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Ofgem  
9 Millbank  
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19 June 2012

Dear James

### **RRIO-GD1: gas Distribution Networks' (GDNs) second business plans – publication and next steps**

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including both residential and business users.

We welcome the opportunity to respond to this consultation. The stakeholder engagement processes employed by the GDNs through the RRIO process have been a significant improvement on previous arrangements, and the GDNs have clearly spent a significant amount of effort to develop detailed and informative business plans. However, we believe Ofgem is best placed to take an informed decision on the GDNs' proposals regarding their TOTEX requirements. As such therefore our response has focused on the outputs and deliverables within the GDNs' business plans.

The key points of our response are:

- The level of stakeholder engagement has been welcome, enabling interested companies to input into and inform the business plans; however, the approach to stakeholder engagement has been disjointed amongst GDNs. A co-ordinated approach would reduce the resource requirement on stakeholders and enable more effective engagement by the GDNs;
- The level of detail provided by the GDNs has also been welcomed, but again there has been a disjointed approach in the format and style of presenting this information, resulting in some business plans being a lot more user friendly than others. A standard approach to the presentation of the business plans and supporting information would make it easier for stakeholders to analyse and comment on the business plans;
- We welcome the introduction of reputational incentives to encourage GDNs to improve performance in areas where it is difficult to develop a quantifiable output parameter. Any reputational incentive should be developed with industry to ensure that the information provided is useful and that a reputational incentive results in a clear impact on the reputation of the GDN involved;
- We note that there are differing approaches to the incentive associated with the reliability of NTS offtake meters for GDNs. We believe that further work with the

industry is required in this area to ensure that the information provided is insightful and enables the industry and Ofgem to judge performance in this area;

- We note the differing approaches taken by the GDNs to the connection of biomethane projects and their associated outputs. We believe that it is the role for Government to set the policy and support mechanisms that determine which renewable energy sources are taken forward. The GDNs should ensure that there are no barriers to the connection of these energy sources, but should not go as far as looking to reduce the costs with which specific energy sources are faced for connecting to their systems.

### **Stakeholder engagement**

The level of stakeholder engagement that has occurred as part of the RIIO-GD1 process has been welcomed and represents a significant improvement on previous arrangements. The ability to identify the key issues that stakeholders believe that the GDNs should cover in the RIIO period and for these to feed into their business plans has helped to ensure that the GDNs deliver what their customers require over this period. At the same time we note that the process of stakeholder engagement has been disjointed amongst the GDNs, with each GDN using different approaches and formats for seeking stakeholder views on different days and in different locations. Even for a company of our size that benefits from economies of scale, we have found it difficult to resource all of these engagements.

Although we welcome innovation in this area and recognise that some formats work better than others, we continue to believe that in the future there would be value in co-ordinating stakeholder engagement amongst the GDNs. Ideally this would involve the GDNs organising a day to present their business plans to industry and seek feedback through separate break-out sessions. This would reduce the resource requirements on stakeholders by providing a single day to discuss these issues, but also enable innovation amongst the GDNs to present and receive feedback in the break-out sessions. This would probably have to be duplicated to reflect the geographically dispersed locations of stakeholders but we believe this would improve the ability for stakeholders to engage and provide feedback.

### **Business Plan formats**

The level of detail provided by the GDNs has also represented a significant improvement over the traditional GDPCR process. It is clear that the GDNs have put a lot of effort into developing clear and detailed business plans to inform stakeholders and support effective feedback and commentary. However, there has again been a disjointed approach to the format and presentation of this information amongst GDNs. This has made it more difficult to compare and contrast the information and proposals presented by the GDNs, with some business plans being significantly more user friendly than others.

In particular we note that the business plan submitted by Northern Gas Networks (NGN) is the most user friendly, with the information clearly presented and being intuitively laid out, making it easy to find areas of particular interest. At the other end of the scale the

business plan submitted by Scotia Gas Networks (SGN), although detailed, is not as user friendly; it is very hard to find the information most relevant to stakeholders.

We believe that in the future there would be a value in the GDNs identifying and following a standard format for the presentation of key information and proposals in their business plans. This would make it easier for stakeholders to compare and contrast what is being proposed and provide clear feedback. To this end, we believe that the format, layout and presentation of NGN's business represents best existing practice amongst the GDNs, which we would encourage others to follow and develop.

