

Environmental Working Group Meeting 5

This meeting was convened to discuss the views of GDNs on Ofgem's RIIO-GD1 consultation paper proposals for the next price control period.

From
Date and time of Meeting
Location

Neil Copeland
10:00-13:00, 26 January
Ofgem

26 January 2011

1. Present

Anna Rossington	Ofgem
Mark Askew	Ofgem
Karron Baker	Ofgem
Lesley Ferrando	Ofgem
Neil Copeland	Ofgem
Rochelle Hudson	Centrica/British Gas
Haren Thillainathan	Northern Gas Networks Ltd
Richard Court	National Grid Gas
Dave Tilley	National Grid Gas
Nicola Evans	Wales & West Utilities Ltd.
Terry Carroll	Scotia Gas Networks
Andrew Gibson	Scotia Gas Networks
Paul Sankey	Renewable Energy Association (REA)

2. Apologies

Iain Ward, REA

3. Introduction

3.1. Lesley Ferrando (LF) welcomed the attendees and thanked them for attending the meeting. She ran through the key dates between now and the publication of the March document, including the plan to hold another EWG on 17 February. This date is not suitable for all and an alternate date in that week will be sought.

4. Broad environmental measure

4.1. LF summarised that there are many areas within the proposals that are not in the environmental chapter, but that will facilitate the broader environmental objective of ensuring the companies play their role in the low carbon future.

4.2. LF set out the main points of Ofgem's proposals regarding the broad environmental measure and asked whether the GDNs agreed with the proposal to report capacity of biomethane connected. Haren Thillainathan (HT) queried whether it should be the amount connected, and whether it would be better to measure the GDNs on whether they were responding to developers in a timely manner. Others pointed out that most biomethane connections will be non standard, meaning that the time to connect would be very different. The GDNs pointed out that while the December document states that connection standards could be extended to include biomethane, they expect all biomethane connections to be classified as complex connections – which do not have to conform to the standards. Ofgem noted the link that there had also been with the discussions of the Connections Working Group for RIIO. Ofgem would liaise with their colleagues to ensure a co-ordinated approach. GDN's responded that biomethane connections had been within the scope of the

Environmental Work Group to date and that it is too late in the process to transfer the issues for consideration elsewhere.

4.3. Concern was expressed about the proposed use of a league table – since the companies did not see how their performance could be compared – when there are exogenous factors influencing the connections levels in each area. However the companies considered that it would be useful for them to report enquiries as well as connections (recognising that this would require careful definition) to monitor how many enquiries were being translated into connections and potentially analyse reasons why not.

LF asked whether there was any other measure of environmental impact that could be used. The GDNs said that the most important measure is progress towards UK emissions targets and there was discussion around whether the companies should be measured on their aggregate contribution to the UK targets rather than in a league table comparing their relative improvement. There was also discussion around whether Ofgem should be encouraging the GDNs to connect more biomethane - Dave Tilley (DT) made the point that this objective was more about GB's broader carbon target than about economics. Anna Rossington (AR) responded that Ofgem's interpretation is that it cannot discriminate between different types of connection (i.e. renewable and non renewable) and that it is therefore the Government's responsibility to provide specific subsidies to encourage renewables. AR also reported that regular discussion took place between Ofgem and DECC regarding each others' objectives.

Action: Ofgem to flag to their representatives on the Connections Working Group the issues raised regarding connection standards for entry customers.

5. Biomethane Injection

5.1. Karron Baker (KB) gave an overview of Ofgem's proposals on biomethane injection onto the grid.

5.2. Discussion took place regarding the proposed licence requirement to provide information to potential entry customers. Information requirements differ widely in detail between the different types of customer. AR suggested that a licence condition similar to the one used for Electricity could be used. The DNO's condition requires companies to produce separate information tailored to the different types (and knowledge levels) of DG customer.

5.3. GDNs highlighted the present need for consideration of connection charging methodologies in advance of the next price control period. There was discussion regarding the responsibility for changing connection methodologies. KB emphasised that the methodologies belonged to the GDNs and it was their responsibility to bring forward modifications. Ofgem's proposals in the consultation paper regarding funding in this area were intended to provide the flexibility within the price control that if methodology changes were approved which changed the charging boundary, there would be a mechanism in the price control that enabled the GDNs to recover non-connectee funded costs.

5.4. Discussion took place around the two possible funding options. KB made it clear that Option 1 was the preferred option.

5.5. The GDNs queried what period they would be expected to log up costs over; AR noted that logging up is generally done over the full price control period. The GDNs responded that costs could be material over the 8 years - and that this could act as a disincentive to them connecting gas entrants. They suggested logging up to a mid point in the process, with the option of a re-opener would be preferred. The GDNs also noted that they did not think that option 2 was impractical – depending on when the value of the incentive would need to be determined (i.e. for the March document). They considered that they could estimate an average price of biomethane connections and that it was the overall

volume of connections that would be difficult to predict. Ofgem indicated that the provision of estimated average connection costs would be helpful, but queried whether this could be provided in time to feed into the final decision.

