

The background of the slide is a large, semi-transparent image of a gear. The gear is light blue on the left side and transitions to a light orange on the right side. The teeth of the gear are clearly visible, and the overall image has a soft, glowing effect.

RIIO-GD1 & RIIO-T1 Price Control Review Forum

4th November 2010

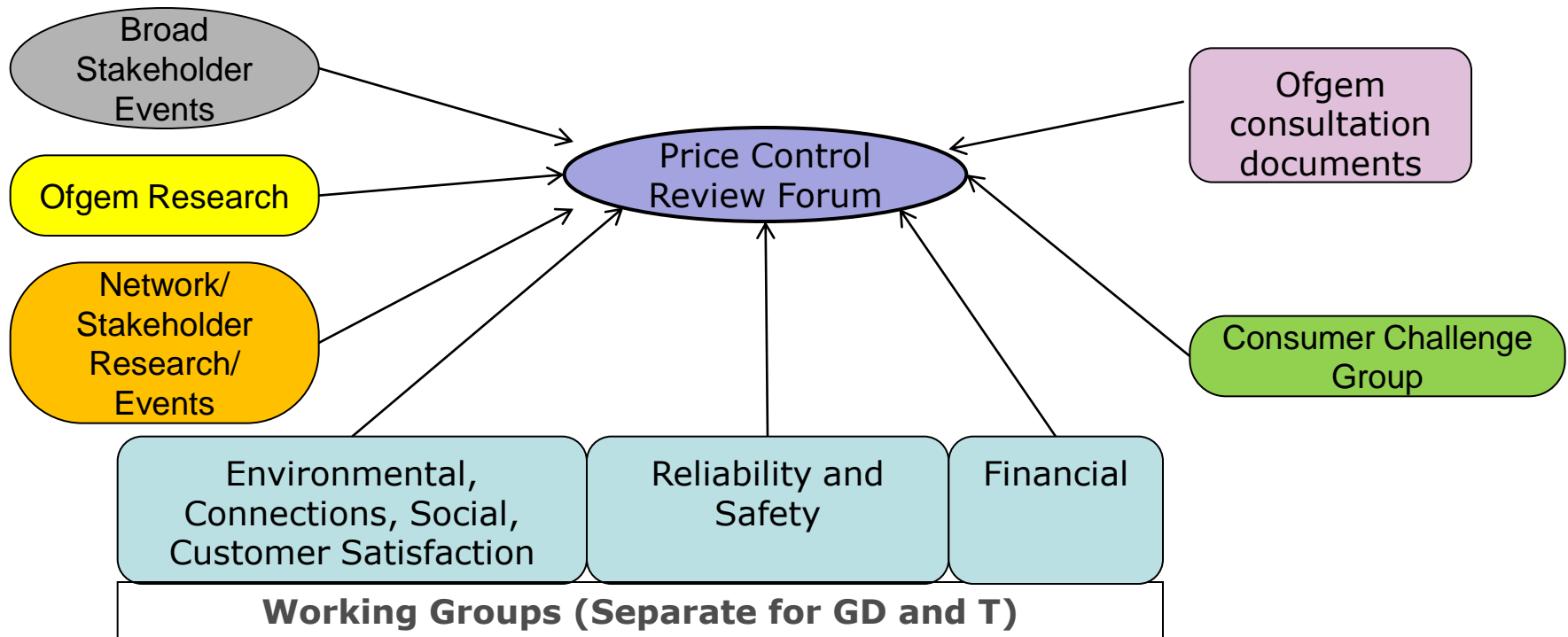
Session 1 - What is the Price Control Review Forum (PCRFR) and how will it work?

Purpose of the PCRFB

- To provide an opportunity for network companies and stakeholders to feed into the price control review process.
- To allow Ofgem and network companies to hear firsthand the views of interested parties.
- To afford an opportunity for different stakeholders to exchange views and discuss tradeoffs that need to be made in the review.
- To provide an opportunity to bring together all aspects of stakeholder engagement being undertaken by Ofgem, network companies and interested third parties.

PCRFB's role is advisory. Ofgem will consider the views raised in the PCRFB but no obligation to accept.

How the PCRFB fits into the stakeholder process



PCRF terms of reference – broad summary

What we will do for and at the PCRF?

