

The background of the slide features a large, stylized white arrow pointing to the right, set against a blurred image of a modern building with a glass facade and a large, glowing orange and white circular graphic on the right side.

Price Control Review Forum (PCRF)

5th Meeting

29 May 2012

Introduction and purpose of meeting

Grant McEachran
Head of RIIO-T1

Agenda

- **Introduction & Purpose of Meeting - 13:00–13:10**
- **RIIO-T1 Session - 13:10-14:35** (*Grant McEachran*)
 - **BREAK**
- **RIIO-GD1 Session – 14:45-16:20** (*James Grayburn*)
 - **BREAK**
- **RIIO-ED1 Session – 16:30-17:20** (*Anna Rossington*)
- **Wrap up (17:20-17:30)**
- **Close**

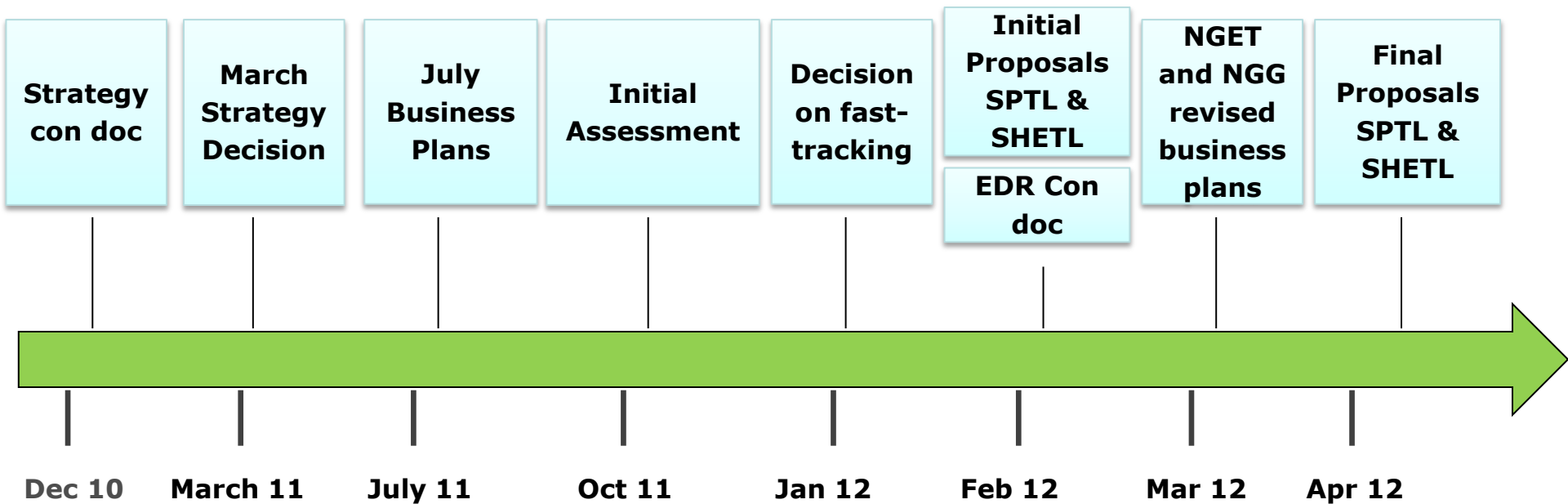
Purpose of meeting

- Provide an opportunity to bring together all aspects of stakeholder engagement (Ofgem, Network companies and others)
 - Provide a progress update for each review
- For NGET, NGG and the GDNs to provide an overview of their updated plans for discussion
 - To discuss key policy issues for each of the reviews
 - Understand the next steps

RIIO-T1 Session

Grant McEachran
Head of RIIO-T1

RIIO-T1: THE STORY SO FAR



Next Steps

Phase	Year	Month	Milestone
Initial Proposals Non-Fast-Track	2012	June	Thursday 14th June - GEMA session
			Tuesday 26th June - Committee Session - Non-Fast-Track Initial Proposals
July		Thursday 12th - GEMA - Non-Fast-Track Initial Proposals decision	
		Friday 27th July - Non-Fast-Track Initial Proposals Published Initial consultation on licence drafting for all TOs and GDNs	
Final Proposals Non-Fast-Track	October	Second consultation on licence drafting for all TOs and GDNs	
	November	Late November - Committee Session - Non-Fast-Track Final Proposals	
	December	Thursday 13th - GEMA - Non-Fast-Track Final Proposals Decision	
		Monday 17th - Non-Fast-Track Final Proposals Published Statutory Consultation on Licence Mods	
Launch	2013	March	New licences and RIGs issued
		April	Monday 1 st - New Price Controls Commence

- Currently propose to hold the next PCRf meeting in October 2012

ISSUES FOR PCRFR FOCUS

RIIO-T1: Electricity

- Proposed visual amenity allowance for existing infrastructure - how will this work and update on WTP
- Balance of funding between ex ante allowances and uncertainty mechanisms
- Is financial package value for money for consumers?