5.6. Discussion took place as to whether or not Ofgem has the vires to subsidise the injection of biomethane to the distribution network. KB stated that Ofgem are not certain they have the vires to discriminate for renewables; while Richard Court (RC) responded that he considered Ofgem's sustainable development objective would cover this. He also noted that NTS entry flows have odourisation and metering and therefore gas entry onto the distribution network would need to be consistent (and not discriminate) with this.

5.7. AR asked the GDNs to be explicit about exactly what the network benefits of distributed gas were. DT responded that exit connections were for the benefit of individual consumers while entry customers provided benefits to everyone on the network.

5.8. Andrew Gibson (AG) gave feedback that Scotia Gas Networks (SGN) have received input that the cost of network entrance plant is a significant barrier to market entry.

5.9. AR asked if companies could report where enquiries had been made about possible network entry connections; where these had not gone ahead and why. This information would allow Ofgem to see if the barriers to entry were consistent across GB.

5.10. AR stated that the GDNs had not demonstrated gas distribution network benefits associated with Biomethane injection. The GDN's responded that they felt they had at over the course of the previous meetings and took an action to re-communicate the benefits for GDNs.

Actions: 1) Ofgem asked GDNs to estimate the scale of costs they would incur if the connection boundary was changed. 2): GDNs were requested to provide information on the number of enquiries for connection and reasons why these had not gone ahead.

6. Business Carbon Footprint (BCF)/Other Emissions

6.1. LF presented the proposals for BCF, which include a standard reporting framework, a league table of performance and a proposal for GDNs to identify cost-beneficial schemes to reduce BCF in their business plans.

6.2. DT pointed out that scope 3 emissions reporting is developing but is at different stages across the GDNs. AR asked whether Scope 3 emissions would have a major impact on the business plans, and the GDNs acknowledged that they would not.

6.3. LF stated that Ofgem would work with the GDNs to draft a standard format of the BCF reporting, and that existing frameworks and/or the reporting template used for electricity distribution could be used as a basis.

6.4. LF confirmed that GDNs would be required to provide details in the business plans on the cost-benefit justification of any initiatives to reduce BCF. TC asked whether the price of carbon would be fixed or vary over time, and the GDNs made it clear that the certainty of a fixed price would be preferred.

Other Emissions

6.5. LF gave an overview of proposals in this area, and confirmed that these measures of resource use could be included in the business plans and annual reporting. Discussion took place on the value to be obtained from a league table.

6.6. TC questioned why GDNs should report to Ofgem about issues such as emissions to water permits since these are controlled by the Environment Agency. TC also pointed out that the reporting thresholds were different in Scotland compared to other parts of GB and that it would thus not be possible to compare like with like. LF acknowledged this, but still felt it would be of value to have an indication of how each GDN was performing with respect to resource use on an annual basis. GDNs again highlighted that each GDN would be starting from a different base and therefore comparisons against each other would not reflect the true position.

6.7. The GDNs submitted it would be more valuable to report to Ofgem their retention of ISO14001 rather than reporting the number of environmental certificates they had applied for. TC argued that reporting in this way was more robust. RC pointed out that it would be useful to take account of where different companies were on their journey to improved sustainability. Ofgem agreed that a check box of whether a GDN was ISO14001 compliant and that their annual audit of ISO14001 indicated they were achieving the proposed improvements should be included. However, as the reporting factors within ISO14001 could differ vastly between GDNs it could not replace other measures.

Actions: GDNs were requested to begin work on drafting a suitable BCF reporting template.

7. Shrinkage

EEI/Shrinkage Incentives

7.1. Mark Askew (MA) set out Ofgem's views on shrinkage. The GDNs agreed that they did not have any major issues with the high level proposals on the Environmental Emissions Incentive; and shrinkage incentive. RC asked whether the circa £66MWh figure for the EEI was fixed or varied? MA stated that this figure was based on DECC's current carbon valuation which extended out to 2050. He commented that the £66 was an average over the 8 year of the price control.

7.2. MA asked for the GDNs views on the proposal to introduce a cap and collar on the shrinkage incentive. HT responded that the cap and collar in the previous price control had been brought in due to uncertainty regarding leakage, and he did not see that this was still required in this price control. RC added that he did not see the justification for a cap and collar as being uncertainty around the mains replacement programme. He commented that uncertainty mechanisms would be a way to address this issue. He added that any cap and collar should use absolute numbers rather than percentages.

7.3. MA described the proposal to introduce a new licence condition requiring GDNs to use actual shrinkage figures to inform baseline figures for future price controls. HT pointed out that it was difficult to know if useful data would come from the roll out of smart meters. DT asked whether it would be feasible to have a condition obliging businesses to assess the feasibility of using smart meter data for these purposes. MA commented that feasibility may be a first aspect of the licence condition and that depending on the results of that feasibility, that condition would then require GDNs to be proactive in using such data for the next price control.

Unregistered Sites

7.4. MA outlined the necessity for a code of practice for all participants in the market to follow when dealing with unregistered sites. A number of GDNs stated that the roles and responsibilities of the different parties (shippers, suppliers and transporters) had to be established. HT pointed out that progress had been made in this area on a Xoserve working group. AG agreed that this may be the best place to discuss this issue.

7.5. AG questioned the basis of the legal advice Ofgem had received outlining that GDNs have certain obligations for dealing with unregistered sites. MA agreed to circulate the legal advice to GDNs.