



Forward Work Programme 2018-19
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Dear Ofgem,

Forward Work Programme 2018-19

This response is provided on behalf of National Grid Electricity Transmission and National Grid Gas Transmission.

The proposed areas of focus in the forward work programme appear to us to be the correct ones. We look forward to further information regarding how Ofgem will measure its progress against its objectives.

Enabling a better functioning retail market

Consumer bills are impacted by many factors and Ofgem's analysis helpfully illustrates the components and their interactions. To date, this analysis has focused on how various costs have been allocated in bills. There would be benefit in attempting some forward looking views which illustrate how potential trends in the energy transition might impact bills and help compare alternative approaches.

Facilitating change in the energy system

We look forward to concluding the current work with Ofgem and BEIS to create a more independent electricity system operator (ESO) that will focus on bringing a whole system view to emerging challenges and facilitate a level playing field for all parties in the industry.

As network asset owners, we also plan to make new offerings to address these challenges. As well as selecting new equipment, there are opportunities to retrofit new telemetry to existing equipment, providing more capacity in windy conditions or to meet short-term peaks by better exploiting thermal inertias. The storage available in the gas network can support enhanced flexibility from gas power stations and, with new green gas sources being connected, will be able to meet heat requirements with reducing greenhouse gas contributions. The potential for existing network assets to facilitate change in the energy system therefore should not be overlooked and innovation arrangements should recognise the particular circumstances for realising new network developments alongside other market offerings.

Ensuring network companies deliver for consumers in a changing system

While the focus on costs and bills is essential, and the scrutiny of company profits and returns is a necessary part of this, it would not be in the interests of consumers to restrict the effectiveness of incentives for network improvements and innovations, especially at a time of change and challenge,

by curtailing opportunities for network companies to earn out-performance benefits. There is a risk that the long-term benefits to consumers of the new measures implemented in the RIIO framework get derailed if company returns are not considered in the context of how they indicate the success of innovations, represent a sharing of new benefits with customers in the current control period, and provide information that can give larger benefits for customers in future periods. We are pleased to see the work plan giving emphasis to achieving a good RIIO-2 outcome and we look forward to working with Ofgem to identify achieved RIIO-T1 benefits and create the opportunities for generating more in RIIO-T2.

The forward plan highlights Ofgem's drive to identify opportunities to deliver competition and competition-like forces. The offshore network and interconnector regime examples show how competition can be realised in different ways with different definitions of the outputs that the licensees must manage and costs that consumers underwrite. To achieve beneficial competitions, the regime must discover the price of providing specific outputs. If such competitions are too difficult or costly to achieve, competition-like forces requires sufficiently relevant benchmarks to be used.

Identifying opportunities and managing long-term risk on behalf of consumers

We feel that stakeholder engagement is the key to identifying future opportunities, and look forward to working with the industry and Ofgem to identify the key issues which should be considered in the forthcoming years.

I confirm that this response can be published on Ofgem's website.

Yours sincerely,

[By email]

Chris Bennett

Director, UK Regulation, National Grid