Introduction to RIIO-ED1: Summary of Proceedings

Date: Wednesday 28 March 2012

Venue: Central Hall, Westminster

On 28th March 2012, Ofgem held its first stakeholder event to launch the electricity distribution price control review RIIO-ED1. The objective of the event was to ensure that all participants gained an understanding of the current regulatory arrangements for the electricity distribution network operators, alongside an opportunity to discuss the key issues for RIIO-ED1.

The event began with presentations[1] from Ofgem, a network company, a member of the Smart Grids Forum and observations from a member of the RIIO-T1 and GD1 Consumer Challenge Group on well justified business plans.

The participants were then divided into three breakout groups on Flexibility and Capacity, Connections and Sustainability. The key issues raised by each group are summarised below.

1. Flexibility and Capacity

Participants began by discussing the role of electricity distribution network operators (DNOs) in supporting the transition to a low carbon economy. It was noted that currently, the role of DNOs is to facilitate (rather than stimulate) these connections where they are requested, and to minimise any barriers around doing so. DNOs have a number of mechanisms through which they could further support low carbon connections, including investment ahead of need, the possibility of wider socialisation of costs, and lowering the load indices.

Participants discussed the challenges in correctly anticipating future connections in order to bring about cost efficient investment ahead of need. It was noted that anticipating connections in advance enables the use of smarter, and potentially cheaper, solutions. DNOs already do anticipate load increases, but tend to invest close to that load increase happening. It was acknowledged that there would need to be a move towards investing further in advance. Participants felt that this should be informed by greater engagement with local communities and other stakeholders to understand their needs. Questions were raised on how to deal with the associated uncertainty, and risks of stranded assets. Building flexibility into planning was seen as a means of managing this uncertainty.

The group discussed demand side response (DSR) as one potential means to manage the network flexibly. Consumer response to DSR, and particularly DSR offered by DNOs, was seen to be a significant uncertainty. Participants also highlighted that it would be important to support DSR through appropriate tariff structures. Attendees acknowledged the importance of consumer engagement in developing alternatives to investing in traditional network assets.

[1] The presentations are on the Ofgem website - http://www.ofgem.gov.uk/Networks/ElecDist/PriceCntrls/riio-ed1/Pages/index.aspx as associated documents to this Summary

There was some debate over charging more generally and the importance of treating customers equally. Some suggested that currently there may be too much differentiation in costs among different consumers, while others saw this cost reflectivity as supporting fair charging, efficient decision making and appropriately rewarding those who manage their use at least cost to the system.

2. Connections

RIIO-ED1 Challenges

The majority of participants believed that the biggest challenge for the connection industry during RIIO-ED1 would be an increased demand for single connections with both generation and demand capability. One participant noted that new types of technology (eg electric vehicles, smart grids) will provide additional challenges for the connection industry (eg minimum scheme design standards will become much more complex).

Review of current price control connection arrangements

One participant suggested that the existing connection arrangements should be reviewed during the development of RIIO-ED1, to ensure that the service level targets accurately reflect the requirements of all connection customers (eg DG consumers).

Tailored connection service

Participants noted that electricity consumers have a wide range of needs in terms of electricity connections. Several participants believe that all customers receive a generic service, based on the minimum service standards outlined in the guaranteed standards of performance. These stakeholders encouraged the DNOs to provide a service that is tailored to reflect specific customer requirements (eg recognising the customer's knowledge of the application process or technical expertise). Some participants suggested that they might be willing to pay an additional charge to receive a higher service level on new connections. One participant considered that the current regulatory framework does not facilitate flexible service levels.

Connection timescales

Several participants noted that in addition to a short connection delivery time, achieving certainty and predictability on connection timescales is also very important to the development of a project.

Provision of information

Several participants wanted the DNOs to provide more information to customers upfront (eg connection costs, regional network capacity, timescales). One participant noted that the provision of this information could reduce the number of 'speculative' applications received that do not ultimately result in a need for connection.

RIIO-ED1 Output

All participants agreed that "satisfied connection customers" is the key RIIO-ED1 connection output. One stakeholder suggested that this could include the ability of consumers to access and pay for a tailored service.

3. Sustainability

This group covered the DNOs' interaction with customers, any social obligations and how the companies impact the environment.

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Customers

The new Broad Measure of Customer Satisfaction is being introduced from 1 April 2012, and the participants did not have any comment on if it needed to be improved for RIIO-ED1.

Social obligations

All participants recognised the need for greater focus on social obligations. Comments predominantly centred on the ability of DNOs to identify vulnerable and fuel poor customers, and the efficient costs of any schemes to assist them. There was discussion about using data already gathered by other entities, including devolved governments and local authorities, suppliers and gas network companies. The group expressed concerns around whether the DNOs could access information held by suppliers, who have the best information about the customer but could be prevented from sharing this data. It was flagged that data sharing issues also arise from the smart meter roll-out, and any plans to manage customers' demand (demand side response). There was a general consensus that more could be done to mine existing data in order to ensure the most effective means of identifying and reaching customers requiring special treatment.

The group discussed whether there are merits associated with a social obligation for DNOs in relation to vulnerable customers. Participants felt a strategic approach to reviewing the most cost efficient and flexible ways to target and assist vulnerable customers should be taken. One example raised was the fuel poor network extensions scheme which enables the gas network to be extended to groups of fuel poor off-gas-grid customers. It was questioned whether, in accordance with the low carbon objectives, there could be an alternative scheme to provide heat pumps to customers off the gas grid, and whether the DNOs should have a role in this. Some participants raised concerns about the ability of any social obligations to influence non-regulated stakeholders such as developers.

Undergrounding

Participants expressed broad satisfaction with the current scheme for undergrounding in national parks (NPs) and areas of outstanding natural beauty (AONBs). One participant questioned the scope to extend the existing scheme to those areas just outside the boundary where lines are still visible from the protected area. One participant identified an undergrounding issue arising outside AONBs and NPs where the line is in place before a new development is built, and new residents later complain about the overhead lines.

It was noted that as part of the RIIO-T1 process, National Grid are undertaking work to test the public's value of visual amenity.

Participants noted that this scheme has led to a lot of positive landscape gains and public support for the DNOs' work. They commented that Ofgem could do more to publicise the benefits of the scheme.

Business Carbon Footprint (BCF)

The DNOs are required to report their business carbon footprint – the emissions of their business expressed as CO_2 equivalent. The reporting baselines have been established and the first league table of DNOs' emissions reductions will be published later this year. Participants cautioned that any incentive must reflect the level of control that the DNO has over the emissions, and that difficulties in normalising between companies should be considered before considering a financial incentive. The DNOs acknowledged that there is currently a large variation in how they measure their BCF emissions and also how they report on leakages from fluid filled cables. Participants noted that these are hard to

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measure and companies need to review their reporting methodologies to ensure they are robust.

Heat

Ofgem asked whether there is a role for DNOs in the development of heat networks - especially if the DNOs could realise benefits from using the generation of heat as a form of electrical storage. It was noted that there is an innovation project being implemented by one of the DNOs which is looking at this.

Other issues

One participant asked if there was any consideration by Ofgem regarding adaptation to climate change, and resulting significant environmental impacts on the network. Ofgem explained that this was being considered as part of the Reliability and Safety Working Group, which would also look at flooding, high impact low probability events and critical national infrastructure.

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