

RIIO-T1: System Operator Incentives - Ofgem Initial Proposals for National Grid Gas Transmission

Consultation Response

Energy UK welcomes the opportunity to provide comments on the system operator incentive initial proposals. We seek to provide an informed viewpoint across a range of members' views. However we recognise that for some schemes we are unable to provide detailed comments due to their complex nature and level of analysis required.

SECTION: Five – Gas SO Incentives

Question 8: In respect of an incentive on greenhouse gas emissions, is your preference for Option 1 (penalty only) or Option 2 (upside and downside payment) and why?

Energy UK / AEP previously supported a reputational incentive in this area given the potency of methane in the short term and National Grid's corporate commitment to reducing emissions. However if a financial incentive is to be set we generally believe that symmetrical incentives are more appropriate in promoting appropriate behaviour than asymmetrical incentives such as the downside only incentive as proposed. Notwithstanding that a symmetrical incentive could lead to a cost to industry if NG achieves emissions reductions and incentive payments. This incentive scheme needs to recognise the drivers for venting emissions and have some appreciation of the options available to reduce these, absent any upside the incentive for investment to reduce emissions from venting may be limited. A holistic approach to setting targets and interaction with the TO arrangements is required.

It may also be appropriate to review this incentive when the scheme of work required by the C28 licence condition is available to establish a more informed view.

Question 9: Please provide your comments in respect of our proposals for a residual balancing incentive. In particular, do you agree that by fixing the targets for the eight year period this will provide NGG with an incentive continuously to improve its performance in this area?

Energy UK supports the continuation of the current scheme structure which has worked effectively over recent years. This scheme has the benefits of simplicity and the potential to re-open the scheme after four years should provide some comfort to National Grid, given its concerns over the growing challenges of balancing the system.

Question 10: Do you agree that we should continue to put in place a reputational incentive on NGG in respect of investigating the drivers of UAG? Do you support the proposed industry workgroup to assist the investigation of the drivers of UAG?

Energy UK supports the continuation of a reputational incentive to ensure that NG continues to focus on understanding the causes of and remedies for UAG volumes. We expect this to include regular reporting on progress, quantities and costs given the cost burden UAG volumes place on the industry. We have concerns that expecting the next quarter to be no worse than the current is inadequate.

Question 11: Please provide your comments in respect of our proposals for demand forecasting incentives. In particular:

a. Do you agree that by fixing the targets for the eight year period in respect of the D-1 forecast this will provide NGG with an incentive continuously to improve its performance in this area?

Yes

b. Do you agree with our proposal to amend the calculation of the error target including increasing the weighting for days of higher demand?

Yes, as this improves the focus on forecasting of winter demand.

c. Do you agree with our proposals for the D-5 to D-2 forecast incentive?

Yes, but we have some reservations over the cap of £10M being set at the same level as the D-1 forecasting incentive, when the D-1 forecast should be the priority. We agree that the incentive parameters should be set for two years since this is a new scheme.

d. Do you agree that the improvement in the NDM forecast should be taken forward by the DNs?

Yes

Question 12: Do you consider that our proposals in respect of maintenance could address the concerns that you have in respect of NGG's behaviour in this area? Are our proposals appropriate and likely to be effective?

We welcome the introduction of financial incentives in this area in response to issues our members have raised in recent years. We are hopeful the establishment of these incentives will lead to greater focus within NG on these issues and improved appreciation of the impacts on shippers and customers of NG's actions regarding maintenance. We agree that with this being a new incentive it should be reviewed after two years.

We agree that the two incentive schemes focus on areas that will potentially benefit customers; NG changes to its maintenance plans and the number of maintenance days used. We welcome the clarification that earlier and better communication of outage needs and ensuring all parties are aware of services available to pay for incremental costs of additional services should form part of 'business as usual'. We also consider that transparency over maintenance planning performance is an important issue, such that that this includes not only the metrics for incentive performance, but also plan vs actual and response to shipper/ customer requests as described below.

We provide some detail comments and observations on the proposals below:

Maintenance days

- What fraction of total maintenance, that affects customers, do in-line inspections and valve operations account for ?
- Are partial days accounted for?

Change in maintenance days

- What is the change measured against, which plan? Ideally this benchmark plan should be one that has been consulted upon with stakeholders
- Does this performance measure also include additions to the original plan, potentially at short notice?
- How would a change from say seven days to two be recognised by this incentive?
- Likewise is cancellation of maintenance also considered as a change?
- In our view, Users not agreeing to a change proposed by NG is unlikely to change because of this incentive, since payments feed into SO commodity charges rather than to individual parties directly. Any decision to agree to a change request will be judged based on the impact on operations, which will have far higher value than any small proportion of an incentive penalty.

An area that is important to our members that is not covered by these incentive proposals is NG's responsiveness to requests from shippers / customers for changes to planned maintenance where this

might better align with operations or maintenance of plant. For example CCGT maintenance is determined by running hours, which it may be difficult to forecast accurately many months ahead, particularly as CCGT running regimes become less predictable. If such an incentive scheme is not feasible in time for Final Proposals we hope it might be considered as part of the review after two years. In any event data should be gathered on these parameters to inform any incentive development and customer satisfaction feedback.

Energy UK would be happy to discuss this further prior to Final Proposals and legal drafting for these proposals.

Question 13: In respect of Operating Margins, do you agree with our proposal to put in place a reputational incentive and to remove the current cost incentive?

Energy UK agrees with a reputational incentive to continue to promote competition in the provision of OM services and a reporting regime which will be reviewed once NG's own review of OM procurement is completed. At this time we expect a financial incentive to be put in place with appropriate caps / collars and sharing factors.

Question 14: Please provide your comments in respect of our proposals for a shrinkage incentive, in particular:

We note that NG has achieved maximum incentive scheme payments under this incentive in recent years and as such a review of volume setting and reference prices is appropriate.

a. Do you agree that it is appropriate for NGG to have in place a volume methodology statement?

Yes this should assist industry understanding of this process, provide some degree of certainty and avoids the need to set targets for each of the years of the price control period at the outset.

b. Do you agree that the proposed changes to the reference prices are appropriate?

Yes, this would provide a reference price closer to delivery and may help avoid windfall gains / losses.

c. Do you agree with the proposed sharing factor? Do you agree with increasing the cap and floor of the incentive?

The proposed sharing factors are symmetric and aligned with the RIIO efficiency factor so would seem appropriate and it would then be logical to revise the cap /collars to ensure the incentives remain active over an appropriate range of values.

SECTION: Six- Uncertainty Mechanisms and Risk Premiums

Question 15: Do you agree with our proposals for uncertainty mechanisms and on not including a risk premium?

We agree in principle with the uncertainty mechanism idea for the SO scheme and look forward to further details in the final proposals. We also agree that a risk premium should not feature as part of the SO proposals.

Note:

This response represents a broad consensus of members' views. Some member companies may hold different views on particular issues and we would point out that National Grid was not a contributor to this response.

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