

Gas System Operator Incentives Review: Initial Consultation

Consultation Response

Energy UK is the trade association for the energy industry. We represent over 80 members made up of generators and gas and electricity suppliers of all kinds and sizes as well as other businesses operating in the energy industry. Together our members generate more than 90 per cent of the UK's total electricity output, supplying more than 26 million homes and investing in 2012 more than £11 billion in the British economy.

Energy UK welcomes the opportunity to provide comments to this initial consultation. We provide comments against the questions provided below.

CHAPTER: One - Objectives of the review

Question 1: Do you agree with the proposed assessment criteria for this review?

Energy UK agrees with the assessment criteria listed in section 1.6 of the consultation document. We note however that whilst we fully support early engagement in the review of these incentives it can be difficult and potentially premature to draw conclusions about new schemes when less and one years data on performance is available.

Question 2: Are there any other specific incentives-related policy issues you think we should consider as part of this review? What are they and what benefits could they bring for consumers?

Not at this time

CHAPTER: Two – Demand Forecasting

Question 3: How useful have you found the D-2 to D-5 demand forecasts so far? To what extent do you use or rely on them?

Energy UK Members report that these demand forecasts are not widely used within their organisations

Question 4: What value would (further) improvements in the accuracy of D-2 to D-5 demand forecast bring to you?

Since the forecasts are not widely used any further improvements would have limited value.

Question 5: How do you think the D-2 to D-5 demand forecasting incentive could be improved? How would any proposed changes to the incentive feed through to benefits for consumers?

Energy UK understands the challenges of setting incentive parameters which strike the right balance between creating a challenge whilst having potential for upside for outperformance and also

considering the potential cost and benefit to customers. We consider if this incentive is retained that the incentive revenue cap of £10M is reduced and the target tightened since from the data available so far NG has outperformed the target in 9 months out of 10. In any event, Energy UK expressed concerns in its submission in September 2012 over setting the incentive revenue cap at the same level as the D-1 forecasting incentive when the D-1 forecast should be the priority. Since incentive revenues to National Grid are paid from SO charges, which will form part of shipper / supplier costs, the incentive costs are ultimately reflected in customers' bills.

Alternately a reputational incentive could be considered.

Question 6: Does the current target strike the right balance between a challenge and opportunity for reward for the gas SO?

From the data available so far it would appear that the target needs reducing to create more of a challenge, although we do recognise that this outperformance has been under relatively benign weather conditions when forecasting is less challenging.

CHAPTER: Three – Maintenance Incentive

Question 7: Have you experienced improvements in NGG's maintenance planning and re-scheduling processes after the introduction of the incentive? Where possible, please provide specific examples/evidence to support your answer. How have you benefitted from these changes and how do these benefits from improvements feed through to consumers?

Energy UK welcomes the improvements in National Grid's maintenance planning since the introduction of this incentive. Our members have not alerted us to any problems during the 2013 maintenance cycle. We particularly note in paragraph 3.9 that NG managed to align its plans with customer outages to avoid the need to call a maintenance day.

However maintenance to the NTS affecting gas-generation offtakes takes place in multi-year cycles so only a proportion of offtakes will be affected by maintenance in any one year. Benefits arise from maintenance proceeding as planned and the number of days being minimised by generating plant being able to run as planned to meet its contracted output, rather than having to make changes at short notice which can be costly. There are also benefits if plant maintenance can be aligned with pipeline maintenance.

Question 8: Are there any ways in which you think the maintenance incentive could be improved? Do you think the targets set the appropriate weighting between changes in maintenance days and minimising the length of maintenance works?

Energy UK understands that the incentive parameters were set based on historical performance, however this process was not fully transparent to the industry, so it is difficult to comment on how challenging / achievable they were. However it is clear that NG has reviewed its processes and seems to have taken on board its customer's expectations, which is very much welcomed. Energy UK would like to see this incentive continue and considers there could be merit in reducing the targets, depending on whether 2013 was a typical year for maintenance.

With respect to the tension created between incentives to minimise maintenance days and to avoid changes to the plan, there is a slight preference to minimise change to the plan.

Question 9: What value would (further) improvements in NGG's maintenance planning and re-scheduling bring to you, and ultimately consumers?

An area where there might be scope for improvement or at least monitoring via a reputational incentive could be responsiveness to customer requests for changes to maintenance plans. We flagged this as a potential issue for consideration in our comments in September 2012. However we acknowledge this is indirectly covered by the current incentive since a customer initiated change does not count towards the outturn incentive performance.

CHAPTER: Four – Greenhouse Gas Emissions Incentive

Question 10: Do you believe having a financial incentive continues to be appropriate? What other form of incentive might ensure that NGG remains incentivised to minimise GHG emissions where possible?

Energy UK has previously supported a reputational incentive in this area given National Grid's corporate commitment to reducing emissions. It is also the case that there have been a number of changes to this incentive scheme since its introduction due to there being a need to reassess targets due to changes to the way in which emissions are quantified, so it has not been a stable incentive. For example the scheme of work agreed at the start of this regulatory period has identified that leakage from the compressor block valves may be larger than standard operational venting.

Question 11: Do you believe that the current, downside only, structure of the incentive is appropriate if we continue with financial incentives? If not, what do you think would be the most appropriate structure for this incentive from April 2016?

As a general principle we consider symmetrical incentives to be more appropriate, but with some funding being provided to investigate opportunities to reduce the levels of leakage a downside only incentive may continue to be appropriate if targets can be set with some confidence. However as this has been problematic in the past a reputational incentive with a programme of work or licence conditions may be more suitable.

Question 12: Are there any ways in which the GHG emissions incentive could be improved?

Until all the sources of methane leakage are well understood and methodologies established to determine the volumes it is difficult to put in place robust incentive arrangements. Also, if a financial incentive continues it may be appropriate to schedule a review when National Grid's plans for its compressor fleet to comply with the Industrial Emissions Directive obligations are finalised, if delivery is within the RIIO- T1 period.

Energy UK and its members will be happy to engage with National Grid and Ofgem to further develop the SO incentive arrangements

15 May 2014

Contact:

Julie Cox
Head of Gas Trading
Energy UK
Charles House
5-11 Regent Street
London
SW1Y 4LR
Tel: 020 7930 9390
julie.cox@energy-uk.org.uk