

Summary of Ofgem's RIIO-GD2 Decarbonisation stakeholder group – meeting 2

From: Ofgem

Date: 20th September
2018

Time: 10:00-16:00

Location: Ofgem (Glasgow,
Commonwealth House)

Attendees: Ofgem, the GDNs, the Energy Networks Association, Committee on Climate Change (part), Scottish Government, Citizens Advice, Sustainability First and BEIS.

1. Introduction (Ofgem)

- 1.1. Ofgem provided an update on the actions from the previous meeting.
- 1.2. More information on the working groups taking place for RIIO-GD2 and relevant documents will be published on our [website](#) shortly.

2. Connections and the Economic Test (SGN)

- 2.1. An overview was provided on how the Economic Test (ET) for connections works. Broadly, the ET compares the cost of GDN reinforcement and operating costs with the additional distribution transportation revenue from the new load. If the cost of connection is less than or equal to the expected revenue, the costs are socialised; if it is greater than the expected revenue, the customer pays the difference.
- 2.2. The presentation highlighted some of the potential problems of the ET including various timing and cost exposures. Additionally, decarbonisation will see new load types (e.g. peaking generation and entry gas) that are less forecastable which could exacerbate issues being experienced within the ET over RIIO-GD2.

There was discussion that RIIO-GD2 may not be the right place to address some of the issues outlined above and whether the ET specifically is the appropriate mechanism help drive the decarbonisation of gas.

- 2.3. It was suggested that entry gas connections, including green gas, could be encouraged under RIIO-GD2 (noting however, that there may be some barriers to this e.g. non-discrimination towards connections). Ofgem noted that GDNs have a facilitation role in this area in order to make green gas connections easier and more efficient, but that questions of subsidy are potentially more suited for Government.
- 2.4. The group agreed to consider specific regulatory mechanisms for RIIO-GD2 which may be better placed than the ET to support green gas connections. For connections, four areas were suggested to be focused on at the next meeting: Entry Gas (including green gas), Peaking Generation, Off-gas Grid and Transportation.

3. Regulatory mechanisms for funding heat projects in GD2 (Ofgem)

- 3.1. The group discussed whether any substantial changes in Government heat policy is expected before the start of RIIO-GD2. It was seen as important to also consider potential changes in devolved and local government policies towards heat. Several examples were provided of particular Government and local government projects which could lead to changes in heat policy before the start of RIIO-GD2.
- 3.2. It was discussed whether the RIIO-GD2 framework could be adaptable for policy change during the price control period e.g. in the case of a Government decision on the use of hydrogen / hydrogen blending. This adaptability could be achieved through the RIIO-GD2 innovation scheme and potentially a heat uncertainty mechanism.
- 3.3. Ofgem noted that the primary source of funding for heat network-related projects over the RIIO-GD2 price control period could be the specific innovation mechanism. Some parties felt that this may not be appropriate for heat projects that are low risk and repeatable; that for heat projects of this type, it may be appropriate for GDNs to justify the use of specific uncertainty mechanisms as part of their business plan. It was agreed that GDNs would provide some examples for discussion at the next meeting.

4. What part of the RIIO-GD2 business plan related to heat can be seen as low/no regrets and form part of the GD2 business plans? (Northern Gas Networks)

- 4.1. The session set out some possible no/low regret heat related projects which NGN consider could be included for funding as part of the RIIO-GD2 business plans. Projects included:
 - Valve installations, that could be part of the repex programme, which could readily support a hydrogen conversion with the ability to isolate parts of the network.
 - Scheduling / scope of pipe replacement, to accommodate the creation of plastic (PE) 'pockets' that could support hydrogen. However, it is recognised GDNs must stay committed to delivering the HSE programme.
 - Reinforcement, storage and compression, where the network is reinforced to enable bio-methane, SNG or CNG fueling connections (perhaps through the economic test), and the storage of gas in the network to transport from low to high demand areas.
 - Enhanced IT systems network control rooms - though this was potentially seen as more suited to using specific innovation funding under RIIO.
- 4.2. It was recognised that some of the above options carry a risk of stranding, or underutilised assets, if hydrogen conversion does not go ahead.

5. Shrinkage and Leakage Model (Cadent)

- 5.1. The Shrinkage and Leakage model is the approach to modelling emissions and allowing GDNs to understand which areas of the network must be targeted for improvement. However, it was noted that only 3 levers (Mains Replacement, MEG

Saturations, System Pressures) influence emission reduction in the current modelling methodology so other interventions are not recognised. It was also noted that zero leakage is unachievable.

- 5.2. Ideas for how to improve the Leakage Model included:
 - The use of smart meters in reporting shrinkage volumes, however the accuracy of estimations would be disputed.
 - Overground detection devices, such as vans equipped with detectors, however, would be difficult and likely less accurate than current methodology.
 - The leakage rates could be recalibrated, however this would require physical evidence so would be expensive.
- 5.3. It was proposed that the Leakage Model has promoted the right behaviors in GD1. The model could be updated to factor in benefits of innovative leakage reduction and base targets to reflect on 2019/20 performance.
- 5.4. Some GDNs noted that increases to their system pressures, which increases leakage, might be required to facilitate peaking generation and green gas entry. Decreasing shrinkage could be seen as a short-term decarbonisation goal, but longer term decarbonisation strategies, such as hydrogen conversion, could impact on shrinkage. Discussion on this topic may be returned to once there is better understanding of the renewable incentive (to be discussed in the next meeting) and how the shrinkage and leakage incentives fit in to that.