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Consultation on the mid-period review (MPR) of RIIO-T1

Consultation

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Response deadline:	6 October 2016	**Team:**	MPR team
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Overview:

The RIIO-T1 price controls have provisions for a mid-period review (MPR) of output requirements. We decided to launch an MPR for the RIIO-T1 price control looking at certain outputs for National Grid Electricity Transmission and National Grid Gas Transmission.

We are now seeking the views of stakeholders on our proposals for changes to RIIO-T1 outputs and allowances for both companies.

Context

RIIO-T1 and GD1 were the first price controls to reflect the new RIIO (Revenue = Incentives + Innovation + Outputs) model. The RIIO-T1 price control sets the outputs that the electricity and gas transmission network companies need to deliver for consumers and the associated revenues they are allowed to collect for the eight-year period from 1 April 2013 until 31 March 2021. Similarly, the RIIO-GD1 price control sets these for gas distribution companies. We have since launched the RIIO-ED1 price control for electricity distribution, which runs on a different timetable.

The RIIO framework is designed to promote smarter gas and electricity networks for a low carbon future. The RIIO price control put much more emphasis on incentives to drive the innovation needed to deliver a sustainable energy network that offers value for money to existing and future consumers. The RIIO framework allows for a mid-period review (MPR) of outputs halfway through the price control.

In May 2016, we published our decision to launch a MPR for certain areas of the RIIO-T1 price control for National Grid Electricity Transmission and National Grid Gas Transmission. We have reached a minded-to position on these issues and are now seeking the views of stakeholders on our proposals for changes to outputs and funding.

Associated documents

Decision on a mid-period review for RIIO-T1 and GD1

Consultation on a potential RIIO-T1 and GD1 mid-period review (and associated responses)

RIIO-T1: Final Proposals for National Grid Electricity Transmission and National Grid Gas

For Initial Proposals, strategy decisions and the RIIO Handbook, please see our dedicated page for RIIO-T1:

- RIIO-T1 price control

Contents

Executive Summary

Under the RIIO price control framework, the eight-year price control settlement includes a number of uncertainty mechanisms. One of these is the mid-period review (MPR) of outputs.

The MPR mechanism was put in place to allow for material changes to outputs where there have been clear changes in government policy or consumers' and network users' needs. It enables the introduction of new outputs required to meet the needs of consumers and other network users and also for the removal of outputs no longer required.

We decided to launch an MPR for the RIIO-T1 price control focusing on three areas, all of which relate to National Grid's outputs (both gas and electricity transmission). We are now seeking your views on our minded-to positions in each of these areas.

The three specific areas that we looked at as part of the MPR for RIIO-T1 are set out below. All allowances are expressed in 2009/10 prices so that they are consistent with the RIIO-T1 final proposals.

NGGT's Avonmouth pipelines output: this output was included in RIIO-T1 to help manage the consequences of the closure of the Avonmouth liquefied natural gas (LNG) storage facility. NGGT has now confirmed that the pipelines are no longer needed and that it does not propose to build them.

We are now proposing to remove the pipelines output and no longer hold NGGT accountable for its delivery. We will also reduce NGGT's load related expenditure allowance by £168.8m to reflect the amount allowed for the pipelines output.[1]

New enhanced system operator (SO) role for NGET: This includes obligations arising from the Integrated Transmission Planning and Regulation (ITPR) project, and the introduction of additional balancing services products to help it balance the system given lower forecast margins. We also support NGET's introduction of a new service to promote the market for demand-side response. We had not made any funding allowances for these additional activities introduced after we set the RIIO-T1 price control, and want to ensure that efficient costs for the SO are appropriately funded given the continuing development of new services and the need to ensure the system is effectively managed.

We are now proposing to make an allowance of £21.5m over the RIIO-T1 period to reflect efficient costs associated with these services.

Non-variant allowance outputs for NGET: Outputs in this area included the following two: protecting nine sites against rising fault level currents and installing 11 shunt reactors.

[1] The amount originally allowed for the pipelines is £169.0m. NGGT has spent £0.2m on technical and strategic analysis of options for managing the consequences of the closure of the Avonmouth LNG terminal. We propose to retain an allowance for this expenditure.