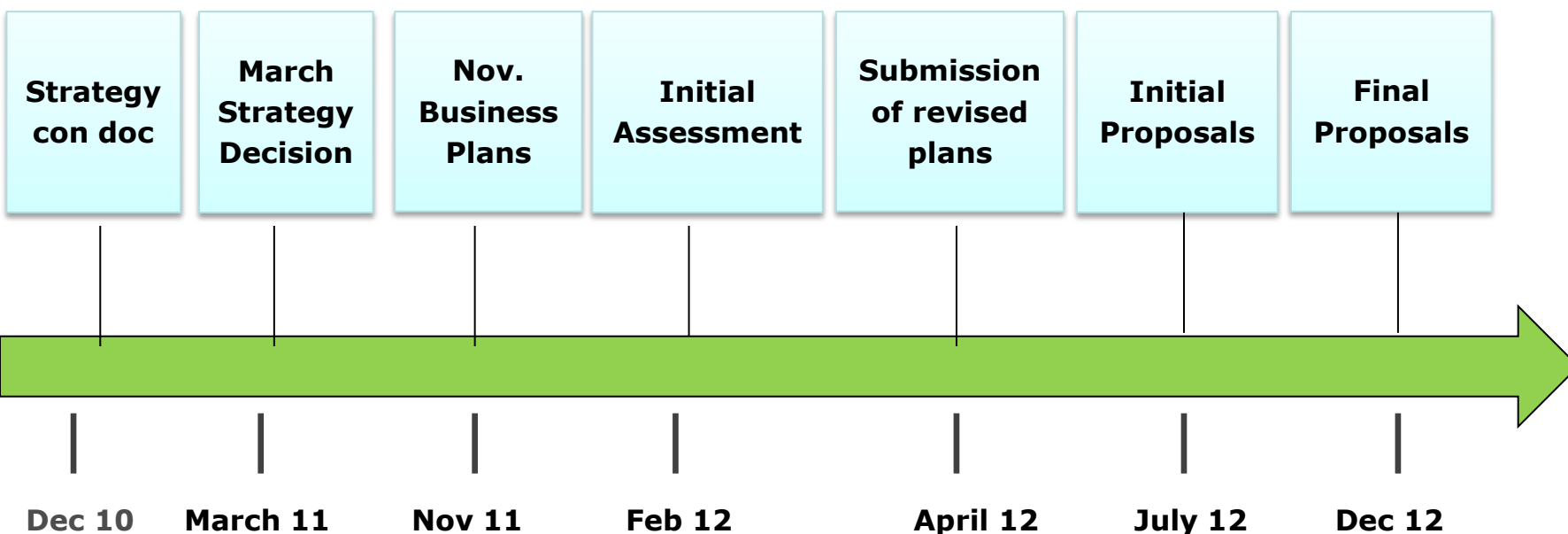
RIIO-T1: Gas

- National Grid's proposed new approach to releasing incremental capacity
- Network flexibility proposals (ex ante allowance and uncertainty mechanism)
- Is financial package value for money for consumers?

RIIO-GD1 Session

James Grayburn
Head of RIIO-GD1

RIIO-GD1: THE STORY SO FAR



ISSUES FOR PCRf FOCUS

RIIO-GD1

Key questions for session include:

1. Overall revenues and charges: expected charge changes, and overview of principal cost changes relative to GDPCR1
2. Investment plans: how plans reflect value-for-money for consumers
3. Uncertainty: how plan takes into account uncertainty in relation to future network use
4. Social outputs: proposals in relation to CO outputs and fuel poor networks

The background of the slide is a composite image. On the left, there is a large white arrow pointing right, overlaid on a blue-tinted image of solar panels. On the right, there is a close-up, warm-toned image of a mechanical gear or turbine component. The overall aesthetic is clean and modern, representing energy and technology.

