

## Summary of Ofgem's RIIO-GD2 Decarbonisation stakeholder group – meeting 4

From: Ofgem

Date: 27<sup>th</sup> February  
2019

Location: Commonwealth  
House, 32 Albion Street,  
Glasgow.

Time: 13:30-16:05

**Attendees:** Ofgem, Wales and West Utilities, SGN, Cadent Gas, Northern Gas Networks, Sustainability First, Energy UK.

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

- 1.1. Ofgem provided an update on activities since previous meeting in November and outline of agenda.
- 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. Discussion of overall environmental package and comparison with other sectors' proposals.

- 2.1. Stakeholders raised concern regarding the ambitious nature of company business plans and potential lack of support by a strong decarbonisation framework by Ofgem. It was suggested that a mechanism preventing particularly ambitious business plans from being penalised through (regression?) because of high costs would be valued.
- 2.2. Ofgem will explore approaches to high totex costs in this area with internal cost team and how this can be reingfenced to support ambitions. Companies reminded that under current framework they can suggest their own bespoke outputs and incentives in business plans, a new mechanism for RIIO-GD2. Ofgem are cautious of cross-subsidising particular activities and socialising the costs of these where already supported elsewhere e.g. biomethane and transport (EV) connections.
- 2.3. Cadent outlined that if companies invest in specific network reinforcement they are obliged by license conditions to ensure this is charged in a cost-effective way and would need to consult on how best to do this. If no changes to current charging regime would all flow through to exit costs which would breach license. Suggestion to review cost-effectiveness. More data available now around consumer appetite for (peakers?) and market demand for renewable generation etc. Ofgem ask that this data is shared if available as well as examples of large case studies that require further support.
- 2.4. Pricing regime highlighted as a barrier to supporting the market. Suggested that companies could seek to put forward changes to UNC and Ofgem potentially have a revenue driver linked to a trigger should such changes occur in RIIO-GD2.

### 3. Shrinkage

- 3.1. Ofgem would like further clarity on what specifically should be done to address concerns under current shrinkage incentive. Encourage detailed ideas to be laid out in responses to December 2018 Sector Specific Methodology Consultation.
- 3.2. Cadent outlined in more detail the composition of the Shrinkage model and its sensitivities e.g. MEG Saturation and Average System Pressures. Limitations in how much further certain elements of model can be reduced following progress in RIIO-GD1. There was discussion about the potential of focusing on emissions in isolation but GDNs view is that RIIO-GD2 should aim to sustain current levels of performance and optimise as a whole where possible.
- 3.3. Ofgem raised point that shrinkage in RIIO-GD1 was designed to be an enduring incentive for RIIO-GD2 and there is concern applying the same incentive again will deliver a 'double reward' if maintaining current performance can be considered 'BAU'. It was suggested that given limitations for further reductions under incentive it could be better placed as penalty-only to prevent deterioration of performance. Maintenance costs would be accounted for through totex allowances.

#### **4. Heat decarbonisation framework**

- 4.1. Ofgem presented on policy currently being consulted on for a heat decarbonisation framework. This is largely made up of four key areas including; low/no regret investments, innovation funding, responses to changing gas demand, and a mechanism to accommodate a shift in government policy. Companies would be encouraged to design regionally appropriate, bespoke outputs and incentives to support the energy system transition in their business plans, which will be tested by their Consumer Engagement Groups.
- 4.2. It was suggested that current framework proposals may not provide enough certainty for investment surrounding significant heat decarbonisation projects. This may lead to large projects with high costs to go unsupported e.g. Hynet project (expected £200m+).
- 4.3. Ofgem gave view that the proposed framework does not prevent projects being proposed for example under low-no regret investment or through innovation funding mechanisms. If projects still carry significant risk due to uncertainties then this may have to be considered under an uncertainty mechanism or reopener in event of clear policy steer from government. Welcome stakeholders to describe specific gaps in policy which will actively prevent ambitious but well justified projects come to fruition.