

Meeting note for 9 December 2015 RIIO-T1 and GD1 MPR stakeholder forum

This meeting note provides a brief outline of the issues discussed during the RIIO-T1 and GD1 Mid-Period Review (MPR) stakeholder forum, held in Millbank on 9 December.	From	Ofgem
	To	Ofgem Mid-Period Review stakeholder forum members
	cc	
	Date	01/02/2016

1. Introduction

1.1. This briefing note aims to provide a high level summary of the issues discussed and stakeholder views raised during the RIIO-T1 and GD1 MPR stakeholder forum meeting. All materials and slides presented during this meeting can be viewed in the attached slides.

1.2. Meeting attendees

Ofgem:	Geoff Randall (GR) Mick Watson (MW) Joe Baddeley (JB) Karen Mayor (KM) Chris Mc Dermott (CM) Stathis Mokkas (SMo)
Citizens Advice:	Simon Moore (SM) Morgan Wild (MWi)
Major Energy Users Council:	Hugh Conway (HC)
nPower:	Dan Hickman (DH)
British Gas:	Andy Manning (AM)
Scottish Power:	Haren Thillainathan (HT)
Energy and Utilities Alliance:	Peter Day (PD)

2. Stakeholder forum note

Introduction

2.1. KM introduced the forum meeting and welcomed forum members. KM presented briefly the background of the RIIO price controls and the reasons for including a provision for a Mid-Period Review (MPR). KM emphasised the envisaged scope of the MPR, noting that we have currently only identified material issues for the RIIO-T1 price controls, not RIIO-GD1. KM also noted that we would not seek to use the MPR to clawback outperformance.

2.2. HC queried why Ofgem would not include the RIIO-GD1 price control in any MPR process, going forwards, "as a matter of principle". HC stressed that eight years is a long time (longer than previous price controls), and if the purpose of an MPR process was to assess if the outputs were working effectively – it made "no sense" not to include RIIO-GD1 in the scope of any MPR.

- 2.3. AM agreed that we should undertake an MPR for RIIO-GD1, and noted that there are significant and material issues which exist under the RIIO-GD1 price control. AM emphasised that the MPR process is a great opportunity for Ofgem to engage with stakeholders on such issues. AM also set out a view that the MPR should involve a 'bottom-up' review of the drivers of any outperformance and queried whether we would set out in the MPR a 'half-term report' of performance.
- 2.4. MW responded that performance reporting was undertaken annually, and that this was not the role of the MPR which is focussed on changing output requirements. In addition we are consulting on clarifying our policy around late and non-delivery of outputs. However, we have not identified any material issues in RIIO-GD1 that we feel are best addressed through an MPR process, but we are consulting and welcome views in this regard.
- 2.5. HC noted that policy changes in renewable generation have been included in the MPR process, and are being looked at regarding Electricity Transmission company outputs. However, there are also significant policy changes in gas networks, including the significant focus the UK government has recently placed on gas fired generation to ensure security of supply and the role of gas in capacity markets.
- 2.6. HT agreed that the RIIO-GD1 price control should be part of any MPR process. They noted that even if the process did find that the outputs were working as envisaged – this should not be a reason for not including RIIO-GD1.

Electricity Transmission

- 2.7. JB presented a summary of the Electricity Transmission issues that we are proposing to look at, which are outlined in our consultation.
- 2.8. Issues which Ofgem may wish to look at in any MPR process include:
- ITPR enhanced SO role
 - Onshore competition SO role
 - Environmental and stakeholder outputs
 - Strategic Wider Works (SWW) submissions
 - Needs case for projects in SWW projects in construction
 - Potential need for Scottish Island links availability incentives
 - Ensuring revenue drivers are based on robust assumptions and fit for purpose
 - RIIO-T2 outputs funded during RIIO-T1
 - Network Output Measures (NOMs)
 - Change of outputs for projects with baseline funding.
- 2.9. AM asked if the SO function of National Grid is funded through the RIIO price control. GR noted that balancing is incentivised through SO incentives, which is separate from the RIIO price control, and that the SO's internal costs are funded through the RIIO-T1 price control. The SO functions that we are considering as part of the MPR process (ie ITPR enhanced SO function and roles associated with the onshore competition regime) would be recovered through the RIIO-T1 price control.
- 2.10. SM asked for clarification on the role of revenue drivers, and to what degree the circumstances that would trigger a change in funding "within the bounds envisaged" was considered when revenue drivers were set. GR highlighted that a degree of flexibility was built into the revenue drivers methodology. As such, these drivers are intended to provide flexibility, but by how much was a difficult question and required judgement. As part of our consultation process, we have asked TOs for further information on how the changes in government policy have impacted / will impact projects going forward, to better assess the materiality of this issue as part of any MPR process.

- 2.11. AM asked for clarification on how the NOMs methodology was set, and if TOs each had an individual NOMs methodology. GR explained that the NOMs methodology was sector specific. For Electricity Transmission, each TO would put forward their programme of works – the NOMs would allow TOs (using the same methodology) to ‘trade-off’ various output options.
- 2.12. AM also expressed a view that for outputs that were set at the beginning of a price control, the company should be held to account for those outputs, especially in cases where a change in circumstances means the output is no longer required. GR agreed that it is important that we get it right, and we are consulting on what the policy and processes are / should be in such instances.
- 2.13. HC asked for clarification on how interconnectors were considered by Ofgem in terms of the RIIO price control. We clarified that interconnectors are not regulated under the RIIO framework. Interconnector projects can operate under a regulated cap and floor regime or, alternatively, through an exemption route.

