GDPCR2 Environmental Working Group (EWG) #01

Notes and issues from the first GDPCR2 EWG meeting held on Wednesday 18 August, at Ofgem's Offices, 9 Millbank, London

1. Introduction

Anna Rossington (AR), Head of Distribution Policy welcomed attendees (an attendee list is included as an appendix).

The purpose of the EWG meeting was to set up the environmental working group for the gas distribution price control, and agree how the group will work, and areas to be covered.

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. Terms of Reference

Attendees agreed the terms of reference as set out in the presentation (the full presentation is available on the Ofgem website[1].

3. Introduction to RIIO and GDPCR2

AR presented a brief overview of the new RIIO (Revenue = Incentives + Innovation + Outputs) model for price controls currently out for consultation with industry[2] and the Gas Distribution Price Control Review (GDPRC2).

4. Environmental Outputs

The RIIO framework uses an outputs-led approach, where the output categories (of which environmental impact is one of six) are split into primary outputs and secondary deliverables.

The meeting discussed each potential area of environmental outputs, and made recommendations of what could be included.

"Narrow" primary outputs

AR set out the possible "narrow" primary environmental outputs and asked the attendees if they felt the full range of impacts had been covered. One attendee felt that discharges, unplanned events and good housekeeping outputs such as the reduction of landfill should be included as primary outputs. Another attendee requested that the environment's impact on GDNs activities should be included. All GDNs confirmed they were involved in the adaptation to climate change work with DEFRA and that this should be considered.

Business carbon footprint inc. shrinkage

This discussion was split into two elements – shrinkage (recognising this will dominate the business carbon footprint) and the remaining business carbon footprint.

[1] Link to page on website
[2] http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=81&refer=Networks/rpix20/ConsultDocs

Shrinkage

Mark Askew set out the main elements of gas shrinkage: leakage; theft and own use.

It was asked if shrinkage losses were a similar magnitude to electricity losses, since gas losses account for less than 1% of throughput. AR stated electricity losses account for approximately 5% of throughput on distribution.

The biggest cause of shrinkage was deemed to be mains and service leakage and GDNs considered that the mains replacement programme was the most significant driver of leakage reduction.

Ofgem asked if GDNs could reduce leakage through specific operational methods as opposed to just replacing assets. The GDNs agreed leakage can also be reduced through changing the operation of their network, in particular managing the pressure through the pipes. AR asked if gas injection to the distribution network could help to reduce leakage (as distributed generation does in electricity). The GDNs felt that this was not the case, since leakage is related to pressure, which distributed gas will not change.

Ofgem asked the attendees what incentives were in place to encourage GDNs to reduce theft on both the distribution network and the supplier's side of the emergency control valve. Whilst the detection of upstream theft is partially incentivised through the shrinkage incentive, they agreed that there is no financial incentive to reduce downstream theft, but stated they have been been involved in the ongoing UNC discussions led by the suppliers with respect to theft and added upstream theft is a significant safety risk, so GDNs take action to deal with this. Most attendees felt downstream theft is principally identified from meter readings that GDNs did not have visibility of.

Ofgem asked if there was any incentive to reduce the own use gas (OUG) component of shrinkage. Attendees agreed that this value was reported using a fixed assumption in the shrinkage model but that this fixed percentage can be reduced (if justified) - providing some incentive to reduce own use gas. An attendee noted that own use is primarily used to pre heat the gas but as alternative technology develops, such as heat pumps, there may be scope to reduce the OUG element.

Ofgem asked if it would be possible to set a single output measure to incentivise shrinkage (in a similar way to electricity). Most GDNs felt that it would not be possible at present however, with the introduction of smart meters the accuracy of settlement data would improve substantially and therefore an output based measure may be possible though this would need further analysis of the accuracy of meters and the size and frequency of loss that is being measured and whether this brings in other factors beyond the network's control.

It was noted that the existing shrinkage and Environmental Emissions incentive had been successful in incentivising changes in practices and that GDNs had invested against them to reduce their environmental impact.

Business Carbon footprint

Ofgem asked how many GDNs already report their business carbon footprints (BCF) and suggested that GDNs could be asked to report BCF in a similar way to that used in the electricity distribution price control (DPCR5). One attendee expressed concern about the level of detail that may be required. However, Ofgem noted it would the responsibility of each individual company to justify the level of detail used in reporting and that in the interests of proportionality, DPCR5 did not have a financial incentive.

Other emissions

Ofgem asked whether there were other emissions other than greenhouse gases, and in particular whether, using the Defra indicators, there were emissions to air, water, land and also resource use.

