

Summary of Ofgem's RIIO-GD2 Decarbonisation stakeholder group – meeting 3

From: Ofgem

Date: 24th October
2018

Location: ENA (4 More
London Riverside, London
SE1 2AU)

Time: 10:30-16:30

Attendees: Ofgem, Wales and West Utilities, SGN, Cadent Gas, Northern Gas Networks, Energy Networks Association, Sustainability First, National Grid Gas Transmission, Renewable Energy Association, Energy UK, Scottish Government, Citizens Advice, National Energy Action, Welsh Government and BEIS.

1. Introduction (Pete Wightman, Head of Gas Distribution)

- 1.1. Ofgem provided an update on the actions from the previous meeting. All actions had been complete.
- 1.2. More information regarding the working groups taking place in relation to RIIO2 can be found on our website: [RIIO-2 events, seminars, and working groups page](#)

2. Scenarios (WWU)

2.1. Delta EE Report

WWU presented findings from the collaborative project GDNs engaged in to develop a gas demand forecast, based on known and emerging technologies and behavioural changes among consumers. WWU has commissioned the model to provide insights into capacity issues, where these will be located and an estimation of how the network is going to operate until 2050.

Ofgem has asked the GDNs to have a common set of assumptions/methods to develop core scenarios for their business plans, which this forecast could potentially assist with. However, not all the findings are available yet as the research is only entering its second phase.

2.2. Pathfinder Model

WWU presented its Pathfinder Model and the model's potential interaction with business plans as a whole system simulator. The model uses granular (hourly) data to estimate costs of different scenarios. Investment is based on the cost of commodity, reinforcement and storage facilities.

WWU presented a live demonstration of the simulation. It compared a range of scenarios, highlighting a green 'hybrid' scenario as the most cost-effective for consumers.

3. Heat projects: Are there specific uncertainties that the RIIO Innovation Schemes would not capture in relation to heat projects and how should they be treated by the regulatory framework (SGN)

- 3.1. SGN presented feedback from all the GDNs on the decision tree that was presented by Ofgem at the Decarbonisation SG2 September workshop. The GDNs argued the decision tree must be able to consider projects that are at a 'near commercial' stage, where there may not be evidence of the need prior to the submission of business plans, but benefits may emerge during the price control period. The GDNs suggested that an uncertainty mechanism is required to account for changes in policy and offer greater flexibility for funding projects; as without this, there is a risk of having limited ability to respond to new technologies/directions until the next price control.
- 3.2. There was a discussion about the potentials of a reopener for big changes in policy, innovation mechanisms for innovative projects and inclusion in Business Plans for projects that can be justified. However, it was argued that a reopener might not be suitable for smaller scale changes in policy, such as local initiatives e.g. clean air policies. Another suggestion was a 'use-it-or-lose-it' funding pot which could be drawn on when needed if certain criteria are met.

4. Connections (All)

4.1. Entry Gas (WWU)

WWU presented on entry gas , potential barriers to further connection, and possible regulatory mechanisms to address these.

In discussion of these proposals it was noted that the regime of connection charging aims to be cost reflective, and so gives a price signal to biomethane developers. Some concern also expressed that supporting biomethane through GDN regulation would be challenging as non-discrimination requirements would mean that support should also be available to high carbon gas producers. The 'connect and manage' approach in the electricity sector was discussed, though the group did not reach a clear view on the applicability of this to gas distribution.

4.2. Peaking Generation (SGN)

Potential adjustments to the connections process for peaking generation were presented by SGN.

Points were made that socialisation of costs of any sort would need substantial justification.

4.3. Off Gas Grid (Cadent)

The Government are currently reviewing how to decarbonise off-grid heating. Cadent discussed the option of extending the gas network to such areas, and the role of the GDNs in developing and appraising options.

Participants suggested that government will need to provide further details on their approach to this issue, including the role of public finances and rationale for socialising costs across gas customers before the RIIO-GD2 framework can be designed to support either option.

4.4. Transport (NGN)

NGN discussed the role of gas in the decarbonisation of transport, including how the networks could have a role in the creation of low carbon infrastructure to displace traditional transport fuels.

The group discussed whether it is appropriate to subsidise/fund the above through the price control or whether this should come from government. There was some debate around whether the cost challenges to gas-based transport investment warrant specific mechanisms in RIIO-GD2, rather than being costs that other stakeholders, including Government, should fund if they wish to see more use of gas in transport.

5. The Environmental Package (Ofgem)

- 5.1. Ofgem presented on the development of a potential environmental output for RIIO-GD2. Ofgem discussed the potential to have a financial incentive that rewards companies making an exceptional contribution to the low carbon transition. In addition, companies could present ODI (Output Delivery Incentive) proposals and be rewarded for them upon successful delivery. Ofgem welcomed feedback.