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**Consultation on strategy for the next transmission price control – RIIO-T1 Overview paper**

**Consultation on strategy for the next transmission and gas distribution price controls – RIIO-T1 Outputs and incentives**

As part of its approach to the next price control review WWU has responded fully to the RIIO GD1 consultations. We are mindful of the overlap and inter dependencies between the transmission price control and the distribution price control. The following limited response to the two transmission consultations focuses on those areas where a key inter dependency may exist.

If you have any questions relating to this response please do not hesitate to contact Robert Cameron-Higgs ([robert.cameron-higgs@wwutilities.co.uk](mailto:robert.cameron-higgs@wwutilities.co.uk)) or me

Yours sincerely



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24 hour gas escape number  
Rhif 24 awr os bydd nwy yn gollwng

**0800 111 999\***

\*calls will be recorded and may be monitored  
caiff galwadau eu recordio a gellir eu monitro

## **Consultation on strategy for the next transmission price control – RIIO-T1 Overview paper**

### **Chapter One**

#### **Q1. Do you have any comments on the proposed process and timetable for the review?**

We welcome the early engagement on the next price control review which does not take effect until April 2013. This is the first opportunity to test and implement the RIIO principles and we are already heavily engaged in various work streams to try to deliver an initial, well justified business plan to Ofgem by July of this year. The process is challenging as we are developing a significantly different regulatory regime which consists of many new elements. As a summary we are currently:

- Involved in six output workgroups to develop a new outputs led regime
- Participating in the HSE review of the Iron Mains Replacement 30/30 programme
- Consulting with stakeholders to support a well justified business plan
- Developing the detailed application of the RIIO principles into practical policies for the first time
- Developing a well justified business plan for July this year.

As stated earlier we are fully supportive of many of the principles but it is clear this first application of the principles is very resource intensive for the networks.

The linkage and dependencies between the gas distribution and transmission reviews requires that any fast tracked companies need to be safeguarded against any longer term processes or outcomes which results in key transmission areas impacting on the gas distribution networks.

WWU welcome the stakeholder engagement process undertaken and the capability this allows distribution networks to feed into transmission (as a customer of National Grid Transmission).

### **Chapter Two**

#### **Q1. Do respondents consider there are any interactions with other policy areas that have not been highlighted in this chapter?**

Appendix 4 of the consultation lists nine specific separate areas for interaction. WWU believe the current flex capacity consultation issued by Ofgem should also be a specific interaction that is taken into account (response attached).

#### **Q2. Do respondents consider that the transmission and gas distribution price control periods should remain aligned for future review periods?**

WWU believe it is appropriate for this and future review periods to be aligned.

### **Chapter Four**

#### **Q2. Do you consider that the proposed outputs and incentive arrangements are proportionate?**

When considering incentive arrangements, it is important that wider commercial issues are fully accounted for. For example, current thinking on cross NTS/GDN capacity utilisation could result in pressure provision at NTS/LDZ offtakes (and therefore NTS compressor usage) being considered as the 'best' cost option for GDN capacity provision. It is important therefore that any specific incentive in the areas of compressor use for example does not prejudice the option of creating the best capacity

product for GDNs. This is one example currently being considered as a longer term output by the Capacity Output working group comprised of NGG and GDNs.

**Q3. Do you have any views on the proposed outputs and incentive mechanisms?**

Any system flexibility reporting should carry a commentary so as number/volume reporting is meaningful.

**Consultation on strategy for the next transmission and gas distribution price controls – RIIO-T1 Outputs and incentives**

**1. Introduction and context**

**Q4 Do you have any views on whether, in principle, it is appropriate to consider requiring the companies to do more to verify their regulatory reports?**

WWU believe the existing verification and audit requirements are sufficiently robust and that there is no additional requirement beyond this current regulatory scrutiny

**Q5 Should we introduce an independent examiner for the TOs to improve regulatory reporting?**

We agree that there is the potential for inconsistent reporting in relation to Outputs and the risks of inconsistency increase with the increased reporting requirements. However, we think this risk is better mitigated by well defined Outputs with clear and transparent guidance documents. The introduction of an independent examiner may help. Regulatory returns are subject to internal and external audit and Ofgem already has powers at its disposal to request an independent examiner should it wish to do so. In summary, existing governance and well defined Outputs should be the best solution to possible inconsistencies but an independent examiner could also help.

**2. Safety outputs and incentives**

**Q1 Do you have any views on the primary output and secondary deliverables for electricity and gas transmission safety?**

WWU believe the primary outputs are appropriately linked to existing HSE and other safety requirements.

**Q2 Are these appropriate areas to focus on and are there any other areas that should be included?**

The key areas are focused on. Moving away from these core areas may dilute the key safety outputs required

**Q3 Do you agree with the proposed approach to setting safety incentives?**

WWU agree that no financial gain should be linked to satisfying safety outputs.