The need for fault level current protection was originally driven by NGET's forecast of increases in transmission connected generation over the T1 period. We had included an allowance of £39.5m for protecting nine sites. NGET's current assessment is that only one out of the original nine sites needs protection. This is because there were fewer generation connections to the transmission network than expected. NGET has already carried out the work required to protect one site and does not expect to carry out additional work to protect the other eight sites in the RIIO-T1 period.

Our minded-to position on fault level protection is to reduce the number of sites needing protection from rising fault level currents from 9 sites to 1 site and reduce allowances by £38.1m.

On shunt reactors, we had originally allowed £53.3m for installing 11 shunt reactors. NGET is now forecasting a higher need for voltage control, and is therefore expecting to spend £142m on building shunt reactors.

We do not dispute NGET's assessment that the need for voltage control is potentially higher now than it was at the time we set the price control. However, we are not convinced that retaining the shunt reactor output is in the interests of consumers. Shunt reactors are only one of a range of technical and operational solutions to manage voltage on the network. Specifying shunt reactors as outputs for NGET risks creating a distortion in favour of installing them on the transmission network when they may not be the most cost-effective solution for consumers. We also consider that NGET is adequately funded for actions that it might take to address the voltage control issue.

Our minded-to position on shunt reactors is to declassify shunt reactors as an output and leave funding unchanged.

The overall impact of our minded-to proposals on National Grid's allowances across both its electricity and gas transmission price controls is a reduction of £185m.

We will publish our decision document on the MPR in November or December 2016 after we have considered responses to this consultation. We intend to implement any changes to allowances through modifying the Price Control Financial Models (PCFMs), which forms part of the licences, for NGET and NGGT in 2017 so that revenue changes can take effect from 1 April 2018. We had originally intended for these changes to take effect on 1 April 2017, but we think this would be difficult to achieve given the process and timelines for making changes to the RIIO-T1 PCFMs. While companies' revenues would change a year later, consumers would not be adversely affected by the change to the implementation date because the revenue change would be neutral on a net present value basis.

This consultation does not address the areas of parallel work identified in our May decision document. These are being progressed separately and we will set out the timetable for this work shortly. We also think it is useful to get initial feedback from stakeholders on how the RIIO price control framework is working, and would welcome views as part of this consultation as well as through ongoing conversations with stakeholders.

1. Purpose and scope of the mid-period review

Chapter Summary

This chapter gives some background information on the RIIO price control framework and how the MPR fits within it. It also summarises the scope of the MPR, next steps and work we are carrying out in parallel.

1.1. The RIIO-T1 and GD1 price controls were the first to implement our new RIIO approach. A key development in the RIIO framework is the lengthening of the price control period from five years to eight years. This was to encourage companies to make longer term plans, allowing greater innovation and efficiency savings to be made that would ultimately benefit consumers. Another key part of the RIIO approach is the focus on "outputs" which are intended to capture the things valued and needed by consumers. In setting these outputs we hold the companies to account and will take action in cases where they do not deliver.

1.2. Within the RIIO-T1 and GD1 price controls we have a number of uncertainty mechanisms that adjust the revenues of the companies in response to changing circumstances. One of these uncertainty mechanisms is the Mid-Period Review (MPR) of output requirements. It was acknowledged in setting an eight-year price control that government legislation or consumers' needs could change, and outputs set at the start of the price control may not match the needs of network users over the period. The MPR was therefore included to allow a focused review of these changes in output requirements and the associated funding needed to deliver any revised outputs.

1.3. When including the provision for an MPR we were very clear that it would not consider issues more broadly in a way that would undermine the aims of moving to an eight-year price control and the benefits that come from that. Instead we said clearly that it would be narrowly focused on changes to output requirements and would not be used as an opportunity to re-open the price control more widely or change any of the key financial parameters (such as the cost of capital). We also said that any changes would be symmetric, ie outputs and allowances could go up or down in response to changes in need.

1.4. We published our decision to launch an MPR for RIIO-T1 only (not for GD1), focused on three specific areas where we considered output requirements may have changed.

