

**Ofgem's Price Control Review Forum**  
**Summary of proceedings**  
**Venue: Ofgem offices, 9 Millbank, London, SW1P 3GE**  
**Date: 24 May 2011, 13:00 – 16:15**

On 24 May 2011, Ofgem held the third Price Control Review Forum for the electricity and gas transmission price control (RIIO-T1) and the gas distribution price control (RIIO-GD1). We summarise the main points arising in each session below. Annex 1 sets out the membership at this PCRF.

*Session 1: Introduction*

Ofgem highlighted several of the key workstreams that are being taken forward since the publication of the March strategy decision documents:

- For RIIO-T1 it was noted that there will be a separate consultation, later this year, on proposals related to the broad environmental incentive (BEI).
- In RIIO-GD1 it was noted that the Health and Safety Executive's (HSE) review of the iron mains replacement programme (repex review) will conclude shortly. The implications of the repex review will then be considered in relation to the RIIO-GD1 timetable.

Members were asked for their response to Ofgem's ongoing RIIO-T1 and GD1 work, as well as any specific comments on the strategy decision documents.

One supplier representative asked when they would get an idea of the magnitude and the profile of revenues that the network companies will be requiring over RIIO-GD1 and T1. In response, Ofgem noted that they would expect this information to be in network companies' business plans that will be submitted in July. It was highlighted that Ofgem intends to make these business plans publically available once they have been submitted.

One member asked for further detail on how the mid-period review of output requirements would work, the timescale, and what would happen if network companies do not agree with the decision made at the review. Ofgem highlighted that the uncertainty supporting paper, published in March, provides information on the mid-period review process. In terms of the challenge process open to the network companies, it was noted that this would follow the same process available to them if they rejected the full price control settlement. However, given the tightly defined scope of the mid-period review, a re-opening of the entire price control settlement by the Competition Commission would not be expected.

*Session 2: Business plans development – updates from gas distribution companies (RIIO-GD1)*

In this session, each of the gas distribution networks (GDN) gave a presentation updating members on their business plans, including the key issues highlighted by their stakeholder engagement to date and how they are intending to use this information to inform their business plan submission. Their presentations can be found on our website. Key points and members' views in response to the presentations are summarised below.

A supplier representative highlighted that their key concerns were transparency and predictability of network charges. It was suggested that this issue was not evident in the GDNs presentations to members. However, in response, the GDNs noted that this issue was something that they had all heard through their stakeholder engagement and will feed into their business plan developments. One GDN noted that as part of their business

plan submission they will be looking to propose a specific measure to help suppliers in this area.

One member asked if there was any evidence that stakeholders would be willing to accept lower levels of safety or reliability in return for lower network charges. While recognising that there were some differing views across stakeholder groups, the broad message across all the GDNs was that maintaining the current safety and reliability levels was desirable.

The GDNs highlighted that customers want them to play a role in reducing the risk of carbon monoxide (CO) poisoning. Customers, however, were not willing to pay the network companies to do more, but saw them as well placed to work with other industry participants to increase awareness. Ofgem highlighted that the network companies were currently running a number of trials, that will help to establish the role that GDNs can play in reducing CO poisoning. One GDN noted that they were looking to propose a mechanism in their business plan that could help them to play more of a role in reducing CO poisoning.

A GDN highlighted that some stakeholders had recognised the importance of maintaining a skilled workforce as a key challenge to consider when developing their business plan. Ofgem highlighted that network companies are able to suggest additional output measures as part of their business plan submission and that this might include one for workforce renewal. An output measure was seen as potentially desirable so that customers could understand what they are getting for their money. A couple of the GDNs noted that they would consider this for the business plan submissions.

A consumer representative asked if the network extension programme had been raised for discussion with stakeholders. One GDN noted that they had received support for its continuation, however that looking at the gas network in isolation may not be the most cost effective solution for consumers. They saw the potential to use RIIO's innovation measures to consider ways of looking across the industry as a whole to make decisions. For example they noted that, it may be in consumers' interest to also look for solutions involving the electricity distribution network and energy efficiency measures.

A GDN said they supported the HSE's work on reforming the repex programme and that the current approach to funding repex was not encouraging the right behaviours to maintain the current level of safety at value for money.

