

Gas System Operator Incentives Review: Initial Proposals

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 Ofgem's initial proposals. We provide brief comments against the questions below:

CHAPTER: One

Question 1: Do you agree that our initial proposals provide a balanced risk/reward profile to the SO?

Yes, and we agree it would be appropriate to have a further review point during this price control period

Question 2: Do you agree that the draft licence conditions we are publishing support the policy we are proposing?

Energy UK has not reviewed the draft licence conditions

CHAPTER: Two

Question 1: From the consultation responses we gather that some stakeholders do not value the D-2 to D-5 forecasting service. We would welcome your views on why do you value or not value these incentives? Is there no demand for this service, or is the level of accuracy the issue?

Energy UK Members report that these forecasts are not widely used in their organisations. The D-1 forecast is significantly more important and efforts to improve should be focussed on this forecast since it is used by National Grid to determine the cashout position of its customers. We suggest a simple survey is undertaken to better understand the value of the D-2 to D-5 forecast so that any incentive design may better reflect this.

Question 2: Do you agree with the proposed target of 13.7 mcm? If not, what else should we consider when setting the target? Please provide evidence if possible.

If this incentive is to be retained Energy UK supports reducing the target level, however we note the proposed target is above the 13.1 outturn value for 2013/14 and a lower value should be considered to create a further challenge to National Grid. To achieve this target level National Grid only need to repeat current performance since 2.3 mcm of the improvement is assessed as being down to its actions.

Question 3: Do you agree with the parameters (static error rate with equal weighting and not adjuster for volatility)? If not, why, and what alternatives do you believe we should consider? Please provide evidence for this.

Energy UK agrees with Ofgem's proposals, its analysis shows limited correlation with these external factors

Question 4: Do you agree with the proposed cap and floor? If not, why, and what alternatives do you believe we should consider? Please provide evidence for this.

Energy UK supports the cap and floor so long as the target is set at a challenging level.

CHAPTER: Three

Question 1: Do you agree with the proposed halving of the percentage target for changes to maintenance days target?

Yes

Question 2: Do you agree with the inclusion of Advice Notes in the changes to maintenance days target?

Yes

Question 3: Do you agree with the proposed target of 11 for Remote Valve Operations (RVOs)? Does the reallocation of the incentive revenue provide an appropriate challenge to incentivise continued performance?

Energy UK agrees with the reduction in the proposed target for RVOs given the step change in performance in the first year of the incentive due to a policy change by National Grid. We also note the reallocation of incentive revenue to promote continuous improvement.

Question 4: Do you agree with the removal of In-Line Inspections (ILIs) from the maintenance days target?

Yes on the basis that National Grid has little control over this and incentives should only be in place where a party can influence the outcome. However from a customer perspective a maintenance day is a maintenance day irrespective of what causes it, therefore we agree that a reputational incentive to report ILIs should be introduced. Perhaps this could be extended to reporting of maintenance in aggregate for all reasons, such information has not been available historically.

CHAPTER: Four

Question 1: Do you agree with the proposed emissions target? If not, please provide reasons and evidence to underpin these.

Yes since this is tighter than historical performance it will be challenging. However it would have been useful to add more detail on Table 4 to describe what the GHG emissions are (essentially Methane) and what the venting price is as it simply says £ (we assume its £/tonne methane (derived from CO₂ equivalent)).

Question 2: Do you agree with not using a dead band for the emissions target? If not, please provide reasons and evidence to underpin these.

Yes

Question 3: Do you agree with the proposal to encourage NGG to publish annually venting data by area of control and a narrative on annual changes? If not, please provide reasons and evidence to underpin these.

Yes, this should aid understanding and assist in structuring any future incentives in this area.

Question 4: Do you agree with the proposed additional incentive for NGG to (i) carry out further research into the causes and interdependencies of venting events and (ii) research cost effective mitigations of venting events within the sphere of control of the SO, underpinned by a cost-benefit-analysis? If not, please provide reasons and evidence to underpin these.

Yes we agree this is appropriate to more fully understand the drivers for venting and mitigation options.

An area where we would appreciate some commentary is to understand how this incentive may interact with the Energy Efficiency Directive as it applies to gas networks, since efficiency improvements in networks relate both to reduced energy use and losses.

Question 5: Do you agree with the proposed one-off incentive 'reward', criteria and value? If not, please provide reasons and evidence to underpin these.

Yes, although it's not entirely clear whether this is to fund the research or as a proxy to an upside on the incentives if emissions are reduced below the target level.

Question 6: Do you agree with the proposed timeline for this additional incentive? If not, please provide reasons and an alternative timeline.

Yes

Energy UK would be happy to discuss these points further, in the first instance please contact Julie Cox, details below.

24 November 2014

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