

RIIO2 - General comments to be incorporated into EUK response

A whole systems approach needs to consider transmission and distribution interactions across both gas and electricity. Any other approach is likely to lead to sub optimal outcomes.

Consistent assumptions should be used across all sectors and articulated in away that is easy for stakeholders to understand. This should include levels of demand and decarbonization approaches. It would make little sense if ET, GT and GD all had different assumptions as their base case.

Any work that Ofgem identifies that it wishes to include in RIIO 2 for the networks to progress should start with a problem statement, that is fully articulated including the customer detriment. Prescribing solutions rather than problems is unlikely to lead industry supported outcomes that are in customers interests.

Innovation: As the energy system is evolving and decarbonizing innovation clearly has a role to play, but there is a question as to how much of this should be business as usual to ensure the future viability of the networks and how much should be funded by customers. In this respect we welcome proposals to remove the NIA as this had limited transparency for stakeholders and it is not clear how networks are held to account for the revenue received.

Gas Transmission

Stakeholder / Customer satisfaction :

It is important to identify the appropriate customers for NG gas Transmission, i.e. those parties connected to the transmission system. Domestic customers are not direct customers of NG transmission national grid.

Many Energy UK members, are both stakeholder and customers and shippers and gas fired power station operators. We agree high quality engagement should be business as usual and recognize there have been improvements in recent years, but there is a degree of survey fatigue. We also recognize that such activities are difficult to assess quantitatively.

We do not have a strong view on whether a separate incentive is required, but expect engagement activities to feature in NG's business plan

Quality of demand forecasts:

Energy UK supports the retention of incentives for D-1 forecast accuracy. This is an important factor in fine tuning supplies at the dayahead stage.

We see little value in the D-2 to D-5 forecasts.

Maintenance:

Energy UK and its members welcomed the introduction of the maintenance incentives and have seen significant improvement since their introduction, a great example of an effective scheme.

At the outset there was limited transparency in how the scheme targets were set and transparency remains an issue. However we consider that some kind of financial incentive should remain else we are concerned that current good performance could deteriorate.

The document also notes that *most new connections are designed so that remote valve operations can be carried out without disruption to supply*. No information is provided on since when this has applied and what percentage of total offtakes this applies to, so it is difficult to comment on whether the incentive is still required, beyond the general comments above in relation to risk of deterioration of performance.

Connections:

Energy UK and its members were closely involved in UNC modification 373 developments which introduced a defined process for connections into the UNC, including fixed timescales. This was a welcome step forwards.

Since then there have been further developments as part of the CLoCC project, which see shorter timescales for 'simple' connections. There could be merit in further linking this with the PARCA process.

Constraint Management:

Energy UK notes that the setting of this incentive target lacks transparency, and that NG has achieved substantial outperformance of £ 69M across the first five years of RIIO T1. This is largely because the incentive is set to manage low frequency high impact events and if those events do not occur then NG gains under the incentive, so it is questionable whether this really is rewarding performance. That said it is important that constraints are managed efficiently.

Ofgem's commentary notes the linkage between the network capability review and this incentive, there clearly is a trade off, which will need to consider whether reduced constraint costs do not inadvertently lead to increased costs elsewhere.

Residual balancing:

Energy UK agrees with the principles underlying these incentives, to minimize the impact of NGT's actions on the gas market and to ensure those responsible for the system being out of balance are exposed to the appropriate costs.

We also note NG's continued outperformance against these incentives.

Energy UK notes there are diverse views on the linepack incentive. NG is currently incentivized to return the closing linepack to the same value as the opening linepack, whilst this may be effective in

targeting costs to the day, it may not lead to the most efficient outcomes if NG takes a small action late in the day to rectify a small difference from the opening level. There may also be inefficient outcomes if the opening value is not at the target level or there is a need to move the target level, for example for weekdays to weekends or seasonally.

Energy UK would like to see further analysis of these issues and perhaps an alternative approach to setting the target, rather than just the same as opening

Environmentally sustainable network:

Energy UK agrees that networks should play a stronger role in minimizing their impact on the environment and decarbonisation of the energy system.

Compressor Emissions:

There is a clear expectation that NG should comply with emissions legislation, however there are numerous ways in which compliance can be achieved. It is important that in RIIO T2 lessons are learnt from the re-opener and mid period review in RIIO T1 in this regard, such that there is some flexibility during the price control period over how compliance is achieved. The compressor emissions compliance strategy should help to provide an understanding of NG's plans

Energy UK is concerned that there seems to be a disconnect between environmental compliance which must be met and providing network flexibility to meet customers' needs. On a simple level installing 2 compressors at a certain location may provide compliance with emissions legislation, whilst installing 3 smaller units which also achieve compliance could provide enhanced network flexibility. Clearly any additional cost would need to be fully justified, but it is important that the latter option is not ruled out if wider consideration and a holistic approach is ignored.

GHG emissions (venting)

Venting takes place at compressors but also other points on the network, the measurement of vented gas has evolved over the last two price controls and as such setting targets has been difficult. Since methane is such a potent greenhouse gas it is important that venting is minimized and an activity that NG should be undertaking in any scenario as a responsible business.