- **National Grid Gas Transmission's (NGGT) Avonmouth pipelines output**: these pipelines were included in RIIO-T1 to help manage safety and security of supply risks following the expected closure of the Avonmouth LNG terminal. We included an allowance of £169.0m for the delivery of this output.[2]

- **National Grid Electricity Transmission's (NGET) Non-variant allowance outputs**: We included two outputs: Protecting against rising fault level currents at 9 sites and installing 11 shunt reactors. The total allowance in RIIO-T1 linked to these two outputs is £92.8m.

- **NGET's new enhanced system operator (SO) outputs**: we introduced new obligations in NGET's licence as part of the Integrated Transmission Planning and Regulation (ITPR) project. We also approved NGET's application to introduce two balancing products - Supplementary Balancing Reserve (SBR) and Demand Side Balancing Reserve (DSBR). These were done after RIIO-T1 price controls were set, and no allowances were made to cover the cost of meeting them.

1.5. We would like to hear your views on our proposals for each output area. The rest of this document explains our proposals.

Next steps

1.6. We intend to publish our final decision on these proposals in November or December 2016 after considering the responses to this consultation. We will then look to implement any changes to the PCFMs, which forms part of the licences, in early 2017, so that revenue changes can take effect from 1 April 2018.

1.7. We had originally intended for these changes to take effect on 1 April 2017, but we now think this would be challenging to achieve given the process and timelines for making changes to the RIIO-T1 PCFMs.

1.8. While companies' revenues would change a year later, consumers would not be adversely affected by the change to the implementation date because the revenue change would be neutral on a net present value basis.

Work on other issues

1.9. We are separately carrying out additional work in three categories as set out below. This consultation does not cover these.

1.10. **Ensuring output accountability**: To clarify how we intend to hold companies to account for outputs set for them. We listed a number of specific outputs that would benefit from added clarity, across electricity and gas transmission

[2] In our May 2016 decision document, we used a figure £165m - this excludes the adjustment for Real Price Effects (RPEs).

(T1), and gas distribution (GD1). As part of this work, we intend to set out our general approach to output accountability, including details on how we will deal with non-delivery, under-delivery, over-delivery, delays and substitution of specified outputs. We will also look to put in place any licence modifications and reporting requirements that are needed to implement our approach.

1.11. **Filling gaps in the RIIO framework**: This category includes completing ongoing work important to the framework and also address circumstances that were not envisaged. The main area of focus in this category is Network Output Measures (NOMs). NOMs relate to asset replacement and refurbishment works (£15bn expenditure area across transmission and gas distribution) and are intended to assure us that the networks are being maintained to the required standard.

1.12. **Improving RIIO operation**: We will work to improve the operation of some of the RIIO mechanisms. This will consider improving the focus of some discretionary rewards and updating the guidance for other mechanisms.

1.13. We will set out the timetable for this work shortly.

2. Gas Transmission

Chapter Summary

This chapter sets out our minded-to position on the Avonmouth pipelines output for National Grid Gas Transmission.

Question 1: Do you have any views on our proposals to remove the pipelines output and allowances?

NGGT: Avonmouth pipelines

2.1. The Avonmouth pipelines output was included in our final proposals for RIIO-T1 to address safety and security of supply issues arising from the expected closure of the Avonmouth LNG storage facility.[3]

2.2. The Avonmouth storage facility had supported National Grid's gas transportation network by providing Transmission Support Services (TSS) and Operating Margins (OM).[4] In its business plan submission for RIIO-T1, National Grid had identified the pipelines as the most efficient means of managing the consequences of the closure of the gas storage facility.

2.3. In our Final Proposals for RIIO-T1 we decided to include the pipelines as an output and included an allowance of £169.0m in NGGT's baseline revenues to fund the pipelines output.

2.4. Since we published our Final Proposals for RIIO-T1, NGGT has carried out a fresh assessment of its options. Following this, NGGT has concluded that the pipelines are not needed, and told us that it does not plan to build them. NGGT has said that it had spent £0.2m on work to assess its technical and strategic options.

