

RIIO-ED2 Overarching Working Group – Meeting 1

From: Ofgem RIIO-ED2 team

Date: 3 December 2019

Time: 10:00-16:00

Location: University of
Strathclyde Technology &
Innovation Centre, Glasgow

1. Present

James Veaney , Mark Hogan, Christoph Gräfe, Tom Wood, Graeme Barton, Jo Gaches – Ofgem
 Caroline Ainslie, Iain Divers – SPEN
 Paul Auckland, Jonathan Booth – ENWL
 Paul Branston, Nigel Turvey - WPD
 George Day – Energy Systems Catapult
 Gregory Edwards – Centrica
 Patrick Erwin – Northern Powergrid
 Paul Jarman – University of Manchester
 Ron Loveland – Welsh Government
 Colin Nicholl – UKPN
 Andy Wainwright – National Grid ESO
 Dave Wilkins – Northern Powergrid
 Beverley Grubb, Peter Williams – SSE
 Richard Sidley – Transmission Investment
 John Parsons - BEAMA
 Andrew McMunnigal – Greater London Authority
 Judith Ward – Sustainability First (phone)
 Furong Li – University of Bath (phone)
 Myriam Neaimeh – University of Newcastle (phone)
 Matt Cullen – EON (phone)
 Maxine Frerk – SGN CEG / GridEdge (phone)
 David Healey – Keele University (phone)

2. Agenda Items 1 & 2 - RIIO-ED2 timeline & context and Purpose and scope of the Working Group and discussion of draft Terms of Reference

2.1. Ofgem presented the expected milestones and indicative timing on the pathway to the start of the RIIO-ED2 period.

- 2.2. Ofgem said that it expected the RIIO-ED2 Framework Decision to be published on 17 December 2019.
- 2.3. NPg suggested some potential additional areas where change to the regulatory framework could be considered. These were: whole systems solutions and how to ensure that these are not constrained by the current framework, roles and responsibilities within the energy systems, socialization and universal service obligations, issues of fairness, issues concerning the energy system transition (e.g. recognizing that rapid decarbonisation of the energy system could create winners and losers) and issues of intergenerational inequality.
- 2.4. WPD suggested that clarity would be needed on the precise scope of the working group bearing in mind other workstreams in related areas, including access reform.
- 2.5. Ofgem said that although it expected the group to consider issues concerning competition and whole systems solutions specific to the electricity distribution, it was planning to take these areas forward via cross-sector workshops, which would be organized once the business plans of companies in the transmission and gas distribution sectors had been reviewed.
- 2.6. ENWL suggested that group members should collate and manage a list of potential issues for prioritization and consideration by the group and that, in relation to the role of the group in considering issues concerning Distribution System Operation (DSO) ENWL noted the recent publication of the DSO Position Paper by Ofgem and asked whether, at a future meeting, Ofgem could give a presentation on issues raised by respondents to that paper.
- 2.7. WPD said that Ofgem should consider setting clear expectations within the group's terms of reference around what the expected deliverables are and the associated deadlines, bearing in mind that the RIIO-ED2 Sector Methodology Consultation would be published relatively soon.

2.8. ENWL suggested that the terms of reference could include a process for raising new areas for discussion and how these could be 'triaged' between Ofgem's RIIO-ED2 working group.

Action: Members to send and further comments on the ToR to Ofgem

Action: Members to send a list of their priorities for the Group to Ofgem

3. Agenda Item 3 - Setting price controls consistent with the achievement of the net zero target

3.1. Ofgem introduced the topic, saying that a major change for RIIO-ED2 in comparison with previous price controls is the legislative change setting a target for net zero carbon emissions by 2050. Ofgem said that key issues for the sector are:

3.2. Ofgem set out the questions it raised in the Open Letter and listed some of the suggestions that were raised by respondents on how performance by the DNOs in meeting the 2050 target could be measured, assessed and incentivized.

3.3. The Group member from the University of Manchester suggested that the suggestion for a losses incentive may merit further consideration by the working group. Sustainability First said that it was aware of work that had been undertaken by WSP on behalf of the ENA regarding the measurement of distribution losses.

3.4. WPD commented that several of the measures suggested by Open Letter respondents were closely related to the issue of strategic investment.

