ofgem Promoting choice and value
for all gas and electricity customers

RIIO|GD1, RIIO|T1 Capacity Working Group

11 November 2010

Agenda

- **Introductions**
- **Terms of reference**
- **GDN Background**
- **Framework for capacity management: GDN**
- **Other aspects of regulatory framework: GDN**
- **NTS Future Network Development**
- **NTS/GDN interactions**
- **Role of demand forecasts**
- **AOB/Next Steps**

Terms of Reference

- Forum to discuss capacity issues for RIIO|GD1 and RIIO|T1
  - Framework for setting allowances for capacity related expenditure
  - Interactions between NTS and GDNs in capacity management
  - Development of capacity output measures for NTS Future Network Development
  - Role of demand forecasts
- Discuss policy options for inclusion in December strategy document
- Debate options ahead of March 2011 Strategy decision document
- Meeting *circa* every month prior to March 2011
- Meeting notes and presentations published

GDN Background

- RIIO|GD1
  - Move to output based regulation
  - Single pot expenditure allowances with incentives equalised across different types of expenditure
- Uncertainty about gas demand
  - GDN gas demand declining, will this continue?
  - Role of gas in low carbon economy unclear
- Simultaneous price controls
  - Opportunity to explore interactions between NTS and GDNs

Capacity Management Framework: GDNs

Broadly similar approach to GDPCR1

- Expert challenge to need for and cost of capacity related expenditure projects
- Interruption allowances set on basis of cost of supporting interruptible customers as firm
- Exit allowance based on forecast of required offtake

Some changes to overall framework

- Equalise incentives for capacity expenditure at the margin
- Single expenditure pot?
- Link expenditure to output measure(s)
- Emphasis on achieving most efficient solution across all types of capacity (Network, Storage, interruptible, NTS)
  - Revenue dependent on demonstrating solution is most efficient
- Look to include revenue triggers for large capacity investment projects

Other aspects of regulatory framework

BPs should consider how other aspects of regulatory framework impact capacity requirements

- Charging arrangements
  - E.g. Scotia capex reopener decision highlighted issues with unit of capacity used to calculate capacity related transportation charges
- GDN interruption auction arrangements
  - Is appropriate price for interruption achieved
  - Possible areas to consider include: implications of price control asset life work; provision of information regarding probability of being interrupted; and is option to delay investment appropriately valued?

Forecast changes in the NTS

- Significant changes forecast in the use of the NTS in the coming decade.
- Anticipated further decline in UKCS and increase in LNG and continental gas imports likely to create different gas entry flows
- Anticipated growth in renewable energy generation may have implications for CCGT gas exit flows
- Entry and exit commercial arrangements provide NTS with signals regards flat capacity needs – what will inform decision on other types of investment?
- Changes in entry and exit flows has the potential to impact users flexibility capacity requirements.
- As owner and operator of the NTS it is important that NGG anticipates and responds to these potential changes to ensure that the NTS is capable of meeting future gas needs.

NTS - Future Network Development

- UNC 195AV NGG NTS is obliged to monitor and publish data on flex utilisation. Also obliged to initiate review the operational tools available to them in managing flexibility requirements.
- 2009/10 System Flexibility Industry Workshops NGG has identified key supply, demand and linepack indicators which will impact future flex availability.
- Appropriate to link this work to the RIIO|T1 framework – Future Network Development.
- Establish a formal reporting requirement on NGG NTS in respect of Future Network Development indicators – a secondary deliverable with a link to a primary output?
- NGG NTS in consultation with NTS users to develop a system wide performance measure to justify future investment requirements?
- Funding requirements for Future Network Development to be informed by performance measure?

GDN/NTS investment efficiency

- GDN flexibility needs met by a combination of NTS exit (flexibility) capacity; GDN linepack; GDN storage; and to some extent GDN interruptible capacity.
- GDN requests for incremental exit flexibility capacity rejected where: it requires NTS system reinforcement; leads to an increase in costs; or, could reasonably be considered to lead to a conflict with the safe operation of the network.
- Current arrangements have potential to undermine investment efficiency across NTS/GDN interface – in some cases bidirectional inefficiency?
- As part of NTS Future Network Development work appropriate to develop proposals to address NTS/GDN efficiency, including
  - Procedure for identifying the most efficient form and, if necessary, location for investment.
  - Procedure for identifying funding arrangements including payment flows where works are undertaken by NGG NTS on behalf of the GDNs.
  - Compatibility of any proposals with existing UNC arrangements

Developing Output Measures

- Want to develop metrics to understand baseline capacity and capacity utilisation
  - To allow various type of capacity to be viewed along side each other including, for GDNs, availability on the NTS and, for NTS, availability on GDN networks
  - Consider measures at networks wide (primary output?) and more local (secondary deliverable?) levels
- How do companies currently manage capacity?
  - What indictors are used to signal need for provision of additional capacity?
  - How are various types of capacity considered alongside each other?

Demand Forecasts

- We have concerns about:
  - Divergence between NG and RDNs demand forecasts
  - Instability of demand forecasts
- As part of price control process we will:
  - Seek to understand the reasons for divergence in forecasts
  - Consider undertaking a piece of work to review demand forecasting methodologies
  - Require in business plans consideration of impact on required expenditure of alternative demand scenarios
  - Consider introducing demand triggers similar to those used in gas and elect transmission for large capacity related projects on GDN networks

AOB/Next Steps