2.5. As part of the MPR, we have reviewed NGGT's assessment of the need for the pipelines. The change in the needs case for the pipelines is driven by two factors:

- NGGT's demand forecasts are lower than they were at the time we set the price control. This means that the need for Transmission Support Services (ie the security of supply case) has reduced to the extent that investment in a gas pipeline (ie the Easton Grey to Pucklechurch segment) cannot be justified.

[3] The pipelines output comprises two segments. The Easton Grey to Pucklechurch segment was meant to address the security of supply issue and the Pucklechurch to Ilchester segment was meant to meet safety needs.
[4] Transmission Support Services support the network at times of exceptionally high demand (security of supply) and Operating Margins contribute to safety by helping to maintain system pressure in the event of a loss of supply.

- NGGT has re-assessed its safety case since we set the price control and has now concluded that the Pucklechurch to Ilchester pipeline segment is not needed to meet safety requirements. The Health and Safety Executive has not objected to NGGT's assessment.

2.6. We do not dispute NGGT's assessment that the current safety and security of supply cases do not support building the new pipelines. NGGT has not made a case for alternative investment to address the safety and security of supply consequences of the closure of the storage facility in the absence of the pipelines output.

2.7. We specified the output as the "pipeline solution". Given that the pipelines are not needed, we think removing the output and associated funding is consistent with the scope and intent of the MPR. We were also clear (in our RIIO-T1 Final Proposals) that we would review this output area as part of the MPR.

2.8. We are now proposing to make the following changes to NGGT's price control as part of RIIO-T1.

- Remove the pipelines output as it is no longer needed.

- Reduce allowances by the amount not spent, ie £168.8m.

2.9. We expect NGGT to meet its safety and security of supply obligations in the absence of the pipelines as part of its wider functions. Based on NGGT's demand forecasts, we consider that adequate funding has been provided for this within the RIIO-T1 price control settlement.

2.10. Further details about the adjustment to allowances are provided in Appendix 2 of this document.

2.11. We also considered and rejected two other options in this area.

2.12. One option is for us to make no change to the output now following the MPR, and to hold NGGT accountable for delivery of the output at the end of RIIO-T1. If, as expected, NGGT has not delivered the output by then, we would take appropriate action, which may include clawing back the allowance. We do not think this option is in the best interests of consumers as it would needlessly delay the financial adjustment when there is sufficient certainty and justification to make the adjustment now. Our preferred approach would deliver benefits to consumers sooner and would provide certainty for all stakeholders.

2.13. Another option put forward by NGGT involves removing the pipelines output while making a smaller adjustment to allowances. The pipelines output was meant to be a multi-year project and we had spread the total allowance of £169.0m across several years to reflect NGGT's delivery plan. Under the RIIO financial model, approximately £86.6m will have been passed through to NGGT's revenues and Regulatory Asset Value by 31 March 2017. NGGT argued that the adjustment to allowances should exclude this £86.6m on the grounds that removing the entire allowance constitutes retrospective action of the sort that we previously said we would not do.[5]

2.14. We disagree with NGGT. We have been clear that our commitment not to make retrospective adjustments related to areas such as underspends from more efficient delivery of an output – in this case it is clear that the output has not been delivered.[6] We think our preferred option is fairer to consumers and is consistent with our past statements, the intention of RIIO that revenues follow output delivery, and the scope and intention of the MPR where we said we would change outputs where we find that needs have changed.

[5] In our MPR consultation document (November 2015) we said that "If we initiate an MPR for RIIO-T1 or GD1 and make changes to outputs, we are committed to not making retrospective adjustments, eg allowances related to previous years of the price control." (para 1.24)

[6] In our "Decision on strategy for the next transmission and gas distribution price controls - RIIO-T1 and GD1 Uncertainty mechanisms" document, we committed to "not making retrospective adjustments at the mid-period review, for example, to 'claw-back' any gains that had been made through delivery of the outputs set at the price control at lower cost than expected" (para 7.9). We referred to this point in our MPR consultation document (November 2015) where we said "We also ruled out making retrospective adjustments as part of the MPR, for example, to 'clawback' gains made from delivering the outputs set at the price control at lower cost than expected." (page 4).