Chair (want all members to have a 'voice')

Circulate papers and questions for discussion

Provide summary of our engagement with stakeholders

Produce summary of discussions and action points

What is expected of PCRF members?

Prior to Forum, canvass views of organisations in your area

Propose presentations, research and questions for discussion

Consider the material and questions sent out in advance of Forum

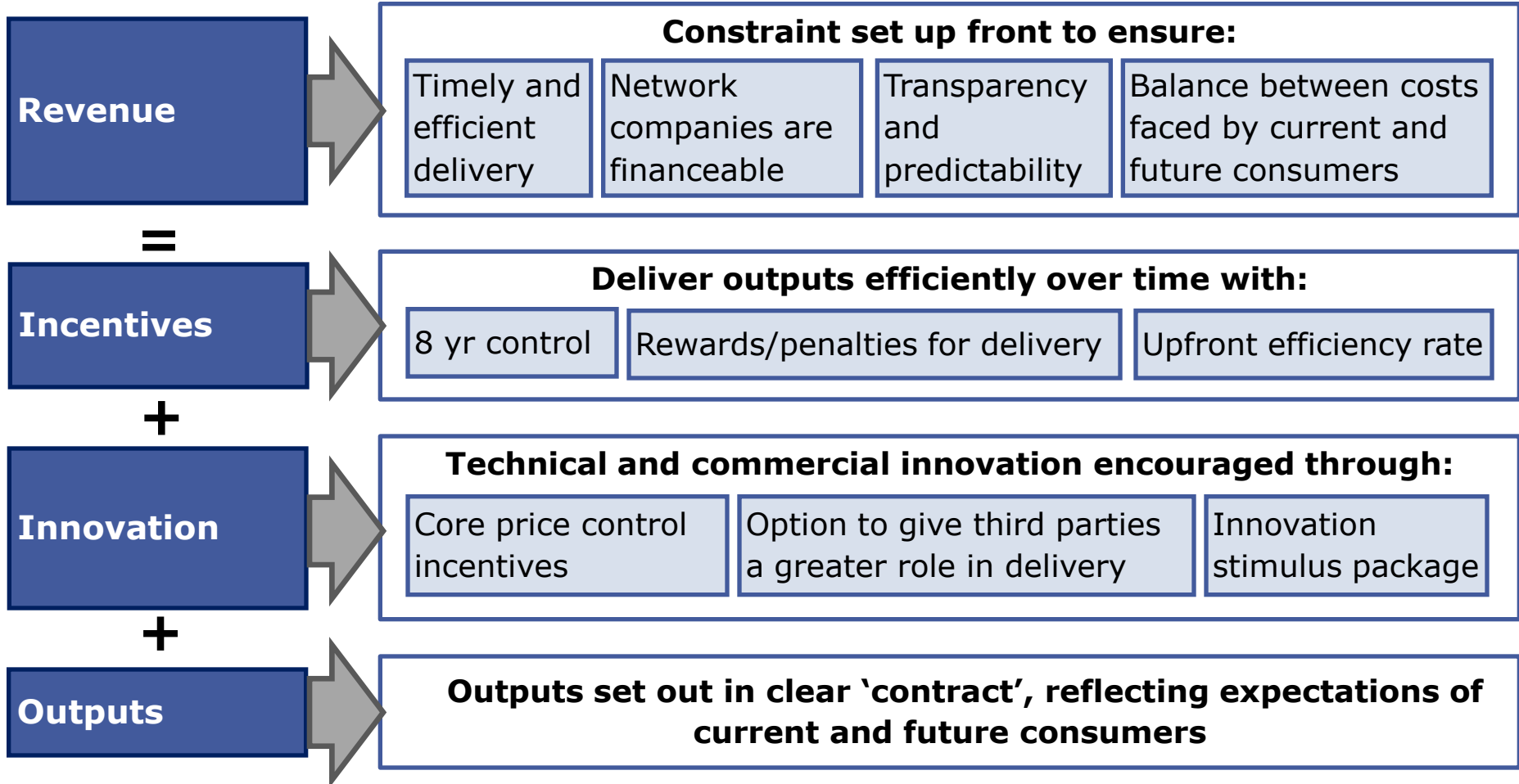
Report back key messages from Forum to groups active in your area

Questions for forum members

- Are you happy with how the PCRf will run?
- Do you agree with the terms of reference document? If not, what would you like added/removed?
- Are there ways the PCRf/preparatory material could be made more useful?
- Is the membership of the PCRf appropriate (too many representatives from one area; too few from another)?

