

RPI-X@20 stakeholder workshop – 6 April 2009

Summary of break-out session discussions

What outcomes should the transmission and distribution networks deliver?

Introduction

Two RPI-X@20 workshops were held in London on 6 April – one in the morning and one in the afternoon. The purpose of the workshops was to facilitate discussion on the initial consultation document regarding RPI-X@20 which was published in February. It was also intended to allow an exchange of views between interested parties over the issues that would need to be explored within the project going forward. This was achieved through the use of break-out sessions.

The topic for this break-out session focused on exploring perceptions of priority outcomes for the networks to deliver for consumers and their role in delivering against environmental, social, and security of supply objectives and targets. A summary of the discussions that took place on this topic during the morning and afternoon sessions is provided below.

Summary of Morning Break-out Session Discussions

On the issue of consumer expectations of the networks, one representative noted their perception was that consumers (including larger consumers, potentially with micro-generation capability) wanted above all, security of supply but also reasonable prices (including low-cost connections) and for environmental targets to be achieved and they were willing to pay 'modestly higher' prices for this. It was also believed that other consumers may be looking for the option to consume less or not at all at certain times, implying the need for reactive networks.

Much of the residual discussion focused on perceptions of the role of the networks in delivering environmental targets. Sitting above this and recognising that delivery of these targets will require collaboration across the energy industry as a whole, the group believed that the "answer" to this question was dependent on the principles and philosophy behind the policy i.e. who will be the "guiding mind" in terms of the market or Government or Ofgem or even the networks themselves.

It was noted that the question of whether a "guiding mind" emerged would, in turn, have implications for whether delivery would occur through disaggregated decisions from within the industry" (network "leadership or facilitation") or decisions taken on a specific delivery mechanism (networks "following"). Alongside, the point was made that it needed to be recognised that each of these different "models" have implications for the network responses and for the regulatory framework required to support it. There was support among the group of at least an "intermediate" role for industry to help inform thinking within government and by the regulator on these issues, with the work of the Electricity Networks Strategy Group (ENSG) cited as an example. During this discussion it was emphasised that, while networks have a role to play, sight cannot be lost of the fact that delivering a low carbon economy will require significant generation investment.

Against this backdrop, the discussion then turned to other issues related to perceptions of the role of the networks. Here it was generally believed that there may be merit in considering whether an appropriate role of the networks extended beyond timely connections and then transporting power to final consumers to being proactive in ensuring an integrated approach is taken along the supply chain, in particular on the energy demand side. It was suggested that this could involve providing information to facilitate the appropriate placement of small-scale generation projects (locational signals) and active demand management using smart metering, although there was a question raised as to whether smart metering technology could be delivered through alternative networks such as telephony. It was also generally believed that distribution network operators (DNOs) were open to a more active role but that the regulatory regime posed barriers to active management. Emphasis was placed on the fact that these roles were distinct from investment in larger networks.

In the context of this “two-part” role involving transportation and connection as well as more proactive demand system management, some suggested that rules surrounding business separation and charging may, to some extent, pose a constraint which would have to be taken into consideration. This then led to a discussion on the structure of charges and whether there might be merit in considering the structure alongside the determination of allowed revenue at price control reviews. Here it was generally believed that this issue might need to be explored further if price controls were to become more outcomes-focused. This came alongside a cautionary note that care would have to be taken to ensure that the price control process did not become overly burdensome as a result. There was a view that if charging was “right”, it should not need to be revisited on a regular basis.

The group discussed whether it was possible to identify network-specific targets relating to the wider environmental agenda. It was generally believed that the idea had merit but that there were likely to be significant challenges in defining any such targets, particularly in identifying areas that were in the control of networks. The group noted that incentives to facilitate these wider objectives could be designed without network specific targets.

Other outcomes the group suggested were important were:

- Timely connection of generation, including distributed generation;
- Facilitation of consumer micro-generation;
- Providing opportunities for differentiated (green) products, including bio-gas.
- Protected quality of service; and
- Active management with limited input required from consumers.

