

RIIO Team
Network Price Controls
Office for Gas and Electricity Markets
10 South Colonnade
Canary Wharf
London
E14 4PU

4 September 2020

Dear RIIO Team,

RIIO-2 Draft Determinations – National Grid Gas Transmission Annex

Interconnector (UK) ('IUK' or 'we') refers to your consultation dated 9th July 2020 seeking views on Ofgem's Draft Determinations ('DD') for National Grid Gas ('NGG') Transmission's allowances under the RIIO-2 price control¹.

General considerations

As a connected TSO, the services and the security of supply we provide to the GB market and consumers are critically dependent on the availability, the reliability and the cost efficiency of the National Grid transportation system.

The RIIO2 determinations will define the capabilities of the transportation system and of NGG as an organisation for the next regulatory period and also for the longer term. Hence, we are following the determination process with great attention and wish to relay the following concerns for consideration:

Investments are needed to meet reliability and resilience requirements

We have noted that the DD foresees a significant reduction in the allowance for asset health compared to what was proposed by NGG based on their stakeholder engagement. IUK is concerned that this may lead to a lower reliability and resilience of the transmission system increasing the operational and commercial risk for customers and connected parties.

¹ https://www.ofgem.gov.uk/system/files/docs/2020/07/draft_determinations_-_nggt_annex.pdf

We wish to underline that for the longer term, all credible scenarios indicate a continuing role for gas and consequently for the gas transmission network. This defines a need for investments to maintain the system's capability and to improve/adapt it as regulatory or other requirements evolve (e.g. changing gas quality, cyber risks, emission compliance).

Whilst we are not in a position to review and comment on the merits of each of NGG's proposals, we ask that, next to the cost criterium, sufficient thought is given to the value and risk-mitigation these investments bring for society, for current and future consumers.

Over use of Uncertainty Mechanisms (UMs) can create uncertainty in the market

IUK note that the Ofgem DD proposes far more UMs for RIIO-2 than we have seen for RIIO-1 despite the proposed price control period being shorter. We understand that an UM might be appropriate for some projects, however, the UM also creates more uncertainty on whether the project will be approved and implemented, on the evolution of NGG charges, and on the planning of maintenance and service interruptions affecting connected parties like IUK. We are also concerned about how the mentioned UM process may draw NGG's resources or its ability to progress with interdependent projects and systems.

All these effects could have a detrimental impact on the market and connected parties, including on wholesale prices and on traded volumes and capacity bookings. We request that the use of UMs is limited, and that the RIIO2 process provides the clarity, predictability and stability expected by the industry.

Ability to serve consumer needs in a changing landscape

The DD foresees in a significant reduction in financial means and incentives compared to what was requested by NGG. We are concerned that this may negatively impact their ability to serve customers.

We expect that NGG will be confronted with a significant workload in the next decade. Various challenges and opportunities lie ahead: the energy transition, the introduction of hydrogen in the grid, the regulatory and policy changes post Brexit, the evolutions in information and communication technology, commercial innovation or new customer demands for grid flexibility and data management, etc.

We believe that it is in the interest of GB consumers that NGG is allowed the necessary financial means and incentives to deliver on its service requirements.

NGGTQ27. Do you agree with our proposed approach to approve the need for investment, provide development funding and assess the full project costs through a UM during RIIO-GT2, for the Bacton, St Fergus subsidence and King's Lynn subsidence projects?

Bacton project

IUK welcomes Ofgem's DD for the Bacton project to be a Price Control Deliverable (PCD) and agreement that it is suitable to progress to the next project phase. We agree with Ofgem's approach to align its assessment with NGG's own project development process. Ofgem should remain open to considering all options in the stage 2 assessment including the option of a new brownfield terminal. The stage 2 options assessment, in addition to what is outlined in para 3.312 of the document, should consider the need to minimise the disruption to cross border trade, take account of the changing supply environment (e.g. managing gas quality at Bacton in the face of the depletion of certain sources of UKCS gas), as well as account for the wider benefits to consumers from the investment (security of supply/ more competitive wholesale prices).

As outlined in our response to Ofgem's December 2019 call for evidence, seeking views on the Transmission System Operator's Business Plans for RIIO-2², redeveloping the Bacton terminal to improve its operational efficiency and resilience is essential for GB's security of supply. The terminal has regularly accounted for a third of the nation's natural gas demand in recent years. The Bacton terminal is also essential for the export of gas to the European continent, allowing the marketing of UKCS produced gas in summer time as well as the access to gas storage facilities on the continent. These gas volumes then come back to the GB market via the Bacton terminal in winter time and during periods of peak demand.

Ofgem rightly note in the DD that the terminal is having operational issues due to its age and location and also recognise that flows are forecasted into and out of the terminal for a foreseeable future. Next to the cost metric, it is important Ofgem also consider the benefits to current and future consumers from the redevelopment. The benefits (security of supply/ wholesale price effects) significantly outweigh the costs. It is also important to note that there are further future potential benefits of the Bacton terminal in achieving net zero targets by incorporating biogas, hydrogen blending and to be utilised to support CO₂ capture and transmission.

King's Lynn Subsidence

IUK welcomes Ofgem's DD assessment that this project is suitable to progress to the next project phase. The King's Lynn compressor station plays a vital role in providing gas compression to flows to and from Bacton and the south east area. The investment is important to ensure the facilitation of cross border flows.

NGGTQ24. Do you agree with our proposal to accept the need for investment, provide baseline funding for development work and assess the full project costs during RIIO-GT2 for the compressor projects at Stage 1 - Needs Case Assessment (Wormington, St Fergus, King's Lynn and Peterborough and Huntingdon)?

Kings Lynn Compressor project

IUK welcomes Ofgem's DD to accept the need for this investment and the baseline allowance for development costs. As noted above, King's Lynn plays a vital role in providing gas compression to flows to and from Bacton, the south east area and it is important this remains resilient into the future. Ofgem should remain open to considering all options in the next assessment stage and consider the benefits from the avoided risk to current/ future consumers in addition to what is outlined in 3.142 of the document. A compressor failure on a cold day disrupting imports from Bacton could cost consumers significantly more via the impact on wholesale gas prices than investing in additional back up compressor units.

² https://www.ofgem.gov.uk/system/files/docs/2020/02/iuk_response_to_the_ofgem_riio-2_cfe_100220_final.pdf

Conclusion

As a connected TSO, Interconnector's ability to provide energy security and significant trade benefits to GB and its consumers critically depends on the reliability and efficiency of the NGG transmission system. We express our support for Ofgem's DD regarding the Bacton and King's Lynn projects. We also note that the RII02 determination will define NGG's ability for the next regulatory period and beyond and have noted certain concerns. As the backbone of the GB gas industry, we wish to see NGG equipped with the necessary means and incentives to deliver on its mission towards its customers and stakeholders.

If you wish to clarify anything in our response please do not hesitate to contact me or my colleague, Pavanjit Dhesi, Regulatory Affairs Manager (pavanjit.dhesi@interconnector.com).

Yours sincerely,



Steven De Ranter
Managing Director