3.5. Several stakeholders noted the views of the Committee on Climate Change, the National Infrastructure Commission and others concerning efficient development of network capability for customers to enable zero carbon. An approach that avoids multiple interventions on the same asset was discussed noting that assets put in place in ED2 would have useful lives out to 2050 and beyond so it may be in consumers' interests to put in place solutions now mindful of future consumer needs. This needs to be offset against any stranding risk which many group members thought was a low

risk given the recent clarity of government policy. Several stakeholders also commented on the potential for a deliverability challenge in developing capacity for customers to use electricity network services as transport and then heat decarbonises.

3.6. The Welsh Government commented that potential changes in regulatory frameworks may raise issues around discrimination in favour of renewable generators and expected to see this issue addressed by Ofgem.

3.7. UKPN gave a presentation on a suggestion for a DG curtailment index. ENWL commented that it had been offering curtailment forecasts to its managed connections customers since 2017, following on from its Capacity to Customers (C2C innovation project). NPg said that the German model referred to in the presentation was interesting but that consideration would need to be given to prevent the creation of gaming opportunities.

3.8. Members of the group commented that the different customers value curtailment at different levels and there could be regional factors to take into account – a fixed national level may not be appropriate. GD said that the key issue centred on identifying the economic level of curtailment. ENWL commented that critical to this area was visibility of loading on the network and the need to enhance monitoring capabilities within the RIIO-ED2 period. It was also commented that Ofgem's SCR for Forward looking charging and access is potentially going to significantly impact customers' needs from network companies and how access might be managed in operational as well as planning timescales.

3.9. Ofgem presented on the treatment of load related expenditure in RIIO-ED2

3.10. Some members of the group commented that, given the requirements, the current (ED1) arrangements may not be the most appropriate starting point.

- 3.11. Ofgem gave a recap of what was included in the August Open Letter in relation to strategic investment and gave an overview of some of the suggested areas for further work received in response.
- 3.12. WPD commented that the perceived risk associated with strategic investment related more to *timing* of load growth rather than whether that growth would ever materialize and that delaying investment until the picture is clearer may not be the right answer.
- 3.13. NPg commented that the risks associated with not doing enough to meet the 2050 target were greater than risks associated with doing too much.
- 3.14. SPEN gave a presentation to the group on considerations in relation to strategic investment, including a potential incentive mechanism based around the takeup of low carbon technologies.
- 3.15. ENWL queried whether DNOs should face an incentive based around the pace of take up of LCT's given the pace of uptake of LCTs carries significant levels of uncertainty and is outside DNO's control. ENWL thought unit costs driven uncertainty mechanisms for capacity creation by whatever means is most efficient (i.e. could use EE or flex if most efficient for customers) is the most appropriate mechanism given that volumes are so uncertain. Otherwise, DNOs may face windfall rewards or penalties as a result of changes in gov't policy or customers may face delays in their needs being met if policy changes faster than expected.
- 3.16. Sustainability First commented that to the extent that DNOs may be incentivized to invest to provide additional capacity ahead of need (e.g. a 'kWh volume driver') this could work against the goal of achieving greater energy efficiency.

4. Agenda Item 4 - Reflecting regional priorities within the price control

- 4.1. Ofgem introduced the topic area of reflecting regional priorities within the price control.
- 4.2. ESC gave presentation to the group on the work that it had done to date on developing and piloting Local Area Energy Plans (LAEPs). ESC also set out the next steps they are intending to take with LAEP's.
- 4.3. WPD said that LAEPs could be used by network companies in demonstrating how they have considered whole-system solutions, rather than specifically being required to participate in and produce LAEPs. WPD commented that any potential use of LAEPs within the price control would need to be aligned with DNOs' Distribution Future Energy Scenarios work (DFES). WPD said that we need to keep in mind the timetable to the production of business plans and ensure any new requirements take this into consideration.
- 4.4. ENWL raised that local government across the country (e.g. GMCA but Scotland, Wales and cities like Liverpool) has identified their own local targets for decarbonisation and achieving net zero carbon. ENWL said that the status of these targets need to be considered by Ofgem informed by a range of stakeholders to assist in putting forward appropriate business plans that Ofgem can compare as required.