

## **Ofgem's Price Control Review Forum**

### **Summary of proceedings**

**Venue: Ofgem offices, 9 Millbank, London, SW1P 3GE**

**Date: 2 December 2011, 10:30 – 14:00**

On 2 December 2011, Ofgem held the fourth Price Control Review Forum for the electricity and gas transmission price control (RIIO-T1) and the gas distribution price control (RIIO-GD1). This meeting only covered RIIO-T1 issues. We summarise the main points arising in the meeting below. Annex 1 sets out the membership at this PCRf.

### Introduction

Ofgem highlighted the key points since the publication of the July initial business plan assessment.

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

One member asked about the impact of moving to an 8 year control period on the submissions and whether we were really seeing sufficient longer-term context.

Another member questioned whether Ofgem was seeking a greater volume of information to justify plans. Ofgem responded that the important factor was the quality of the information provided rather than the volume.

### TO presentations of business plans

Each of the TOs presented (the presentation slides are available on our website) and took questions.

A consumer representative expressed concern over the large increase in NG's baseline expenditures, both in electricity and gas. NG explained that this was necessary given the requirements on their networks and included significant efficiencies.

The GMB representative asked whether NG's plan was sufficiently long-term in focus. A particular example was the absence of a clear strategy to support changes in heat and transport and their implications on electricity.

The TOs generally noted the difficulty in predicting the future on these issues but felt that proposed uncertainty mechanisms provide the opportunity for dealing with changes. The feeling at the current time was that changes to heat and transport use was a more direct concern for distribution networks and something that transmission networks would need to adjust for in the 2020s and 30s.

The GMB representative challenged NG on the use of Alliance contracts noting the benefits derived by Western Power distribution through separating out from such arrangements. NG argued that the Alliance contract arrangements provide them with benefits of flexibility in this uncertain time.

The same member raised the issue of 'Big energy' not being trusted with the public and asked further what NG is intended to do in relation to creating jobs and addressing sustainability.

NG said that the UK transmission business was in the middle of a big recruitment and training drive (adding around 400 in 2011-12 for example) and this would continue through the roll-over period and into the RIIO period to accommodate projected increases in investment and the need to subsequently manage the increased asset base.

Concerns were expressed from a member about the efficiency of NG's plan and that they were not convinced how this was going to be delivered. It was agreed that this was something Ofgem would need to look into and test in the forthcoming March business plan update from NG.

The Campaign for National Parks (CNP) representative welcomed the good job that NG had done in creating a strong stakeholder dialogue and also welcomed how NG now see themselves as a 'self confessed neutral' in the choice of approach for new transmission infrastructure.

The CNP representative also raised the fact that NG did not mention any WTP analysis in their Business plan presentation. It was acknowledged that more work was needed to be done and NG responded that a WTP analysis will be incorporated later on in the process.

The CNP and Suffolk County Council members led to a discussion of the 10% proposed as a base assumption for undergrounding. NG confirmed that this was merely a starting point and would be subject to its proposed uncertainty mechanism.

The Renewable UK representative welcomed NG's development of wind. The member asked about the treatment of distributed wind in the plan.

NG said that the plan was based upon a forecast that included distributed wind

There was also discussion about the SO and TO relationship. SP Transmission (SPT) responded that the present relationship was very good but that the sheer volume of work envisaged over the RIIO-T1 period would necessarily increase the challenge facing both.

Ofgem confirmed its intention to publish a policy principles document on SO incentives post 2013 before the end of the year.

ESB International asked what sensitivity have NG incorporated in their business plan in relation to the new government market reforms in the economy and current market volatility. NG responded that their work up until July with stakeholders has been based upon different scenarios to accommodate this.

Ofgem agreed to consider this question further once the update on the EMR proposals were known.

A GDN representative noted the much improved process in terms of the NG gas transmission providing them with information necessary for their planning.

A representative from HSE asked about how issues of employee safety have been picked up. The TOs highlighted their commitment to this issue.

The ESB International member questioned why consumers should pay for the risk expenditure for the companies when it should be the board's responsibility and should not be funded by consumers.

The consumer challenge group representative raised the issue that most consumers cannot distinguish between Transmission and Distribution and proposed to have a joint survey instead. SHETL responded that their customer base is very small/limited and that these customers hold enough knowledge in order to be able to distinguish between Distribution and Transmission. However, the ESB International representative questioned whether this would raise any issues in relation to business separation.

Ofgem's thought it was important that to have separate surveys in transmission and distribution to get an assessment of the quality of the transmission company. However it recognised the need to co-ordinate with distribution where possible and understand the differences where relevant. Ofgem would also take away the point about the transmission and distribution survey being collected at the same time.

#### *Next steps*

Ofgem summarised the next steps, in particular the process for taking a decision on fast-tracking.

It was noted that the next joint (RIIO-T1 and RIIO-GD1) PCRF would be held around June 2012, before the publication of initial proposals for non-fast-tracked parties. However, there will be a RIIO-GD1 only PCRF around March 2012, a similar stage in the process to this RIIO-T1 meeting.

Annex 1: List of attendees

<b>Name</b>	<b>Organisation</b>	<b>Representing</b>
<b>Antonio Ciavolleva</b>	BP Gas	Gas Storage
<b>Aileen McLeod</b>	SSE	TO (transmission owner)
<b>Alan Michie</b>	SPT	TO
<b>Bob Spears</b>	RIIO-T1 consumer challenge group	Specialists in consumer issues
<b>Colin Connor</b>	HSE	Government
<b>Eddie Profitt</b>	Major Energy Users Council	Medium and Large Users of Energy
<b>Gary Smith</b>	GMB	Trade Unions
<b>Hedd Roberts</b>	National Grid	TO
<b>Jacopo Vignola</b>	Centrica Storage	Gas storage
<b>Mike Wilks</b>	Suffolk County Council	Local Government
<b>Paul Hawker</b>	DECC	Central Government
<b>Paul Whittaker</b>	National Grid	TO
<b>Michael Dodd</b>	ESBI	Electricity Generators
<b>Milorad Dobrijevic</b>	SPT	TO
<b>Neil Griffiths-Lambeth</b>	Moodys	The City
<b>Ruth Chambers</b>	Campaign for National Parks	Local and National Environmental Groups
<b>Stephanie Mais</b>	Wales and West Utilities	GDNs
<b>Stephen Parker</b>	Northern Gas Networks	GDNs (gas distribution networks)
<b>Tom Leveridge</b>	Campaign to Protect Rural England	Local and National Environmental Groups
<b>Zoltan Zavody</b>	RenewableUK	Renewable energy Producers