RIIO-ED1

PCRf Meeting 29th May 2012

Purpose of meeting

- Provide an opportunity to bring together all aspects of stakeholder engagement (Ofgem, DNOs and others)
 - Provide a progress update for the review
 - To discuss key policy issues for the review
 - Understand the next steps

Today's meeting agenda

- Process & Progress update (5 mins)
- Renewable UK presentation (10 mins)
- Overview of key output areas (5-10 mins each)
 - Flexibility and capacity
 - Reliability & availability
 - Connections
 - Customer & social issues
- Short discussion on key points raised

RIIO-ED1 timetable



Implementation of RIIO model in electricity distribution

ED1: 8 year price control 1 April 2015 – 31 March 2023

Process will build on learning from RIIO-T1&GD1

Policies will build on DPCR5, and initiatives such as Smart Grids Forum

Flexibility and Capacity Working Group

To propose options for the RIIO-ED1 aimed at ensuring:

- future capacity is rolled out at the appropriate rate and in a cost effective manner to meet the UK's requirements in the transition to a low carbon economy
- there is flexibility in the design of the price control framework to accommodate uncertainty around deployment of low carbon technologies

Flexibility and Capacity - Issues

- Outputs DNOs are required to deliver, particularly relating to timely & low cost connection of low carbon technologies
- Incentives and uncertainty mechanisms
- Mechanisms that encourage DNOs to consider opportunities offered by smart grids and associated contractual arrangements
- Barriers to DNOs adopting commercial arrangements to manage demand & generation output (demand side response)
- Approach the DNOs use in developing their business plans – the methodology to evaluate different investment strategies

Relationship Across Related ED1 and SGF Work Streams

SGF WS3

GB Model

CBA of rolling out a range of Smart Grid solutions under a number of LCT scenarios

SGF WS6

Regulatory & Commercial Issues

Addressing any regulatory and commercial issues associated with the roll out of the Smart Grid solutions developed by WS3

ED1

Flexibility and Capacity

Developing the outputs, incentives and uncertainty mechanisms needed to ensure connection of LCTs is facilitated by DNOs in a timely and cost efficient manner



Reliability and Safety – 2 of the 6 RIIO output categories

- What is in place at present:
- Reliability outputs in DPCR5 provided for by customer interruptions (CIs) and customer minutes lost (CMLs)
 - High powered incentive with net rewards of £35million in 2010/11
 - Scheme has delivered significant improvements in underlying performance (17% in CIs and 25% in CMLs since introduction in 2002/03)
- Guaranteed Standards of Performance
 - Individual compensation (inconvenience not consequential loss)
- DPCR5 also introduced secondary deliverables on Health Indices and Load Indices
- Mechanism for addressing worst served customers

Developments for ED1

- Safety output for RIIO-T1 based around compliance with HSE requirements
 - ED1 working group looking at whether a suitable output metric can be developed
- Looking to expand areas covered by outputs
 - E.g. flood resilience metric
- Refining the existing secondary health indices
 - Introducing criticality
- Looking to introduce load indices at low voltage
 - Assist with understanding performance against the proposed time to connect incentive
- Refining the current incentives on CIs and CMLs
- Refining the worst served customer mechanism
 - Potentially introducing an output
- Potentially tightening some of the Guaranteed Standards
 - E.g. moving 18hour standard to a 12hour standard

Connections

- To identify the framework required so that customers connecting to the network receive a good level of service and, wherever possible, are able to choose between alternative competitive providers.
- Existing arrangements:
 - Introducing Guaranteed Standards of Performance
 - Broad Measure of Customer Satisfaction
 - Removing barriers to competition
 - Improving the provision of information for Distributed Generation (DG) connection customers
- Potential enhancement:
 - New incentive on time to quote and time to connect
 - Targets based on current 'average' levels of performance
 - Rewards & penalties based on performance vs. target

Connections

- New 'time to connect' incentive may suit high volume connection activities – low voltage, small scale projects
- More challenging for larger projects
 - Small sample size on which to set targets
 - Time to connect may be less critical than quality of service
- Consider role for additional customer satisfaction monitoring:
 - HV, larger projects
 - Customers that request a quotation but do not proceed to connection & why
- Separate targets for DNOs? Separate targets for different customer types? Impact on competition?

Customer and Social issues

- Identify incentives required to ensure that DNOs provide all types of customers with good levels of service.
- Consider role of DNOs in addressing any social issues associated with their activities
- Existing arrangements:
 - Broad measure of customer service
 - Customer satisfaction survey, complaints handling, stakeholder engagement
- Need to consider
 - New types of customer interaction – web based, social media
 - How to capture experience of 'large' connection customers
 - What social issues should DNOs play a role in addressing?

The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, a hand is shown holding a white document. In the bottom left corner, a blue gas burner is visible. The overall theme is energy and customer service.

ofgem

Promoting choice and value
for all gas and electricity customers