Session 2 - Introduction to the RIIIO model of energy network regulation

RIIO: A new approach to regulation



A range of outputs and other parts of framework to deliver desired outcomes

Desired outcomes

Play a full role in the delivery of a sustainable energy sector

Deliver long-term value for money network services for existing and future consumers

Outputs

Environmental impact e.g. Losses/ shrinkage

Customer satisfaction

Reliability and availability e.g. Interruption to supply

Connection terms

Social obligations e.g. Carbon monoxide

Safety e.g. Iron mains risk

Other elements of framework

Innovation stimulus

Stakeholder engagement

Uncertainty mechanisms

Business plan assessment

Longer term controls

We will be focusing further on the outputs in session 4

Key issues for the reviews

RIIO|T1

Electricity: level of investment needed to replace aging assets

Gas: Changing patterns in supply (e.g. LNG) and demand (uncertain, new uses CCS)

Environment

Electricity: Connection of renewables – marked uncertainty

Contributing to Govt. targets (e.g. reducing emissions) **Visual amenity and noise**

Financial issues (including the cost of raising finance and asset depreciation)

Interaction of review with other areas of work

TO/SO interactions – options for aligning incentives

Project TransmiT – charging & connections **Offshore** **European Third Package.**

RIIO|GD1

HSE’s review of most cost effective way of managing risk on network and impact on repex programme

Environment

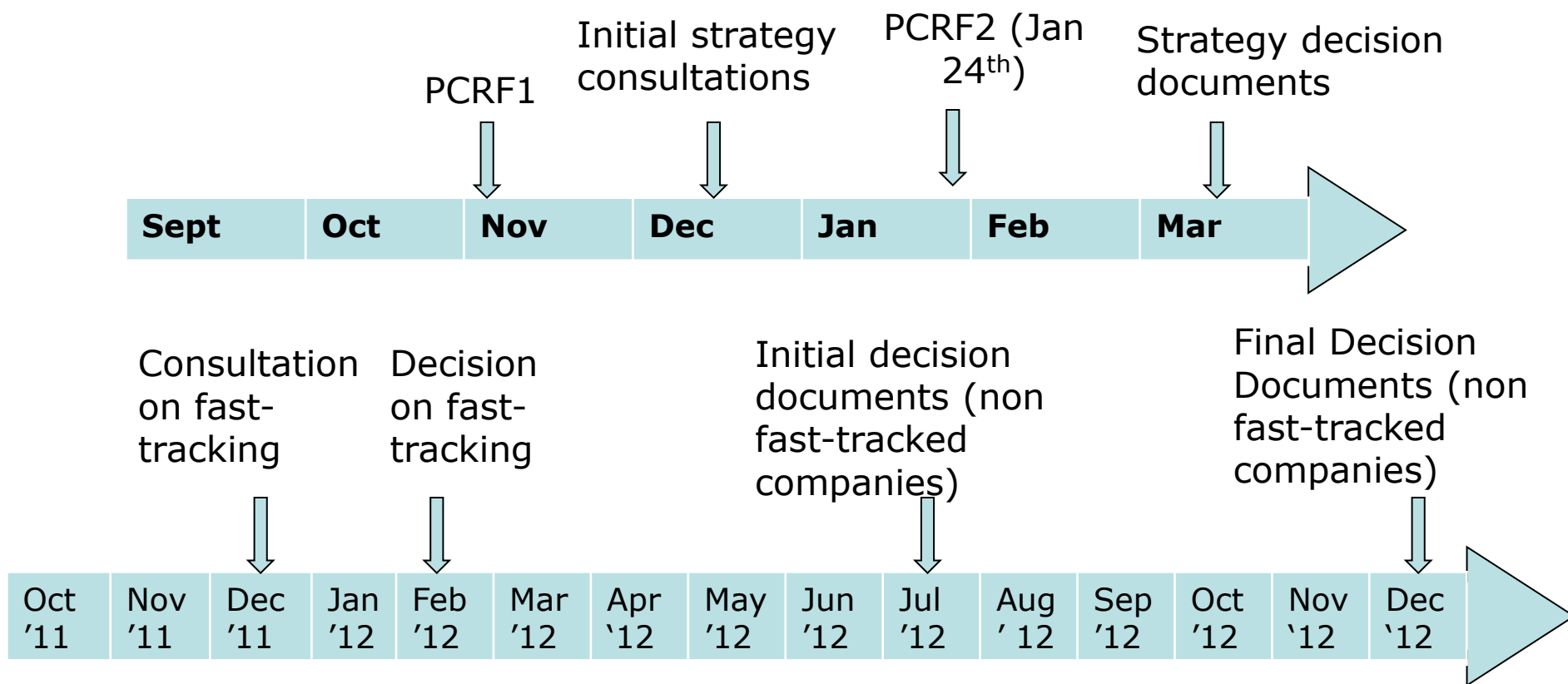
Uncertainty over future use of gas distribution network