There was a discussion around delivery of these outcomes. Here it was suggested that a need for investment in the short-run had to be recognised to meet current requirements even if it may not be the most appropriate choice over the long run but that it was clear that investment needed to be efficient. There was also a question raised on whether delivery of “social and environmental” objectives required more explicit cross-subsidies. It was emphasised during the course of this discussion that the group believed that delivery of these outcomes would rely on change by Ofgem as well as within the networks.

Summary of Afternoon Break-out Session Discussions

There was a broad consensus from within the group that RPI-X was not fundamentally “broken” and that networks had generally responded favourably to the incentives it had established. However, there was a belief within the group that greater innovation, experimentation, and investment ahead of user commitment would be needed and may require changes to the way in which the regime is implemented. It was suggested that more risk-taking may be needed, not only by the networks but by Ofgem as well which would require the regulator to take a “step-back” and allow/reward risk-taking. There was a view expressed that investment in capacity ahead of need was required and that markets alone without any additional incentives may not deliver this. These points were raised alongside a perception that there was a current focus on user-commitment in the context of investment and that, while this was in the short-term interests of consumers, encouraging investment ahead of need – acknowledging that this may come with a risk of asset stranding – may be in their longer term interests.

While it was recognised that augmentations such as the Innovation Fund Incentive (IFI) and Discretionary Reward Schemes (DRS) had delivered innovation in accordance with relevant boundaries, it was suggested that there may be merit in exploring whether additional incentives – over and above those provided by competition – may be required to facilitate the rolling out of initiatives perceived to have significant potential, such as bio-gas. There was a general belief among the group that there was not currently sufficient “experimentation” occurring due to a lack of incentives which had led to a “wait and see” mentality. As part of this discussion, derogations and exemptions from license conditions for service standards and establishing “lead companies” were raised as specific examples. Similar to points raised in the morning breakout session of the same topic, it was emphasised that there also needs to be a focus on “non-asset” solutions such as demand management, active networks, and smart metering in thinking about how environmental targets can be met. It was also suggested that networks may also need to think more broadly about the environmental impact of decisions (e.g. undergrounding lines).

There was, however, acknowledgement that this may involve significant changes from the way that networks currently operate and that direction may be needed. For example, on smart metering it was suggested that a mandate was needed for network companies to roll out this technology. It was also generally believed that Ofgem would need to be more responsive to networks in order for them to become more proactive and innovative. There was also an expectation within the group that there may be a growing appetite within government to intervene and that it was important to ensure boundaries on the nature and level of intervention or direction.

It was emphasised during the course of discussions that it would be important to articulate both what the regime can deliver and also what cannot be delivered by the regime (and why). Alongside this, reference was made to the example that RPI-X was perceived to have been unsuccessful in facilitating the roll-out of smart metering. This was linked to a discussion on the need for clarity beyond statutory environmental targets. Against a backdrop of questions from within the group as to whether there was too great a focus on renewables and on the electricity networks in thinking about how environmental targets would be achieved, it was believed that this suggested that some signal may be required from government on the appropriate energy mix.

There was a discussion around how to balance a desire for the “right prices” and the reliability of supplies with environmental and social agendas. The group recognised the difficulty of this but no solutions emerged on how to “square” the objectives. On the social side, it was suggested that all parties need to think of more imaginative ways to help people (e.g. find ways of bringing cheaper heating to the fuel poor).

It was emphasised that employees also needed be thought of as important stakeholders and assets of the energy networks. In this context, it was suggested that networks should aim to be “good employers” and the regulatory regime should not pose a barrier to this. While it was recognised that there were recent examples of allowances having been made for significant training programmes under the existing framework, it was suggested that consideration be afforded to introducing specific targets relating to employee safety and training.

During the course of discussions, a general point was made that Ofgem needed to recognise what regulation, and the review, can and cannot deliver.