Gas Transmission

- 2.14. SMO presented a summary of the Gas Transmission issues that we are proposing to look at, which are outlined in our consultation.
- 2.15. Issues which Ofgem may wish to look at in any MPR process include:
- Avonmouth pipelines
 - Scotland 1-in-20 network flexibility projects
 - Non-load related environmental outputs.
- 2.16. KM emphasised that in our consultation, we are looking at a range of cross-sector issues in addition to sector-specific issues. For example, the Avonmouth pipeline is an output that is no longer required however we plan to look at this project specifically, as it was identified for review in our RIIO-T1 Final Proposals. However, we are also considering the issue of non-delivery of outputs at a more strategic level.
- 2.17. AM queried why stakeholder engagement was being considered in the context of Electricity Transmission but not Gas Transmission or Gas Distribution. A similar point was raised regarding NOMs. MW noted that for NOMs the sectors were at different stages in terms of development. GR emphasised that stakeholder engagement incentives are newer for Electricity Transmission and therefore less tested compared to Gas. For this reason, it was deemed more important to assess how these incentives were performing in this sector as part of the MPR process.

Gas Distribution

- 2.18. MW presented the potential issues that exist in Gas Distribution, however stressed that, at this stage, we do not intend on including these issues as part of any MPR process:
- Iron mains safety risk reduction
 - Asset health and risk
- 2.19. AM questioned why Ofgem does not consider there is sufficient justification to have an MPR for RIIO-GD1 given the iron mains HSE issue, where GDNs underspent against funding by 1.7bn. AM stressed that given the significance of this underspend, not including this in any MPR process would call the credibility of the whole MPR process into question. AM questioned how stakeholders would be able to engage with this issue, if it wasn't considered in any MPR process.

- 2.20. MW stressed that we do not plan to clawback performance from companies using the MPR. MW recognised that any potential situation where outputs have not been met should be appropriately addressed. As we stated in the consultation, we are looking to clarify our policy on outputs not delivered through any potential MPR and have also identified some specific areas where this might be the case for which we are asking for views. AM responded that the GDNs had contracts in place during Final Proposals which meant that this underspend was foreseeable and immediate.
- 2.21. MWi suggested that the irons mains HSE issue should be included in any MPR; even if the result was that that no changes were needed, there would still be benefit in doing so.
- 2.22. In relation to issues more relevant to the development of RIIO-T2 and GD2 / learning from RIIO-T1 and GD1, GR acknowledged that issues raised by the forum would be sensible to take forward, and these issues are in our work plan for the future, although not as part of the MPR process, which has a different scope.
- 2.23. HT asked how outperformance would be reported through the price control period. MW highlighted that this information is published for all RIIO price controls as part of the network companies' annual reports. The next Gas Distribution annual report is expected to be published in January, though initial company results had already been published.

Cross-sector issues

- 2.24. KM presented a summary of the potential issues that exist across the sectors:
- Late delivery and non-delivery of outputs
 - Innovation and tax
- 2.25. KM reminded the forum that we are also looking at cross-sector issues more generally, and we welcome views on these issues during the consultation process.

Other issues

- 2.26. Ofgem opened the floor to any additional questions, or initial views on other issues that Ofgem should be considering.
- 2.27. AM questioned if the exit capacity incentive, under Gas Distribution, was driving the right behaviours, for the reason that parties may be booking capacity regardless of costs and this approach does not seem to be working.
- 2.28. AM suggested that, for Gas Transmission, Ofgem may wish to consider how emissions targets are set, and ensuring that these targets do not provide scope for double funding.
- 2.29. AM suggested that, related to Gas Transmission and Distribution, gas shrinkage may be better addressed through the MPR process as opposed to an anticipated industry modification approach.
- 2.30. HT asked, in relation to Gas Distribution, for an update on how the gas smart meter roll-out was progressing and if this is an issue that should be considered in the MPR. MW responded that an uncertainty mechanism is built into the RIIO-GD1 price control, which can be triggered by GDNs when they choose. As such, we are not proposing to consider this as part of any MPR process.
- 2.31. KM reminded the forum that the consultation period closes on the 12th January and that our decision is expected in Spring 2016. Any changes that we may

implement as part of any MPR process are expected to be fully implemented by April 2017.

Future forum engagement

- 2.32. KM asked the forum if they found the forum useful, and views on how best to engage with the forum going forward.
- 2.33. General consensus was that the forum was useful and there was strong interest for more forum meetings to be arranged. HC noted that there is already a considerable amount of Ofgem material published, and the forum was a useful way to focus on issues most relevant.
- 2.34. KM thanked the forum for their input and confirmed that another forum meeting would be arranged in the New Year. SM suggested the next meeting should coincide with the publication of responses so the forum could be used to digest the views raised by network companies. GR noted that some responses may be confidential, and there would likely be a lag between when the responses are submitted and when they are published on our website.
- 2.35. MWi asked if Ofgem would provide an indication of the total number of responses, including the number of confidential responses. KM confirmed that we will publish this information as part of our decision in spring 2016.