#### **4. Reliability and availability – gas transmission**

**Q1 Do you have any views on the primary output and secondary deliverables for gas reliability and availability:**

**(1) Are these appropriate areas to focus on**

**(2) Are there any other areas that should be included**

**(3) Do you agree with the proposed approach to setting reliability incentives?**

WWU confirm that its primary requirement is for National Grid NTS to provide a reliable network with all available capacity being made available as required. The proposition to link a primary output for compliance with the UNC for conveying gas volumes is welcomed. It is important that the specific components of this area are identified. Not only is flat and flex capacity a required area, assured and where relevant agreed *pressures* form an equally important contractual mix by which GDNs operate its network, and the contractual reliance on this UNC provision should be specifically recorded in any output measure.

National Grid and the GDNs are in the very early stages of defining a contractual arrangement whereby the most cost effective solution to secure capacity requirements on the GDN can be delivered. It would be premature to project what any future output measures would arise from this work, however as this area is likely to be a new UNC requirement it is reasonable to assume it may be another viable measure for NGG to be measured against.

WWU welcome the proposal that NGG should report on causes for curtailment of capacity at exit (and entry) as well as reporting the absolute volumes. It is this commentary that provides the evidence and learning by which all Transporters can better plan their Networks.

WWU (as with all other customers) values the reliability of NGG providing the capacity required to the specific terms agreed via the UNC. As a consequence, NGG's absolute adherence to such reliability 'rules' is an appropriate area from which an incentive measure can be delivered.

**Q2 Do you have views on whether additional transparency and separation should be provided between the TO and SO roles?**

The key deliverable in this area is to ensure any incentive in one area does not compromise the 'best' decision being made in another.

For example, any compressor build (TO) as a consequence of a GDN capacity/pressure need, should not be inappropriately prejudiced by any perverse incentive which impacted on NGG's use of a compressor (linked to existing SO incentives).

#### **Chapter 5 Environmental outputs**

**Q1 Do you have any views on the environmental outputs outlined?**

WWU believe environmental outputs are appropriate provided that a material difference can be attributed to any outputs driving them. Given this proviso, it is appropriate to associate financial incentives in this area.

**Q3 Do you agree with the proposed approach to setting environmental incentives?**

See Q1

**Q6 Do you have any additional views on RenewableUK's proposal for a specific low carbon economy output including the form and size of such a reward mechanism?**

One component of RenewableUK proposal is a potential team bonus where any successful delivery was largely dependent on a collaborative approach (including distribution companies). WWU believe any reporting of output measures must be consistent across networks, if a team bonus is feasible to implement. Rewarding specific companies for individual success is of course an option, however reporting outcomes with the reputational kudos attached would equally drive the required behaviour in organisations.

**Q7 Do you have any views on the relative roles of the TO and SO in relation to gas shrinkage and venting, and how we might align the incentives between the two parties?**

Any changes to the gas shrinkage incentive/ venting should take account of the potential for NGG and GDNs to work collaboratively to provide GDN capacity at least cost to the consumer through compressor usage as opposed to the GDN investing in its own Network.

**Q8 What incentives should companies face to manage their carbon footprint?**

Any incentives in this area should recognise a material change in an organisations behaviour and output.

**Q9 What incentive should be put on TO's in relation to losses?**

If it is possible to quantify the amount of shrinkage (loss) that older assets deliver (compared with newer assets) then it may be feasible to promote an incentive that recognised such appropriate (TO) investment.

**Q11 Do you agree with the principle of full internalisation of environmental costs? To what extent should SF6 move towards this objective?**

Only those environmental costs directly associated with satisfying licence requirements should be absorbed internally by Networks (these costs being funded as part of its regulatory allowance).

**Chapter 6 Customer satisfaction outputs**

**Q1 Do you have any views on the primary outputs outlined for customer satisfaction?**

Where possible these should be objectively measured. The three key themes identified (survey evidence, complaints handling and stakeholder engagement) are all appropriate outputs. A survey targeted at its key customers (inc GDNs) would give the most reliable measure of NGGs performance year on year. The other two areas are less helpful, and do not provide the range of feedback of or ability to measure the trend over the longer term pcr period.

**Q2 Are these the appropriate areas to focus on and are there any other areas that should be included?**

See above

**Q3 Do you have comments on the proposed approach to setting incentives related to the customer satisfaction outputs?**

Where possible these should be objectively measurable. The proposed (annual) subjective assessment of aspects of Customer Satisfaction is inappropriate. Although organisations will need to qualify all statements made, the significant subjectivity that such a performance scheme brings is not appropriate for incentive awards that could provide up to +0.5 of allowed revenue being awarded.

**Q4 Should the incentives apply to National Grid both for good performance as SO is well as in it's TO role?**

NGG should be measured against its SO activities which may directly impact on its customers sooner and carry equal significance to any TO impact.

**Chapter 7 Conditions for connection**

**Q1 Do you have any comments on the key principles we have identified for the delivery for connections?**

WWU agree that the focus should remain on delivering incremental exit capacity, particularly as this can carry a User Commitment in the future for GDNs securing such capacity.

**Q3 Do you have any views on the existing arrangements for gas transmission?**

The current arrangements in NGG licence which incentivise NGG to deliver incremental capacity within a defined timeframe are appropriate (assuming any licence revisions are carried through).

**Q4 Do you consider any specific obligations and / or incentives are required for gas transmission?**

Any provision of incremental capacity to GDNs (which carries a User Commitment) should be specifically captured within any incentive area for gas transmission connections.