Leakage & Shrinkage **Barriers to Bio-methane injection**

Other issues

Network extensions for fuel poor **Xoserve arrangements** **Addressing carbon monoxide risks**

RIIO-T1 & RIIO-GD1 timeline of publications



Session 3 – Summary of Ofgem’s stakeholder engagement

How have we engaged with stakeholders?

- Open letter consultation documents – July 2010.
- Stakeholder workshop – 7th October 2010.
- Working groups for all output categories (one planned for financeability)
- Ofgem-led research: domestic & business customers.
- Bilateral meetings.
- Website – more user friendly.
- Consumer Challenge Group: Individual consumer experts.
- Today... the PCRf.

Our engagement is complementary to network companies' own engagement as part of developing their business plans.

What have we learnt from our engagement?

To date, engagement largely focused on principles and key issues to address. Detail has been discussed in working groups (on our website).

Summary of principle and process views

- Issues to address in reviews broadly agreed by stakeholders.
- Agreement that outputs are a helpful way forward in delivering a sustainable energy sector and that the categories we have proposed are appropriate.
- Challenges around developing rewards and penalties associated with outputs.
- Process aspects of RIIO model need more development, including:
 - How will a mid-period review work?
 - Proportionate treatment of network companies (e.g. fast-tracking).
 - Financeability.

Ofgem consumer research (1)

- Qualitative research to explore domestic and business customers' priorities on the range of activities undertaken by network companies.

Findings: Domestic customers

- Awareness and understanding of the role and existence of network companies is very low.
- The key areas of importance mentioned spontaneously focussed on safety, reliability and visual impact.
- Following further deliberation, prioritisation of outputs were quite consistent across all groups:
 - Safety and reliability were the top priorities.
 - Connection and especially connection speed were least important.
 - Environmental impacts and then social obligations and customer satisfaction were clustered in the middle.
- Priorities were the same for both gas and electricity, although Panellists considered safety was a bigger factor when considering gas transportation.

Ofgem consumer research (2)

Findings: Business customers

- Many similarities with domestic customer.
- Few differences between business of different sizes.
- Those who are involved in new connections have a greater knowledge of networks and network companies, and a poorer impression of performance.
- Networks seen to be operating well, judged by frequency of interruptions to supply. Customer service is seen as an issue for those who have greater contact with companies.
- Electricity was more business critical for most respondents, and therefore more important than gas.
- Keeping the network operating at as low a cost possible to businesses was seen as the key priority for network companies.
 - A focus on prevention over cure.
 - All other issues took a back seat to 'keeping the lights on'.

Network companies' stakeholder engagement

Verbal update from members on their engagement to date and future plans:

- Network companies
- Other forum members

Questions for forum members

- Are there ways of engaging with you that we have missed?
- Do you think, so far, there has been enough engagement with stakeholders from both Ofgem and the network companies?
- What has been successful, what could be improved?
- Do the views stemming from our engagement to date seem consistent with the views of your members? Have we missed anything?