3. Electricity Transmission

Chapter Summary

This chapter sets out our minded-to positions on two areas for National Grid Electricity Transmission – the enhanced SO role and non-variant allowance outputs.

Question box

Question 1: Do you have any views on our proposals to allow funding for NGET's enhanced SO activities?

Question 2: Do you have any views on our proposals to reduce the fault level output and funding for NGET?

Question 3: Do you have any views on our proposals to declassify the shunt reactor output and make no adjustments to allowances for NGET?

NGET: Enhanced SO role

3.1. One of the areas that we decided to include in the scope of the MPR was the development of new outputs for NGET to reflect enhancements to its System Operator (SO) role. The enhanced activities reflect developments in two primary areas:

- the implementation of the Integrated Transmission Planning and Regulation (ITPR) licence requirements in 2015, and
- delivery of two new balancing services products: Demand Side Balancing Reserve (DSBR) and Supplementary Balancing Reserve (SBR).[7]

3.2. As part of the ITPR project, we introduced new obligations for NGET as SO in its licence. These obligations came into effect on 2 November 2015. These new responsibilities primarily relate to system planning at the annual delivery of the Network Options Assessment report. This annual mechanism will require NGET to assess and report the need and timing of future reinforcements across GB and will also make assessments of cross border interconnector capacity requirements.

[7] These services provide NGET with additional tools to help balance the system if insufficient capacity is available in the years before the first year of the Capacity Market. DSBR allows demand side users participate in balancing services by shifting or shedding demand. SBR is a service primarily targeting generators for use only as a last resort in winter periods of high demand.

3.3. In November 2013, NGET made an application to the Authority to introduce two new balancing services products (SBR and DSBR) to help balance the system. In December 2013, the Authority approved the use of these new tools, if required. NGET introduced these products into the market before winter 2014/15 to provide additional tools for balancing purposes in the years before the establishment of DECC's Capacity Market mechanism. These products may be used in the three winter periods (2014/15, 2015/16 and 2016/17) leading up to the first Capacity Market auction.

3.4. Although we recognised that there were incremental costs associated with these activities, we did not make any adjustments to NGET's revenue allowances when we introduced these new licence requirements. We have said that we would consider requests from NGET for funding associated with ITPR and DSBR/SBR services as part of the MPR.

3.5. NGET has also submitted a request for additional funding to support its efforts on demand-side response (DSR) services covering the period from 1 April 2015 to 31 March 2019. NGET, in its SO role, has initiated a new programme of activities aimed at encouraging and facilitating increased participation in demand-side response.[8] This includes:

- Raising awareness amongst industrial and commercial demand customers of the market possibilities offered by DSR.

- Activities aimed at electricity industry stakeholders to help ensure that sufficient routes to market exist and that there is a level playing field for demand customers who wish to participate in the DSR market.

3.6. NGET has said that these activities are additional to its "business as usual" role as the system operator.

3.7. We support NGET's efforts in this area because we think increased take-up of DSR services can benefit consumers in the long term through lower system operation costs. We think NGET's new DSR programme is capable of delivering tangible benefits for consumers and other network users, and therefore propose to allow reasonable costs associated with additional activities it is carrying out in this area. More generally, we believe the SO role will be extremely important in ensuring the development of the future energy system and facilitating services which will benefit the system and consumers, thus we wish to ensure it is properly funded to carry out this task, while also ensuring that only efficient costs are recovered.

3.8. Following our review, we are minded to allow additional funding over the RIIO-T1 period in each of the following areas.

3.9. **ITPR obligations**: In relation to ITPR, we are proposing to allow £15.0m over the RIIO-T1 period. This funding will cover the full range of obligations included in NGET's licence, including the following activities:

[8] The programme is branded "Power Responsive", www.powerresponsive.com

- Network options assessment: assessing the options for Transmission Operator (TO) investment and identifying preferred options across all GB transmission networks.

- Strategic wider works: Providing independent cost benefit analysis for TO 'needs case' approvals for Strategic Wider Works projects.