Emissions to air – one attendee wondered whether smell should be considered, since increasingly housing developments were being built near their plants, and they were getting some complaints. They are also receiving complaints on noise.

Emissions to water – it was noted that the GDNs can obtain discharge consents from the water authorities to discharge into sewers. Separately, other (non consented) discharges are have to be reported to the Environment Agency.

Emissions to land - it was noted that there are currently two mechanisms focussing on land remediation. The first is that GDNs are provided with an allowance to remediate land to the level required under statutory obligations. The second is that the GDNs can keep the profit made for a fixed five year period when selling the remediated land. Therefore in certain locations, it is profitable for the GDNs to remediate the land to higher standards than the law requires, in order to maximise the sale value. However, most GDNs felt that in the current economic climate, the level of profits that could be received from land remediation had decreased, plus the five year incentive only drove remediation of "sought after" locations (one attendee estimated they had 6 sites out of 135 that might have a commercial value) and that therefore there is currently limited incentive on GDN to carry out any cleanup work over the required statutory remediation.

Resource use – it was noted that GDNs currently pay an aggregate tax and gate fees on the gravels they use, plus there is a mechanism for incentivising the minimisation of spoil to landfill. However it was also noted that the GDNs could do more to educate the local authorities, since there are very different attitudes to the use of recycled materials in road works.

Visual Impacts

AR questioned whether this category of outputs would apply for GDNs. Whilst has holders were considered, it was observed that for operational holders there is little they can do about the visual impact. In general redundant structures have to be removed in order remediate a site. One attendee thought that as new developments encroach, there may be more complaints about redundant structures. It was thought that the drivers and incentives on decommissioning holders and removing other potentially unsightly redundant assets should be explored further.

Energy Efficiency

Ofgem enquired if there is a role for GDNs in promoting energy efficiency. Most felt there was little that they could do directly, although this could link to their obligations on gas safety and social obligations such as the fuel poor scheme. If they notice a boiler is unsafe, or inefficient, they could inform the customer. The interaction with possible roles for the networks in the rollout of Smart Metering was also noted.

"Broader" environmental impacts

AR presented the RIIO thoughts on the broader environmental impact, and explained that there is an outstanding question as to whether Ofgem can discriminate renewables over other energy sources. The attendees asked whether this measure would focus on renewables or just reducing the carbon intensity of the energy flow – since the former would mean the injection of bio-methane, whilst using ordinary gas versus coal or oil (or vehicles using gas) could be justified for the latter. They also questioned whether this measure would be used to incentivise the amount of bio-methane connected. The broader role for "Smarter energy networks" to develop to support energy efficiency and broader

Government environmental targets was noted and it was suggested that this was a prime potential area for the innovation funding to support.

Secondary deliverables

Distributed gas

The issues raised in the recent bio-methane workshop were discussed[3]. AR questioned whether the issues related to GDPCR2. A number of attendees were concerned that the current deep connection charging regime was a barrier to entry for distributed gas and that if the boundary was changed this would have an impact on their business plans. They noted that the connection of distributed gas does not benefit the network itself. Ofgem asked if there were any other sources of distributed gas other than bio-methane, and one attendee noted shale gas.

Most GDNs stated that they were faced with more requests for connections and needed to find more efficient ways to connect such customers. Ofgem noted that DPCR5 had placed a requirement on DNOs to provide readily available information targeted to the different types of generator, and that this would seem to be appropriate here.

It was noted that the creation of a level playing field of access terms on gas entry such that renewable resources made the right choices over use was an important step in the process of ensuring the best support to meeting 2020 renewable targets and that the charging issues should be further explored.

5. Close

AR summarised the key points of discussion and thanked the attendees for their participation. She stated that Ofgem would continue holding EWG meeting until the end of the year with the next meeting to occur on **Wednesday 15 September**. 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.

6. Appendix

Anna Rossington	Ofgem
Mark Askew	Ofgem
Nicola Meheran	Ofgem
Haren Thillainathan	Northern Gas Networks Ltd
Richard Court	National Grid Gas
Steven Vallender	National Grid Gas
Chris Clarke	Wales & West Utilities Ltd.
Rob Hetherington	Scotia Gas Networks
Stuart Forrest*	Scotia Gas Networks
Andrew Gibson	Scotia Gas Networks
Erika Melen	Energy Networks Association (ENA)
Gaynor Hartnell	Renewable Energy Association (REA)

*via teleconference

[3] http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=235&refer=Networks/GasDistr/GasDistrPol