Session 4

**Outputs: Broad overview of RIIO
outputs and Safety and Reliability
outputs**

Recap on outputs

Output based approach central aspect of the RIIO reforms: 6 output categories

Safety

Reliability of network services

Environmental impacts

Conditions for connection

Customer satisfaction

Social obligations

Principles for the development of outputs

Comprehensive

**Customer-focused
on the needs of
network users**

**Informed where necessary by
measures that provide evidence
about delivery beyond 2021**

**Recognise what's controllable for
the different network companies**

**Practically
measurable**

**Appropriately
reflected in incentives**

Key questions on outputs

1. Have we missed any important outputs?

2. Are there practical difficulties with the suggested outputs?

3. Should the outputs be subject to financial incentives?

RIIO-T1: Safety proposed outputs

Output sub category	Primary Output	Secondary Deliverable	Incentive
Compliance with legal obligations	Comply with legal requirements efficiently including those required by Health and Safety Executive (for example gas transmission safety case)		Ofgem will not attach additional financial incentives to outputs.
Ongoing asset health		Asset health, criticality and replacement/risk priority	Monitor and assess performance at the end of the period to determine whether the Transmission operators (TO) has delivered appropriate levels of risk and value for money to customers. Financial penalty/rewards may apply in cases of material over under/over delivery.
Delivering legal safety obligations more efficiently		TOs able to propose further safety measures considered to be in public interest in their business plans as efficiently as possibly	TOs may provide evidence in the narrative to demonstrate where they have applied further efficient safety measures.

RIIO-GD1: Safety proposed outputs

Output sub-category	Primary Output	Secondary Deliverable	Incentive
Mains replacement	<ul style="list-style-type: none"> • Change in iron mains risk score 	<ul style="list-style-type: none"> • Gas in Buildings • Number of fractures • Length of main off risk 	No additional incentive mechanism – GDNs need to ensure compliance with agreed HSE plan (under PSR 13).
Emergency Response	<ul style="list-style-type: none"> • % uncontrolled gas escapes attended to within 1hr • % controlled gas escapes attended to within 2hr 		No incentive mechanism; compliance issue
Repair	<ul style="list-style-type: none"> • Change in risk score associated with type of gas escape and time taken to repair 	<ul style="list-style-type: none"> • Percentage preventions undertaken within 12 hours 	No incentive mechanism; compliance issue
Major Accident Hazard Prevention	<ul style="list-style-type: none"> • (GSMR) Safety case accepted by HSE • (COMAH) Safety report reviewed by HSE 	<ul style="list-style-type: none"> • Completion of statutory inspection and maintenance regime • No. of (RIDDOR) reportable loss of gas incidents for key GDN sites 	No incentive mechanism; compliance issue

Questions: Safety proposed outputs

1. Have we missed any important outputs?

2. Are there practical difficulties with the suggested outputs?

Specific output questions for consideration

3. What additional safety initiatives should Transmission operators (TOs) include in their business plans? (RIIO-T1)

4. Are there any other specific areas we should be targeting for GDN safety outputs? (RIIO-GD1)

RIIO-T1 (electricity only): Reliability proposed output

Output sub-category	Primary Output	Secondary Deliverable	Notes/ Incentives
Energy not supplied (ENS)	Amount of energy (not) reaching the end user		Marginal financial incentive penalty/reward for under/over-performance against a baseline level of ENS.
Ongoing asset health		<ul style="list-style-type: none"> • Asset health, criticality and replacement priorities (risk) • Faults and failure rates • Average circuit unreliability 	<p>Monitor and assess performance at the end of the period to determine whether the TO has delivered value for money to customers.</p> <p>Financial penalty/rewards may apply in cases of material risk over under/over delivery.</p>

RIIO-T1 (gas only): Reliability proposed output

Output sub category	Primary Output/ Secondary Deliverable	Notes/ Incentives
Transport of the required volume of gas in a reliable manner	<ul style="list-style-type: none"> • Outputs to address whether network can deliver capacity as required by users (network capacity), network assets perform desired function (asset condition) and network flexibility. • Potential to measure the delivery of gas to meet these functions based on when corrective actions are required such as TFAs (Terminal Flow Advice), volume of entry capacity buy-backs (or a subset of this volume of exit capacity actions, force majeure. • Asset condition, criticality and replacement priorities (risk) 	<ul style="list-style-type: none"> • Propose only to develop incentive schemes where there are not already in place (for example TFAs) • Financial penalty/rewards may apply in cases of material risk over under/over delivery of asset health/risk.