- Development and maintenance of a Pan European Market Model (PEMM): to allow for GB welfare benefit assessments of interconnectors and support to the assessment of proposals under the cap and floor regime.

3.10. **New balancing services (SBR and DSBR)**: In relation to the new balancing services products (SBR and DSBR), we are proposing to allow £4.5m over the RIIO-T1 period. This allowance relates to NGET's internal costs for setting up and administering these products – and does not cover any payments made or received from market participants. We expect NGET to have access to these products until 31 March 2017.

3.11. **Demand-side response (DSR)**: In relation to the DSR programme, we are proposing to allow £2.0m over the RIIO-T1 period. This funding will cover activities to facilitate and encourage increased participation in the market for demand-side response services. We propose to ask NGET to submit two short reports on the activities funded by this allowance, one by 31 July 2017 (covering the period 1 April 2015 to 31 March 2017) and one by 31 July 2019 (covering the period 1 April 2017 to 31 March 2019). These reports should describe the activities carried out over the relevant period, expenditure incurred and the benefits delivered by the programme to consumers.

3.12. The following table sets out NGET's funding requests and our proposed allowances for each of these outputs areas covered by its enhanced SO role. Further details about the adjustment to allowances are in Appendix 2.

Output area	NGET's funding request (2009/10 prices)	Our proposed allowances (2009/10 prices)	Period covered by funding request and allowances
ITPR activities	£16.92m	£15.00m	1 April 2014 to 31 March 2021
SBR/DSBR	£4.56m	£4.50m	1 April 2013 to 31 March 2017
DSR	£2.10m	£2.02m	1 April 2015 to 31 March 2019
TOTAL	**£23.58m**	**£21.52m**	

3.13. There are more details below about the adjustments we have made to NGET's funding request to arrive at our proposed allowances.

3.14. In relation to ITPR activities, we propose:

- To disallow staff costs of £0.90m associated with coordinating and managing power quality issues. We consider that the SO has a clear existing duty in this area and believe there is duplication in the resources allocated to this function.

- To disallow costs of £0.25m to reflect "SO management oversight". NGET has not sufficiently justified that this additional funding is needed.

- To disallow £0.78m of forecast Capex costs in 2019/20 associated with further model and system hardware development. NGET has not provided us with sufficient evidence that these costs need to be incurred.

3.15. In relation to the new balancing services (SBR and DSBR) and DSR activities, we are proposing to disallow £0.055m and £0.08m respectively relating to "SO management oversight". NGET has not sufficiently justified that this additional funding is needed.

NGET: Non-variant allowances

3.16. Load related non-variant allowances are an element within the RIIO-T1 price control for NGET, amounting to £1.2bn (in 2009/10 prices) over the RIIO-T1 period. These allowances cover load related expenditure and are not affected by revenue drivers or other uncertainty mechanisms. We set two outputs in this category, which together account for £92.8m (in 2009/10 prices) in allowances:

- **Protecting nine sites against rising fault currents**. The need for this was driven by NGET's forecast of increases in transmission connected generation over the T1 period. We had included an allowance of £39.5m for this output.

- **Installing 11 shunt reactors**. The need for this was driven by falling reactive power demand across the transmission network leading to an increased need for voltage control measures. We had included an allowance of £53.3m for this output.

3.17. These two outputs are very detailed and the needs can be site-specific, and depend on local demand/generation and circuit configurations.

3.18. On fault levels, NGET has now told us that it only needs to protect 1 site. Fewer than expected generation connections to the transmission network means that the previously forecast increases in fault currents are now not expected to materialise at the other sites. NGET has already carried out the work required to protect one site and does not expect to do any further work to protect the other sites in the remainder of RIIO-T1. We have no reason to disagree with its view.

3.19. On shunt reactors, NGET is now forecasting a higher need for voltage control due to a number of factors, including more embedded generation than expected. It says that it plans to spend £142m on shunt reactors. This includes £112m for shunt reactors at 25 identified sites and a £30m provision for shunt reactors at as yet unspecified sites.