The GDNs were asked about aspects of stakeholder engagement that have been better/worse than expected. In general, the GDNs were very positive about the role increased stakeholder engagement was playing in developing their business plans. One member noted that RIIO process has helped get 'customers' talked about within their company more than ever before. Another noted that the turnout had been better than expected and was a marked improvement when compared to their activities as part of DPCR5. However, another GDN noted that turnout had been disappointing in some meetings.

Several of the GDNs agreed that the challenge would be maintaining momentum around their stakeholder engagement activities so that it continues successfully after the price control process has finished. One member highlighted that, where possible, network companies should look to run joint stakeholder engagement sessions to help avoid 'stakeholder fatigue'.

A consumer representative asked how successful the network companies had been at engaging with business customers - particularly small businesses. One GDN noted that they did have some input from small business, but they had been a difficult group to

engage. Businesses that had a strong reliance on gas supplies for their operations were more willing to engage, and had stronger views on improving gas reliability than domestic customers.

*Session 3: Update on the Electricity Networks Strategy Group (ENSG) forward work programme*

In this session, the Department of Energy and Climate Change (DECC) gave a presentation to members highlighting:

- ENSG's aims and objectives
- an overview of the findings from the ENSG 2020 Vision Report
- the ENSG work programme going forward, which can be broken down into three areas:
  - 1) a refresh of the 2020 Vision Report
  - 2) monitoring of TO investment plans and delivery
  - 3) post 2020 scenarios for the transmission network.

DECC's slides can be found on our website along with a note providing more detail on each of these areas. In advance of the PCRF, members were asked to consider this material, their views on the ENSG work to date, and whether and how they can contribute to future work.

Several members highlighted their interest in being involved in the ENSG work.

One member noted that the 2020 Vision Report had given only limited opportunities for a broad range of stakeholders to take part and asked if there would be a greater role for stakeholder engagement in the refresh report.

Ofgem noted that this had been a concern raised by other parties and that Ofgem/DECC would look to enhance stakeholder engagement for their future work. It was also highlighted that the refresh report would build on the network companies' business plans for RIIO – with stakeholder engagement already being a key element of this.

A couple of stakeholders, particularly interested in visual amenity issues, noted that clarity is needed on where, and how, they should engage on decisions about both where to connect a new generator, and the route that the electricity line should follow. They felt that currently, the initial offer on where to connect a new generator was subject to limited stakeholder engagement. Ofgem confirmed that approving funding for new network infrastructure is its responsibility, and that this is separate from the planning process though the funding decision will be influenced by the planning process. A network company noted that under the new planning process in England and Wales, developers will need to look at both the funding and planning process together. See session 5 for further discussions on visual amenity and the planning process.

Several stakeholders asked how the ENSG's future work will interact with other workstreams being undertaken by DECC and Ofgem, such as the Offshore transmission strategy and the RIIO price controls. DECC and Ofgem agreed that engagement with other areas was very important and already taking place. It was noted, for example, that both the Offshore Transmission Coordination Group and Smart Grid Forum were feeding into the ENSG work and that there was significant overlap on membership of all three groups.

*Session 4: Business plans development – updates from electricity transmission companies (RIIO-T1)*

In this session, each of the transmission network operators (TOs) gave a presentation updating members on their business plans, including the key issues highlighted by their stakeholder engagement to date and how they are intending to use this information to inform their business plan submission. Their presentations can be found on our website. Key points and members' views in response to the presentations are summarised below.

Several members welcomed the TOs' approach to stakeholder engagement to date. This included noting that the engagement events have been well organised and presented, and that the TOs have been open to questions about how they operate as well as providing information about this.

One member asked the network companies how they are ensuring that stakeholder views are being captured correctly and reflected in their business plans. One network company highlighted that they would be consulting with their stakeholders to check their understanding of issues that will inform their business plan. Another network company noted that they have been using their working groups to check their business plan developments are aligned with stakeholder feedback.

One member asked if, like the GDNs, workforce renewal had been considered and discussed as part their stakeholder engagement. The TOs agreed that workforce renewal was an area important area to consider as part of their business plans - broadly echoing the views summarised in session 2.