RIO-GD1: Reliability proposed output

Output sub Category	Primary Output	Secondary Deliverable	Notes/ Incentives
Loss of Supply	<ul style="list-style-type: none"> Number and duration of interruptions (planned; unplanned; 3rd party) 	<ul style="list-style-type: none"> Development of health indices and failure indices (5 asset categories) 	<ul style="list-style-type: none"> (i) Primarily incentivised under existing Guaranteed Standards (change the value?). (iii) Looking to develop secondary measures for use at RIO-GD1 (with aim to develop a mechanism for "claw-back" as per DPCR5)
Network Capacity	<ul style="list-style-type: none"> Managing 1 in 20 Obligations¹ 	<ul style="list-style-type: none"> Asset utilisation Existing capacity outputs Incentive (Exit +Interruptions) 	<ul style="list-style-type: none"> (i) Considering changes to (a) GDPCR1 "equalisation of incentives" policy, inc. option value; (b) whether GDNs should bear demand risk.
Network Reliability	<ul style="list-style-type: none"> Maintaining operational performance 	<ul style="list-style-type: none"> No. and value of offtake meter error reports (shipper driven) Faults over [x] days old 	No incentive mechanism
Data Accuracy	<ul style="list-style-type: none"> Maintaining network records 	<ul style="list-style-type: none"> %age of records updated within 42 days of work completion No. of error reports raised by 3rd party contractors working on GDN assets 	No incentive mechanism

¹The GDNs are required to design their networks to maintain supplies under 1 in 20 peak day conditions where the 1 in 20 peak day demand is the level of demand that would be exceeded in one out of 20 winters

Questions: Reliability and Availability proposed outputs

1. Have we missed any important reliability outputs?

2. Are there practical difficulties with the suggested outputs?

3. Should the outputs be subject to financial incentives?

Specific output questions for consideration

4. Are there any types of loss of supply events that should be excluded from ENS and GNS outputs measures?

Would this encourage better management over time?
(RIIO T1 and GD1)

5. Should the incentives on secondary deliverables (asset condition and criticality) provide rewards for over-performance as well as penalties for underperformance?
(RIIO T1 and GD1)

Session 5: Presentation from RenewableUK

Session 6

Outputs: Customers, connections and social issues

RIIO-T1: Customer Satisfaction & Connections proposed outputs

Output sub Category	Output	Incentive
Customer satisfaction	<ul style="list-style-type: none"> •Market research monitoring levels of Customer satisfaction •Performance in terms of dealing with and resolving complaints within specified time periods •Incentivising ongoing stakeholder engagement in formulation of plans and strategies 	<ul style="list-style-type: none"> •Penalty for falling below baseline levels/reward for high performers •Penalty for failing to deliver against timescales •Reward for companies able to demonstrate how proactive stakeholder engagement has informed their plans and strategies <p>However, Customer satisfaction potentially more complex to reflect in transmission due to:</p> <ul style="list-style-type: none"> •System operator/transmission owner •National Grid/Scottish TOs •TO/distribution/supply/other stakeholders
Connections	Options for primary output based on timing of connections but comparing against current connect and manage arrangements (electricity) and existing commercial arrangements (gas) is anything further needed? (some joint work with TransmiT)	
Social	No outputs proposed Connect + Manage = public social obligation (reflected in connection)	

RIIO-GD1: Customer Satisfaction & Connections proposed outputs

Output sub Category	Output	Incentive
Customer satisfaction	<ul style="list-style-type: none"> •Market research monitoring levels of Customer satisfaction •Performance in terms of dealing with and resolving complaints within specified time periods •Incentivising ongoing stakeholder engagement in formulation of plans and strategies 	<ul style="list-style-type: none"> •Penalty for falling below baseline levels/reward for high performers •Penalty for failing to deliver against timescales •Reward for companies able to demonstrate how proactive stakeholder engagement has informed their plans and strategies
Connections: Connections in a timely manner	<ul style="list-style-type: none"> •Performance against target set for various aspects of connections service – issuing quotations, agreeing start dates, completing works 	<ul style="list-style-type: none"> •Continue with Guaranteed standards - Compensation payments to customers impacted by failure to deliver against standards.

