funding arrangements

**Notes**
This response represents a broad consensus of members' views. Some member companies may hold different views on particular issues and we would point out that National Grid was not a contributor to this response.

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