3.20. We do not dispute NGET's assessment that the need for voltage control is potentially higher now than it was at the time we set the price control. However, having reviewed the shunt reactor output as part of the MPR, we are not convinced that retaining this output is in the interests of consumers.

3.21. Overall, in the area of non variant allowances, we are minded to do the following:

- Reduce the fault level output to one site needing protection and remove the allowance relating to the sites that no longer require protection (ie £38.1m).

- Declassify shunt reactors as an output and make no adjustments to allowances.

3.22. Further details about how we will implement the allowance adjustments are provided in Appendix 2 of this document.[9]

3.23. We think that our proposals for these two outputs are appropriate for the following reasons.

[9] These outputs are specified in our RIIO-T1 Final Proposals and not in NGET's licence, so changes to these outputs do not require modification of the licence.

3.24. Shunt reactors are only one of a range of technical and operational solutions for managing high voltage issues on the network. Specifying shunt reactors as an output, when alternative solutions exist, risks creating a distortion in favour of installing shunt reactors on the transmission network when they are not necessarily the most cost-effective solution for consumers.

3.25. We think the risk of distortion is more acute in the case of shunt reactors than for fault level protection for the following reasons:

- The voltage management issue is expected to continue and a whole system approach involving NGET, other transmission network owners, distribution network operators and generators is likely to be needed.

- On fault levels, NGET's forecast transmission connected generation now means that only one site needs additional protection, and that work has already been done.

3.26. In relation to shunt reactors, we think that NGET has alternative sources of funding to draw upon if needed to manage voltage on the network. For instance, NGET has been provided with a £1.2bn pot of non-variant allowances in T1. Separately NGET is funded for actions taken as part of its SO role (eg reactive power services from generators) through the SO external cost regime. Moreover, we are aware of work that NGET is carrying out with other network companies and stakeholders to identify and pursue the most efficient whole system solutions. These solutions include staggering transformer taps, reactive compensation on the distribution network either through network investment or commercial services from demand and distributed generation, and more effective enforcement of conditions of connection. In this context, we think increasing allowances for additional shunt reactors would send the wrong signal and would not be in the interests of consumers.

3.27. We consider it reasonable for us to say that the voltage management issue needs to be managed by NGET in the most efficient way and that current funding levels adequately provide for this.

3.28. We considered an alternative option that involves removing both outputs (fault level protection and shunt reactors) and making no adjustments to NGET's allowances. These outputs are relatively small components of the much larger non-variant allowances pot (£92.8m out of £1.2bn) so it may not be proportionate to hold NGET to account for these outputs. Instead, we could leave it to NGET to manage the needs on its network using funding already provided.

3.29. However, we are mindful that leaving funding unchanged for fault level protection – an area where much of the output is clearly not needed – is not likely to be in the interests of consumers.

3.30. Another option we considered involves reducing the fault level output and allowances as under our preferred option. On shunt reactors, it involves retaining the shunt reactor output and funding as it currently stands, and allowing efficient costs incurred at the end of RIIO-T1 based on an assessment of need and efficiency. We do not favour this option as it could discourage the development of innovative approaches to solving the high voltage issue, and distort NGET's incentives in favour of installing shunt reactors even when they may not be in the interests of consumers – because of the difficulties inherent in an ex-post efficiency assessment.

Appendices

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Appendix 1 - Consultation response and questions

We would like to hear the views of anyone interested in the issues in this document.

We would especially welcome responses to the specific questions at the beginning of each chapter heading and below.

Please respond by 6 October 2016 and send your response to:

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If you want to have your response kept confidential, clearly mark the document/s to that effect and include the reasons. It would be helpful if you could submit your response both electronically and in writing. Put any confidential material in the appendices.

Next steps: Having considered the responses to this consultation, we will publish our final decision in November or December 2016 on each output covered by the MPR. We expect to consult on PCFM changes, which form part of the licences, in early 2017, and implement these changes in time for revenue changes to take effect on 1 April 2018. Send any questions to:

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CHAPTER: Two

Question1: Do you have any views on our proposals to remove the pipelines output and allowances?