RIIO-GD1: Social issues proposed outputs

Output sub Category	Output	Incentive
Social (Promoting gas safety)	<ul style="list-style-type: none"> •Possible funding for schemes if cost/benefit evidence suggests this is appropriate •Outputs to be determined based on data emerging from trial initiatives in current price control 	<ul style="list-style-type: none"> •To be determined dependant on data emerging from trials •Requirement for reporting and monitoring of how new measures are working
Social (Connecting fuel poor)	<ul style="list-style-type: none"> •Not looking to set output targets – too much uncertainty over ongoing appropriateness/effectiveness of scheme •Continuation of current arrangements with additional reporting to assess effectiveness •Mid term review of scheme based on data captured 	<ul style="list-style-type: none"> •No additional incentive other than current mechanism for remuneration through inclusion in RAV

Questions: Customers, connections and social issues proposed outputs

1. Have we missed any important outputs?

2. Are there practical difficulties with the suggested outputs?

3. Should the outputs be subject to financial incentives?

Specific output questions for consideration

4. Given the more complex relationship with customers and interaction between different parties – how should Transmission owners be encouraged to meet customer needs fully? (RIIO-T1)
5. We propose no social obligation in transmission. Is this reasonable? (RIIO-T1)
6. What is the appropriate role the networks should play in reducing risks associated with carbon monoxide poisoning?(RIIO-GD1)
7. How do we ensure customer satisfaction measure particularly reflects vulnerable (fuel poor, new to industry) (RIIO T1 & GD1)
8. How should we incentivise stakeholder engagement? Is there a measure for 'good' engagement? (RIIO T1 & GD1)
9. Is there an appropriate output measure for providing a connection to the gas network for the fuel poor? (RIIO GD1)

Session 7

Outputs: Environmental outputs

RIIO-T1: Environmental proposed outputs

Output sub category	Primary output	Other progress
Network emissions (carbon/other greenhouse gases)	<p>1. Losses / shrinkage (% controllable and taking account of existing incentives)</p> <p>2. SF6 (useful in switchgear design but potent greenhouse gas)</p> <p>3. Residual Carbon footprint (financial incentives potentially on each)</p>	<p>Network company not able to fully influence losses/shrinkage but can influence part of losses/shrinkage. Instead also function of system operation and driven by market.</p> <p>Success with current SF6 incentive but questions about approach to measurement</p> <p>Secondary deliverable - network output measure developed since TPCR4 to provide information on general environmental performance.</p>
Network impact (visual amenity/noise etc.)	None	<p>Starting point is planning requirements i.e. only consider alternative more expensive options where likely to be required to comply with planning.</p> <p>Should we go further?</p> <p>For example, well-justified business plan could consider costs/benefits of particular strategies (taking account of stakeholder views/materiality)?</p>
Meeting broader environmental objectives	Probably none (reliant on our other output categories e.g. connections and availability)	<p>Working group likely to recommend against favouring particular type of generation.</p> <p>Secondary deliverables – 1. early warning metrics - % low carbon and renewables connected as proportion of low carbon and renewables seeking connection over a time period</p> <p>2. positive approach to technological challenges specific to low carbon /renewable sources of electricity.</p>

RIIO-GD1: Environmental proposed outputs

Output sub category	Primary measure	Incentives
Business carbon footprint	Shrinkage	(i) Based on GDPCR1 shrinkage model with minor changes, e.g. adoption of non traded carbon value; potential extension of env. incentive to losses/theft. (ii) Over long-term, move to framework based on actual rather than modelled shrinkage. This requires changes to settlement data.
	Business carbon footprint	Introduce league table as with DPCR5 (i.e. reputational incentive).
Other emissions & resource use	Land remediation	No incentive mechanism; report sites remediated by risk category
	Extraction of gravels	No incentive mechanism; report tonnes extracted
	Landfill	No incentive mechanism; report tonnes to landfill
	Emissions to water	No incentive mechanism; report # discharge consents and # incident reports
Meeting broader environmental objectives	Bio-methane connected	No incentive measure; report capacity bio-methane connected

Questions: Environmental proposed outputs

1. Have we missed any important environmental outputs?

2. Are there practical difficulties with the suggested outputs?

3. Should the outputs be subject to financial incentives?

Specific output questions for consideration

4. Should we consider visual amenity as justification for more costly options where not required by planning arrangements? (RIIO-T1)
5. Where outputs are set in areas that are partially outside of network company control, how should this be reflected in the incentives? (RIIO-T1 & GD1)
6. How can we ensure that the networks are proactive in connecting low carbon generation/sources and do not act as an obstacle? What form should any such incentive take? (RIIO T1 & GD1)
7. Do interactions with other output categories do enough to ensure network companies play a full role in delivery of a sustainable energy sector? (RIIO-T1)

Session 8

Q&A session for forum members to network companies