With reference to the environmental challenges that network companies face, an Ofgem representative asked the TOs how aware their stakeholders were about the effects these challenges would have on their bills. All the TOs noted that their stakeholders expect their bills to increase, but that trying to keep network charge down was very important. One TO highlighted that it is a challenging area to discuss, as transmission charges represent only a small proportion of consumers' total energy bills.

A supplier representative asked if the issue of security of supply had been discussed with consumers. One TO noted that their customers were happy with the current level of security of supply, but that the scale of investment needed over RIIO-T1 is likely to create some challenges in trying to maintain this level. For example, the scale of refurbishment and replacement of existing assets that will be needed will require careful forward planning of such activities to ensure the system remains robust. Another TO noted that a similar debate was ongoing with stakeholders and that they would reflect this in their business plans.

One member noted the security of supply challenge that could face TOs, if the role of distributed generation (DG) increases over time. A TO acknowledged this point and noted that DG, as well as the distribution network, already provides support to the transmission network if there is not sufficient capacity. For their business plan they highlighted that considering the role DG could play in the future will be important and will require 'whole energy solutions' involving participants across the energy sector. They noted that they would be thinking about this in terms of innovation under RIIO. Ofgem said that the Network Innovation Competitions (NIC) introduced as part of RIIO, would not prevent transmission and distribution working together.

*Session 5: Update on RIIO-T1's decision on visual amenity*

Ofgem opened discussions with a short presentation on how visual amenity issues would be considered as part of RIIO-T1. The presentation can be found on the website.

For improving the impact of existing network infrastructure, Ofgem highlighted that, as part of RIIO-T1, there would be an allowance based on customers' willingness to pay (WTP) to address impacts in National Parks (NP) and Areas of Outstanding Natural Beauty (AONB).

In response one member highlighted that consideration needs to be given as to how WTP studies could be used to inform discussions around new infrastructure and in areas not given the NP and AONB designation.

Ofgem then outlined the process that would be followed to address visual amenity concerns for new infrastructure. Funding requests for new infrastructure will continue to be looked at on a case by case basis, with the onus on the network companies to demonstrate a needs case for higher levels of funding related to alleviating the impact of the infrastructure.

Several members highlighted the points made in the discussions in session 3, noting that greater clarity across the whole decision making process, including when and how stakeholders should be involved, would be beneficial. This includes getting stakeholders involved earlier in the process eg when the decision is being made as to where to locate a new generator. One member also noted that there should be more joined up thinking between Ofgem and other government departments.

Several of the network companies highlighted challenges around the existing regime, for example, that there are no national rules around how to decide whether to underground new infrastructure.

One member asked the TOs about how stakeholders would feel about having all new lines undergrounded - noting that it would only have a small impact on their total bills. However, a TO challenged this view and suggested that the undergrounding of new lines would be expensive.

**Annex 1: Attendance at PCRF**

<b>Name</b>	<b>Organisation</b>	<b>Representing</b>
Aileen McLeod	SSE	TO
Alan Michie	SPT	TO
Alex Murley	RenewableUK	Renewable energy producers
Bob Spears	Ofgem's Consumer Challenge Group	Specialists in consumer issues
Cem Suleyman	Consumer Focus	Consumer groups
Colin Connor	HSE	Government
Colm Gibson	LECG	Consultant
Fiona Navesey	Centrica	Supply businesses
Helen Inwood	RWE npower	Supply businesses
Jacopo Vignola	Centrica storage	Gas storage
John Pitchford	Suffolk County Council	Local Government
Martin Atkinson	SBGI (onshore gas industry)	Onshore gas industry
Nicholas Stevens	Moody's	The City
Paul Hawker	DECC	Central Government
Paul Miner	Campaign to Protect Rural England	Local and national environmental groups
Paul Whittaker	National Grid	Transmission operator (TO)
Pauline McCracken	National Grid	TO
Stefan Leedham	EDF	Electricity generators, gas shippers, distribution network operator (DNO) and the Gas Forum
Stephen Parker	NGN	Gas distribution network (GDN)
Steve Edwards	WWU	GDN