### **Reputational Incentives**

In our response to National Grid's System Operator (SO) incentive consultation we noted that it was important that any reputational incentive should be structured to ensure that good performance resulted in a beneficial impact on the network owner's reputation, while poor performance should have a detrimental impact. This will ensure that the incentives operate as intended and that management attention is equally focused on improving areas that have a reputational impact as well as those that impact on the bottom line.

To this end we believe that any information reported to support a reputational incentive should be developed with industry. This will ensure that the information provided is useful, insightful and meaningful to both the industry and Ofgem, so that they can judge performance against this information. In addition this will help to ensure that consistent information is provided across GDNs, so that performance can be compared and contrasted to judge performance. We also believe that this information should be updated frequently, made publicly available and subject to industry discussion and debate. This will ensure that any reputational incentive does have an impact on the reputation of the relevant network owner and also provide an opportunity to share best practice in a forum that is open to all industry participants.

We believe that this is an area for improvement for all the GDNs who appear to have developed reporting matrices in isolation, with limited, if any, industry input. It is therefore not clear that the information they are proposing to report is comparable or is useful to industry or will have an impact on the reputation of the GDNs in this area.

### **Offtake metering reporting**

For a significant period of time Shippers have identified that having reliable and accurate NTS to GDN offtake metering is important to provide certainty to Shippers over the allocation of energy within a GDN and to reduce the risk of large unexpected changes to energy allocation. To this end the industry has made significant improvements in the identification and reporting of offtake metering errors, but Shippers have continued to support an incentive on GDNs in this area to improve performance and ensure that meter errors do not occur in the first place. This was recognised by Ofgem, who supported the introduction of a reputational incentive in this area.

We have reviewed the business plans of all of the GDNs, and with the exception of Scotia all have identified the importance of accurate offtake metering. We welcome this recognition, but are disappointed that, of the three business plans that propose to report on the accuracy of their offtake meters each one has identified a different reporting regime to scrutinise performance. In particular we note that the arrangements suggested by NGN are the best in this area, with clear identification of the information that they will report that also appears to be of value to the industry. Although the information that National Grid Distribution (NGD) is proposing to provide in this area is clear to a degree, we note that it is not clear if this will be provided on a GDN by GDN basis or across NGD's portfolio. It is also not clear that reporting on percentage error compared to total throughput is useful to industry to identify performance and the impact that an error could have in this area. Finally, for Wales and West Utilities (WWU) it is not clear exactly what information they are proposing to report and so it is unclear whether this is of value to the industry.

We are particularly disappointed that Scotia does not appear to have identified any arrangements for reporting of offtake meter accuracy, although this could be due to the fact that it was not easy to find information in their business plan. Given that Scotia's performance in the area of offtake metering is the worst amongst the GDNs, being responsible for the three largest meter errors identified in the last six years with the largest financial impacts on Shippers, we would have expected their business plan in particular to focus on the issue of offtake metering. This is in clear contrast to NGN, who has had the most reliable offtake meters amongst the GDNs but has proposed the best reporting arrangements.

We believe that this area of all the GDN business plans requires further work and attention. To support this it would appear useful for the GDNs to organise a single co-ordinated meeting with interested parties to identify what information should be reported, the frequency it should be reported and the format for presenting this to the industry. From our perspective we believe that any information reported should include the number of meter errors, the volume and value of energy involved as well as which meters have been validated within 12 months and which have not been.

### **Biomethane connections**

As previously noted we believe that it is the role of Government to identify the policies and support mechanisms that will determine which energy sources are taken forward and progressed by the market. There is a role for GDNs in supporting the connection of new energy sources to their networks (such as biomethane) and ensuring that there are no inappropriate barriers to connection. We therefore believe that there is a role for the GDNs in the RIIO period to identify any obstacles that are preventing energy sources from connecting to their network that wish to, and for these to be addressed.

We are concerned with the environmental incentives suggested by NGN and Scotia, that would favour the connection of biomethane projects by reducing the costs with which they faced compared to other gas sources. We believe that this could risk interfering with

Government policy and support mechanisms, ultimately increasing costs to consumers, if these gas sources benefit from implicit subsidies or support not identified by Government. We are therefore supportive of WWU and NGD's proposed approach, which does not specifically favour biomethane over any other energy source.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact my colleague Mark Cox on 01452 658415, or myself.

I confirm that this letter may be published on Ofgem's website.

Yours sincerely,

A handwritten signature in black ink, appearing to read "D. Linford".

**Denis Linford**  
**Corporate Policy and Regulation Director**