

GDPCR2 Environmental Working Group (EWG) #02

Notes and issues from the second GDPCR2 EWG meeting held on Wednesday 15 September, at Ofgem's offices, 9 Millbank, London

EWG
Meeting

15 September 2010

9 Millbank
13:00 – 16:00

1. Introduction

Anna Rossington (AR), welcomed attendees. AR acknowledged that there had been some comments on the minutes from the last meeting from RC that she was happy to accept. No further comments relating to the minutes were raised.

The purpose of the EWG meeting was to discuss possible environmental outputs for the gas distribution price control (GDPCR2).

In these notes we have attempted to capture key points of discussion. They do not indicate or imply Ofgem's agreement to points made by attendees.

2. Primary Outputs

AR presented a brief overview of the primary outputs discussed at the previous EWG meeting based on the new RIIO (Revenue = Incentives + Innovation + Outputs) model for price controls currently out for consultation with industry¹. Some of the GDNs wanted to clarify the difference between primary output and secondary deliverable. AR commented that a primary output is an indicator of performance against an output category whilst a secondary deliverable was intended to facilitate the development of an output in a future price control. Ofgem agreed to confirm these definitions with their colleagues to ensure a consistent approach is used across all the GDPCR2 working groups. AR stressed that output measures set should be controllable and measureable. CC asked Ofgem to clarify the difference between board and narrow output measures. AR responded that broad measures refer to wider role GDNs play in facilitating a move towards a low carbon energy sector e.g. the proportion of low carbon flows on the network. She highlighted that Ofgem does not discriminate between renewable and non renewable sources connecting to the network and therefore, it is not clear if this type of broad measure could be incentivised and whether it would drive appropriate behaviour. AR went on to state that a narrow output is looking at the direct environmental impact from the operation of the network e.g. shrinkage, land fill etc².

One GDN asked if consideration of the effect of non-distribution related business operations on the environment would be considered in the outputs measures. AR stated that these would be recorded as part of the Business Carbon footprint that would be reported but that it would be unlikely to have a financial incentive linked to this reporting. This was due to the fact that Ofgem recognised that it would be difficult to normalise the figures across all the GDNs to compare the performance of each GDN, and that a proportionate approach is desirable. AR agreed to circulate the Business Carbon Footprint guidance used for DPCR5.

"Narrow outputs"

Ofgem asked the GDNs which narrow outputs they felt were most material in terms of their business. Most felt that landfill tax and land remediation represented the biggest cost to

¹ <http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=81&refer=Networks/rpix20/ConsultDocs>

² Post meeting note: The differentiation between broad and narrow output measures is specific to the Environment workstream and does not feature in other areas of the price controls

GDNs, and the largest environmental impact whilst noise, smell and redundant structures were materially quite small. One attendee thought that redundant structures could be included as part of land remediation. It was agreed that several elements could be measured - the number of water discharge consents, the volume (in tonnes) of extracted gravels and the volume (in tonnes) of landfill. Where discharge to water went beyond that permitted in the consent, or where a consent had not been granted, then GDNs are obliged to report the incident. CC stressed that the number of reported incidents was outside the GDNs control as they could often be a consequence of 'freak' weather incidents.

It was generally felt that there was little scope for the GDNs to play a role in consumer energy efficiency and that other parties such as suppliers were best placed to do so.

Ofgem asked if the adaptation to climate change work constituted a risk or environmental issue. The GDNs stated it could be considered both and should form part of the environmental outputs discussion. It was noted adaptation to climate change was an ongoing piece of work required by DEFRA and all GDNs were legally required to have an adaptation to climate change report in place.

3. Shrinkage incentives

MA talked through the current shrinkage incentive on GDNs. All GDNs agreed that the basic tenants of the approach were accurately captured. They agreed to check the details with their colleagues and report back any misunderstandings. MA enquired what incentives existed to reduce theft. RC commented that, in terms of theft, the shrinkage incentive solely dealt with upstream theft on the GDN network. AG stated that when theft was reported downstream, the GDN would investigate to ensure that the connection was safe. He stated that that this was their sole involvement in downstream theft. All GDNs commented that issues associated with downstream theft were being taken forward by suppliers and shippers and that their role was to support, rather than drive this work. MA asked what incentives existed to encourage GDNs to reduce own use gas. The GDNs stated the model used to calculate shrinkage was consulted on yearly, providing shippers with a chance to comment. This therefore incentivised the GDNs to ensure the assumptions used in the model were fair and as accurate as possible. Own use gas was felt to be relatively small compared to leakage as it represents approximately 2% of shrinkage. Therefore a large incentive would be required to ensure that any increased efficiency measures were cost effective. Most GDNs felt that the mains replacement programme and pressure controls was the main driver reducing leakage and that any incentives should focus around these.

There was generally agreement among the GDNs that the environmental emissions incentive was working well and it encouraged the GDNs to reduce their CO2 impact on the environment. It was noted that this only covered the leakage aspect of shrinkage (emissions to air) as opposed to theft and own use gas.

4. Secondary Deliverables

Distributed gas

GDNs felt it was important to state the role which renewable gas could play in helping the UK achieve its renewable targets. In particular they highlighted that it was far more efficient for biogas to be injected to the gas distribution grid rather than used in electricity generation.

KB talked through the remaining slides on distributed gas. GDNs generally felt that distributed gas will provide limited real network benefits although it was suggested that if biogas displaced fossil fuel gas it would have an environmental benefit. It was felt any benefits relating to security of supply or displacing network reinforcement were likely to be site specific.

KB asked what network issues are associated with distributed gas. Many of the GDNs felt the impact of distributed gas on the network depended on the role and requirements on the GDNs. For example if GDNs are required to offer firm contracts, this could trigger reinforcement. And issues such as odourisation depend on what obligations the GDNs have. There is also a concern as to whether small biogas operators would be able to purchase odourisation equipment, since they would require a licence to do so.

SA presented slides on National Grid's proposals for a revised approach DN Entry Charging³ which would result in a shallower boundary. AR asked all attendees to feedback their detailed thoughts on the presentation over the next two weeks by email.

5. Any other business

One GDN asked if, as part of GDPCR2 a gas equivalent to the Low Carbon Networks fund would be established. AR confirmed there would be an innovation stimulus based upon similar principles and a separate working group to discuss the scope of the fund and its expectations, and that an open letter to invite stakeholders to join the working group would be published in the near future on Ofgem's website.

6. Close

AR summarised the key points of discussion and thanked the attendees for their participation. The next meeting was tentatively scheduled for Thursday 7 October [Post meeting note – this has been moved to **Wednesday 13 October**]. She also agreed Ofgem would inform the attendees before the next meeting what the key objectives of the next meeting were, and if there is any preparation that the attendees could be working on.

7. Appendix

Anna Rossington	Ofgem
Mark Askew	Ofgem
Nicola Meheran	Ofgem
Karron Baker	Ofgem
Haren Thillainathan	Northern Gas Networks Ltd
Richard Court	National Grid Gas
Johnny Johnson	National Grid Gas
Steve Armstrong	National Grid Gas
Chris Clarke	Wales & West Utilities Ltd.
Nicola Evans	Wales & West Utilities Ltd
Rob Hetherington	Scotia Gas Networks
Andrew Gibson	Scotia Gas Networks
Erika Melen	Energy Networks Association (ENA)
Jen Clayton	Renewable Energy Association (REA)

³ Link on website to NG slides