CHAPTER: Three

Question 1: Do you have any views on our proposals to allow funding for NGET's enhanced SO activities?

Question 2: Do you have any views on our proposals to reduce the fault level output and funding for NGET?

Question 3: Do you have any views on our proposals to declassify the shunt reactor output and make no adjustments to allowances for NGET?

Appendix 2 – Changes to RIIO-T1 allowances

1.1. We intend to consult on changes to the PCFMs, which forms part of the licences, once we have published our final decision on the MPR.

1.2. This appendix sets out, on an informal basis, a draft set of changes to RIIO-T1 PCFMs (ET and GT) that would give effect to the minded-to proposals set out in this document.

Proposed changes to the RIIO-T1 (GT) PCFM for NGGT

The following table sets out the proposed changes to the "Non-variant allowed load related capex expenditure" figures in row 84 of the 'NGGT TO' worksheet (November 2015 version).

£m, 2009/10 prices	2013/14	2014/15	2015/16	2016/17
Current values	25.46	14.41	9.62	60.45
Proposed reduction	(10.34)	(8.25)	(8.39)	(59.39)
Proposed new values	15.12	6.16	1.23	1.06

£m, 2009/10 prices	2017/18	2018/19	2019/20	2020/21	Total
Current values	84.88	8.52	0.23	-	203.57
Proposed reduction	(78.93)	(3.47)	-	-	(168.77)
Proposed new values	5.95	5.06	0.23	-	34.80

Proposed changes to the RIIO-T1 (ET) PCFM for NGET

The following table sets out the proposed changes to the "Non-variant allowed non-operational capex" figures in row 25 of the 'NGET SO' worksheet (November 2015 version). This relates to NGET's enhanced SO role.

£m, 2009/10 prices	2013/14	2014/15	2015/16	2016/17
Current numbers	39.23	34.21	29.41	27.17
Proposed addition	0.18	1.75	0.47	1.68
Proposed new values	39.41	35.96	29.88	28.85

£m, 2009/10 prices	2017/18	2018/19	2019/20	2020/21	Total
Current numbers	29.59	20.38	25.43	25.41	230.82
Proposed addition	0.03	0.03	0.03	0.03	4.19
Proposed new values	29.62	20.41	25.46	25.43	235.01

The following table sets out the proposed changes to the "Non-variant allowed controllable opex" figures in row 26 of the 'NGET SO' worksheet (November 2015 version). This relates to NGET's enhanced SO role.

£m, 2009/10 prices	2013/14	2014/15	2015/16	2016/17
Current numbers	73.78	74.86	77.01	78.58
Proposed addition	0.34	0.89	2.09	3.58
Proposed new values	74.12	75.75	79.10	82.16

£m, 2009/10 prices	2017/18	2018/19	2019/20	2020/21	Total
Current numbers	79.36	80.00	81.75	83.67	629.01
Proposed addition	3.11	2.91	2.29	2.10	17.32
Proposed new values	82.47	82.91	84.05	85.77	646.33

The following table sets out the proposed changes to the "Non-variant allowed load related capex expenditure" figures in row 84 of 'NGET TO' worksheet (November 2015 version). This relates to fault level current protection.

£m, 2009/10 prices	2013/14	2014/15	2015/16	2016/17
Current values	241.92	206.22	183.48	187.40
Proposed reduction	(15.37)	(16.46)	(4.09)	(0.50)
Proposed new values	226.54	189.77	179.38	186.90

£m, 2009/10 prices	2017/18	2018/19	2019/20	2020/21	Total
Current values	142.93	124.46	44.07	28.38	1,158.86
Proposed reduction	(0.59)	(0.94)	(0.17)	-	(38.12)
Proposed new values	142.34	123.52	43.91	28.38	1,120.74

Appendix 3 - Feedback Questionnaire

1.1. We believe that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about how we've conducted this consultation. We'd also like to get your answers to the following questions:

1. Do you have any comments about the overall process adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand? Or could it have been better written?
4. Were the report's conclusions balanced?
5. Did the report make reasoned recommendations for improvement?
6. Please add any further comments?

Please send your comments to:

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