



Energy for  
generations

RIIO Gas Distribution  
Ofgem  
By email: [RIIO2@ofgem.gov.uk](mailto:RIIO2@ofgem.gov.uk)

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Dear Madam or Sir

### **RIIO-GD2 NTS Exit Capacity Incentive**

ESB Generation and Trading (ESB GT) welcomes the opportunity to respond to Ofgem's consultation on the Exit capacity incentive for RIIO-GD2, dated 14 February 2020.

Overall, ESB GT agrees with Ofgem's position that the incentive should be removed, not forming part of RIIO-GD2, and potentially with the necessity for enhanced obligations.

It is clear from CEPA's findings, that GDNs have been able to meet and benefit from the incentive largely through elements beyond their control (i.e. declining NGGT revenue, NTS charges and capacity requirements), that the current mechanism is not effective.

The lack of cost-reflectivity under either of the proposed charging methodologies, PS under 0678 or CWD under 0678A, removes price signals to encourage efficient booking of capacity by offtake location.

Any future mechanism should seek to drive efficient capacity bookings and least cost outcomes for the consumer overall, while ensuring signals to the TSO are not perverse. Removal of the incentive may present the risk of overbooking by GDNs. They may also seek to move bookings between offtakes to optimise their own DN costs, potentially to the detriment of the NTS in terms of costs and perverse signals.

The duty to be economical and efficient should lead to effective bookings under business as usual were monitoring and regulation sufficiently rigorous. CEPA's outline of an option for enhanced obligations on transparency to create a reputational incentive appears reasonable.

Yours faithfully

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ESB Generation & Trading