

RIIO-T1 & RIIO-GD1 Stakeholder Event

Summary of Proceedings

Venue: Victoria Park Plaza Hotel, 239 Vauxhall Bridge Road, London

Date: 7th October 2010

On 7th October 2010, Ofgem held its first stakeholder event to launch the transmission (RIIO-TI) and gas distribution (RIIO-GD1) price reviews¹. The purpose of the event was to provide stakeholders with an overview of how the RIIO recommendations will be applied to the forthcoming price controls, as well as elicit stakeholders' views on the key issues that the reviews will need to address.

Following presentations² from Ofgem and two network companies, the participants were asked to discuss one of the following three questions around their tables:

1. *Customers* - what are the key customer/consumer issues (e.g. service levels, connection times) that should be addressed in the context of the current price control reviews?
2. *Environment* - what are the key environmental considerations (e.g. low carbon requirements) that should be addressed in the context of the current price control reviews?
3. *Networks* - what are the key network related issues (e.g. safety, reliability, security) that should be addressed in the context of the current price control reviews?

As part of the discussions, each table was asked to identify up to 5 issues to submit to a panel comprising network companies, consumer and environment organisations, and senior Ofgem staff. Following the table discussions, the panel provided a summary of the key issues arising from these discussions before responding to specific questions from the participants.

We summarise the key issues submitted to the panel below.

Question 1: what are the key consumer issues (e.g. service levels, connection times) that should be addressed in the context of the current price control reviews?

Engaging domestic customers

A number of participants discussed how to engage domestic customers within the price review, in particular, with regard to eliciting domestic customers' views on the optimal trade-off between network standards (e.g. reliability and safety) and affordability. Several participants suggested that network companies should undertake scenario analysis demonstrating the impact on bills of different safety and reliability standards and present the scenarios to customers, to understand customers' willingness to pay.

¹ The next full transmission price control review (formerly TPCR5) is now known as RIIO-T1. The next gas distribution price control review (formerly GDPCR2) is now known as RIIO-GD1.

² All the presentations at the event can be found at:
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=1&refer=Networks/PriceControls/Stakeholder>

The impact of smart metering

A number of participants noted that network companies need to consider the impact of smart metering on consumer behaviour during the next price control. For example, smart meters should lead to a demand response, reducing demand at peak periods and the need for load related investment.

A number of participants also discussed whether network companies could introduce interruptible contracts for domestic gas consumers following the introduction of smart meters.

Gas network extensions

Several participants highlighted the importance of the gas distribution network extension programme to assist communities in fuel poverty. However, a number of participants also noted that there was a risk of stranded assets if the requirement to reduce carbon emissions led to the electrification of domestic heating. Network companies (and Ofgem) need to consider the most cost-effective way to address fuel poverty, taking into account the uncertainty with regard to future gas use.

Carbon monoxide poisoning

A number of participants highlighted the potential role for network companies in addressing incidents of carbon monoxide poisoning, following on from trials undertaken by gas distribution networks.

Question 2: what are the key environmental considerations (e.g. low carbon requirements) that should be addressed in the context of the current price control reviews?

Environmental targets

A number of the participants considered that facilitating the connection of renewable generation and low carbon generation in order to meet the 2020 targets was the priority for the network companies during the next price control review period.

Uncertain pathway to meet environmental targets

Several participants highlighted that the pathway to achieving the environmental targets is uncertain and that different pathways will have very different implications for network companies. For example, they noted that under some pathways there will be greater potential for stranded assets. The participants believed that networks need to accommodate the uncertainty with regard to future network development in their business plans, e.g. by considering investment strategies that keep future options open. Given the uncertainty, Ofgem also needs to provide regulatory commitment to future network investment, including the remuneration of stranded assets.

Visual impact

A key issue for electricity transmission is the visual impact of network extensions. Customer research is required in order to inform the proportion of electricity transmission lines that should be undergrounded.

Network company and generator engagement

A number of participants suggested that RIIO-T1 should focus on removing any barriers to low carbon generation, and more generally, improving the level of customer service provided by network companies to generators. Networks need to engage with generators during the price control review in order to ensure they understand their needs.

Some participants suggested that the provision of transparent information and the development of clear processes by network companies for dealing with requests/enquiries from generators would be particularly useful. Another participant suggested that the network companies should provide a fully interactive map of the pipes and wires on the system to assist generators in connecting to the network.

Outputs

A number of participants discussed how to measure a network's role in facilitating/enabling decarbonisation (or a "broad environmental impact" measure). Some participants suggested that a broad output was needed to reward/penalise network companies for their efforts to assist in the achievement of the low carbon/renewable targets. However, a number of participants commented that the broad measures were outside the direct control of network companies.

In terms of measuring the network company's own impact on the environment, losses and shrinkage in gas distribution were seen as the two most important output measures.

As a more general issue with regard to outputs, a number of participants noted the risk that in setting outputs companies will focus their efforts on the measured outputs to the detriment of outputs that are not measured.

Question 3: what are the key network related issues (e.g. safety, reliability, security) that should be addressed in the context of the current price control reviews?

Workforce skills

Several participants highlighted that investment in skills and resourcing was important since skill levels impact upon delivery, safety and innovation. They suggested that similar allowances should be allowed for workforce skills development in the current price controls as in the previous controls.

Stakeholder engagement

A number of participants requested clarity from Ofgem on how it will assess whether companies have appropriately considered the views of stakeholders within their business plans.

Several participants raised concerns around the tight timescales for Ofgem to produce the December and March consultation documents, and whether this would allow sufficient time for effective stakeholder engagement.

Transmission owner (TO) and system operator (SO) incentives alignment

A number of participants viewed the alignment of the TO and SO incentives as a key issue for the transmission review in order to minimise the costs arising from network constraints. Ofgem should also consider whether the review periods could be aligned.

HSE Repex review

A number of participants highlighted the HSE review of replacement expenditure ("repex") as a key issue for the gas distribution review, and were keen to be involved in the review process.

Outputs

A number of participants noted that there was little or no discretion for setting safety related output measures; the output measures need to reflect the statutory HSE safety standards agreed with the network companies.