We agree that flow patterns on the network, over which NG has no control influence compressor operation and hence venting decisions, but that NG does have control over when it chooses to vent. We therefore support a downside only incentive

NTS shrinkage:

Shrinkage is another incentive element that NG consistently achieves outperformance, but we note that the target setting process is not transparent so it is difficult to appreciate whether this is reward for performance or a quick or the shrinkage incentive methodology statement.

Business carbon footprint reporting:

Energy UK is not really sure what purpose this serves, two key parts; compressor use and venting are covered by separate incentives

Low carbon energy systems and decarbonising heat:

The gas transmission and distribution systems both have a role to play in the short to medium term in developing low carbon systems as part of a whole system approach and decarbonizing heat. The longer term role is subject to a government decision on the role of green gases and hydrogen

The networks play a number of roles;

- providing gas for gas fired generation (both transmission and distribution connected) which have an important role in meeting electricity demand and providing flexible generation when intermittent renewable generation is not available.
- the networks also hold linepack as a buffer for when supply and demand do not match through the day
- transport gas for industry as a feedstock and for heating.
- transport gas to domestic premises 85% of which rely on gas for heating.
- enabling biomethane to have a route to market

As the future pathway for the decarbonisation of heat remains uncertain it is important that the network is maintained to ensure it continues to meet the roles above, whilst also keeping options open for a variety of future pathways. As such co-ordination across the whole energy system will become increasingly important.

We support NGGT being required to develop a robust plan to support the transition to low carbon energy systems and the decarbonization of heat, but we would like to seek greater clarity on the interaction of this with the GMaP work that NG is already progressing, to avoid duplication.

Network Capability:

Energy UK recognizes that overall demand on the system has fallen in recent years and that predominant gas flows have evolved too. In that time the gas and electricity markets have become more interdependent as gas fired generating plant take on a greater role of providing back up generation and ancillary service to the electricity network as intermittent renewable generation on the system increases and as coal plant close. In this respect the network is probably working harder to meet the needs of connected customers.

We acknowledge that Ofgem has asked NG to prepare an Initial Network Capability Report for the NTS as at 1 April 2021 including a Baseline Obligated Capacities Report and a Network Capability Target Report for the end of the price control period. Ofgem has stated that reasonable assumptions about supply and demand, in line with the approach used in the Transmission Planning Code should be used.

A key observation here is that the reports will only be as good as the input data, and we are concerned that an overly simplistic approach could fail to adequately represent the capability of the network. In this regard we emphasise the ability of the network to accommodate supplies from various supply points changing day on day and within day, whilst managing the need for offtakes to respond to customer demand in the case of DNs and to meet the demand of the electricity market by gas fired generation. An assessment of network flexibility seems absent.

Ofgem seems to be concerned about whether the existing baselines, where they exceed potential flows are leading to costs for customers. We would have thought that Ofgem is well placed to understand this and it would be helpful if Ofgem could present examples of where investment has incurred in RIIO T1 in this respect.

We understand there is an interaction between network capability and constraints and again would like to see examples of where customers have faced costs that were not efficiently incurred, any such investment would be inefficient whether or not it is within a baseline.

Ofgem also seems to be concerned about the trend for short term booking of capacity, a move away from long term bookings, yet Ofgem supported the changes that drove these trends. The move towards short term bookings is not only present in GB but also across Europe and is seen as supporting trade, so a desire for long term bookings to signal investment / maintenance needs is not entirely consistent with this. In any case any new capacity requirements are provided for by the PARCA process, underpinned by user commitment.

Industry has concerns that the capability assessment and baseline review could lead to substantial change to the levels of baseline capacity. Since it is considered that the current network is already funded there is an expectation that allowed revenues should be reduced in line with reduced baselines, else it would seem that optionality is lost without any financial recompense.

It is also the case that reduced baselines could limit opportunities for substitution and potentially create artificial scarcity of capacity which could lead to increased prices for capacity (as seen when entry capacity auctions were first introduced). This could also lead to more long term bookings, increasing costs and reducing flexibility and potentially creating false investment signals.

Another concern is the inefficient allocation of costs between short and long term bookings but this is being addressed through UNC modification 0678.

To summarise, if changes to baselines are considered appropriate then there should be savings to customers as it is suggested NG has spent or will spend to maintain these levels. If there is no saving then we see no case to changing baselines.

Accessing unsold capacity:

Energy UK supports a review of this as we agree there may be scope for improvement, we also note that some initiatives are already underway.

We do however have concerns that Ofgem may be suggesting a solution, the use of zones, rather than identifying issues to be considered. We are also rather concerned about paragraph 5.60 as this seems to be suggesting that the conclusion of the review should be included on the Business Plan, draft due July 2019) with all the changes operating from April 2021 i.e. before the next price control starts. Hence we query the status of this in this document which is about RIIO T2 rather than work to be undertaken before the end RIIO T1.