

Comments on Ofgem's RIIO-T1 Reopener Consultation: One-off Asset Health Costs (feeder 9) Industrial Emissions Costs

22 August 2018

About Energy UK

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership covers over 90% of both UK power generation and the energy supply market for UK homes. We represent the diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 730,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry invests £12bn annually, delivers £88bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HM Treasury.

Energy UK welcomes the opportunity to comment on these reopener consultations.

Overall comments

Energy UK notes that the shortened timescale is driven by the need to determine any allowed revenue adjustments by the end of September, but queries how that is consistent with Ofgem being keen to encourage stakeholder engagement in price control activities? A huge volume of information has been published, but it is incomplete as there are many links to unpublished material, and insights into the potential consequences of the proposals are lacking. We therefore question the suitability of the material for review, especially given the long complex history of the projects presented in a 'he said-she said' manner. In this context we have concerns with the reliance on this consultation to inform Ofgem's views and consider it places an unfair burden on interested parties.

As this three week consultation coincides with the holiday period Energy UK and its members are challenged to engage with this in any meaningful way. We have therefore restricted our comments to the two areas above.

Energy UK accepts that Ofgem's role is to challenge National Grid's proposals and cost estimates to avoid unnecessary expenditure which will be paid for by customers, but it seems that whilst some of the challenges are appropriate some may be too strict or narrow in focus in both these cases. We are concerned that these consultations serve as a proxy for

a full impact assessment and in neither case has the market risk been assessed in the event that security of supply or network flexibility and resilience is reduced. Energy UK therefore has some general concerns with the re-opener process, as it does not seem able to consider developments, whether these be technical, arise from developments in understanding or normal project evolution. We have reservations as to whether this process will deliver an appropriate well assessed outcome

One-off asset health costs (feeder 9)

- Energy UK is very concerned over the disagreement between National Grid and Ofgem as to whether the needs case was accepted by Ofgem in 2012. In this context we do not think National Grid would have decided to proceed with the work if there was a risk of expenditure not being allowed.
- The assessment seems to focus more on technical matters, including; the effectiveness of mitigation measures, further river bed erosion, the safety case and risk of loss of lease, than on operational and commercial impacts. Energy UK is not well placed to comment on the former nor on the detailed assumptions in the modelling, however we can provide comments on potential market and customer impacts.
- Ofgem seems to be linking the ongoing need for Feeder 9 and entry capacity at Easington to long term entry capacity bookings. In our view this is too simplistic as in recent years there has been a tendency for shippers to book capacity on a short term basis. We consider the FES scenarios to be a better indication of longer term entry requirements.
- We accept that there is uncertainty in supply sources in the longer term, however we note that a recent OIES paper¹ shows that Norway expects to continue to be a significant exporter of gas to at least 2035 and beyond. It is not unreasonable to assume that a substantial volume of that will flow to GB given that it will, in all likelihood, be cheaper than LNG and other domestic sources are unlikely to be sufficient to meet demand.
- Energy UK agrees with National Grid in that **the loss of Feeder 9 could result in a supply shock of a magnitude that has not been seen to date in the UK.** Clearly this would depend on the time of year that such a loss occurred and whether the loss was permanent or a short duration isolation. Whilst the market response to the price of gas in the prompt and along the curve is difficult to assess, in our view it could easily exceed the costs not passed onto customers through not allowing efficient expenditure to be recovered.
- Entry capacity constraint costs whilst potentially significant could also be dwarfed by the gas price response.
- Energy UK also has concerns that system resilience to other supply events and system flexibility to meet offtake nominations could be reduced. There is a concentration of transmission connected gas generation plant in the east of England that could face reduced operating pressures or have within day re-nominations rejected to support electricity balancing mechanism activity, electricity demand

¹ <https://www.oxfordenergy.org/wpcms/wp-content/uploads/2018/03/Norwegian-Gas-Exports-Assessment-of-Resources-and-Supply-to-2035-NG-127.pdf>

profiles or response to falling generation from intermittent sources. Alongside any upward pressure on gas prices these issues would also impact the electricity market. These issues need further assessment before a final decision is made

- We acknowledge that National Grid has provided some additional information that Ofgem is yet to fully consider, we therefore hope Ofgem will review its initial proposal.

Industrial Emissions costs

- Energy UK is again concerned over a difference of opinion between National Grid and Ofgem this time in relation to the magnitude of the baseline allowance. How is this to be avoided in the future?
- Energy UK understands there is a Memorandum of Understanding between the Environment Agency and Ofgem. Has there been dialogue between the two organisations in relation to these issues? It is not clear from the consultation document.
- As a stakeholder it is difficult to follow the funding for certain projects under IPPCD and IED various phases and their linkage to certain outputs, albeit it is positive that to date expenditure is well below the £813M in the RIIO T1 initial proposals.
- Energy UK's interests in this topic are linked to ensuring that network capability, assured pressures, resilience and flexibility are not reduced when decisions are taken to change the compressor fleet to meet emissions standards. Energy UK was closely involved in the stakeholder engagement led by National Grid for the 2015 reopener and understands that neither the legislation nor Grid's plans were sufficiently well developed in advance of RIIO T1. We also recognise that as a meshed network it is necessary to consider the operation of compressors across the network and their interaction, so that a holistic approach is necessary.
- It seems that Ofgem's assessment of Grid's proposals is taking a very narrow interpretation of the re-opener provisions on a site by site basis rather than considering the network in a holistic manner, in particular the cluster identified in the submission document.
- Whilst it is not the role of a trade association to take sides in the ongoing discussion over what investment has already been funded and when future investment should occur we seek clarification on three main issues
 - The impact, if any, on network capability, resilience, flexibility and assured pressures of the funding decisions – there is no mention of these consequences in the consultation document which makes it difficult to comment on Ofgem's initial views. Whilst we accept the consultation is primarily about achieving compliance with emissions legislation this should not lead to reduced obligations and levels of service in these areas.
 - Interactions of the feeder 9 and industrial emissions funding decisions on the issues above, network capability etc.
 - Where funding decisions are deferred to RIIO T2 that there is sufficient time for delivery of long lead time items.

For further information contact:

Julie Cox

Head of Gas Trading
Energy UK
26 Finsbury Square
London EC2A 1DS

Tel: +44 1782 615397

julie.cox@energy-uk.org.uk

www.energy-uk.org.uk