

## Electricity Transmission Policy Working Group 1

From: Ofgem

Date: 16-8-2018

Time: 10:00-16:00

Location:  
Conference Room 1.19  
1<sup>st</sup> Floor,  
10 South Colonnade  
Canary Wharf, London

This document sets out the high level minutes and actions from the Electricity Transmission Policy Working Group 1. The aim of the document is to focus on capturing the main issues and themes raised in discussion.

All minutes and notes were recorded in conjunction with the Terms of Reference for workshops and were recorded under Chatham House rules, whereby comments are non-attributable. For reference to the presentation material, please refer to the accompanying working group slides.

### 1. Welcome and introduction – 10:00-10:15

(Clothilde Cantegreil – Head of Electricity Transmission)

- 1.1. Stakeholders highlighted the importance of the cross sector perspective and of the place the outputs take in the broader picture.
- 1.2. Stakeholders were keen to understand the content and focus of the next two Electricity Transmission workshops.

### 2. Overview of RII02 outputs and incentives framework – objectives – 10:15-11:15

#### Output Categories

- 2.1. Stakeholders highlighted that potentially there is some overlap between the three categories presented and were keen to understand how the new categories worked when compared to the previous categories.
- 2.2. Stakeholders made the following suggestions to be considered when drafting the next iteration of the output categories:
  - Consumers vs. customers – does the focus on customers work within the context of the transmission sector?
  - References to network condition – should focus here be on resilience and maintaining reliability rather than purely on achieving better condition? Resilience likely to become a central issue in RII02.
  - Should “stakeholders” and “whole-system” also be captured here?
  - Potential overlaps between different categories.
  - Importance of having clear definitions underpinning these.

## Programme of work

- 2.3. Stakeholders were interested to better understand the timeline for our work and raised the question about potential issues with timing. NGET mentioned that they have a timeline they have developed and are happy to share it.
- 2.4. **Action:** Ofgem to come back to stakeholders with a clearer timeline and provide examples of how the old categories fit into the new ones.

## Other general points

- 2.5. The Working Group also noted the following interactions/ key considerations:
- Interactions with business plan assessment process; and
  - Being clear on what is funded through price control settlement, and what is performance "above and beyond".

## **3. Issues for working group members to raise 11:15-11:45**

- 3.1. NGET presented to stakeholders and Ofgem.
- 3.2. NGET reiterated importance of resilience as an area they have been engaging with their stakeholders on.

## **4. Incentive Outputs**

### Business carbon footprint 11:45-12:00 (James Tyrrell, Manager)

- 4.1. The discussion was initially around losses and if there are ways to incentivise companies to reduce losses further.
- 4.2. There was also a discussion on whether an incentive was needed or whether there should be a licence condition for consideration of losses in the replacement of assets and whether Ofgem should be setting out clearly that TOs should be taking account of whole life costs and doing the right thing for consumers. This might result in a higher upfront capital cost but a lower whole life cost once losses are taken into account.
- 4.3. There was a discussion around the use of the BCF reports and the data provided within these, and how these fit into the transmission operators' business plans. A question was also raised as to why operators aren't doing more to promote and collaborate on these.
- 4.4. It was broadly agreed (subject to further consideration during RIIO 2 development) that more could be done to publish BCF data, so that stakeholders have better sight of performance in order to increase the reputational incentive.
- 4.5. There was a broad consensus that direct emissions (such as SF6) would need to continue to be included in the BCF.
- 4.6. There was also support for including Scope 3 emissions going forward with RIIO1 and into RIIO2.

- 4.7. New BCF arrangements were also discussed, and it was noted that these could provide more information about what TOs are doing to manage/reduce BCF as a whole.
- 4.8. Finally, there was discussion of including BCF and low carbon in Business Plan as part of pricing control submission and link to Business Plan assessment.

## **LUNCH - 12:00-12:30**

### Sulphur hexafluoride 12:30-13:00 (James Tyrrell, Manager)

- 4.9. Stakeholders were generally positive about the role of the SF6 incentive in drawing attention to this environmental risk, and felt that this had driven behavioral change.
- 4.10. Stakeholders highlighted that the incentive was effective at reducing leakage of SF6 through better leakage monitoring and asset management, but queried whether the incentive had driven life cycle cost assessment. Change is needed to drive a change to lower carbon assets and to continue a long term reduction in GHG emissions from SF6. This linked closely to cost benefit analysis by TOs when assessing potential replacement.
- 4.11. Some stakeholders discussed a preference for introducing an absolute level target output for SF6 that reduces over time, to replace the current mechanism. Other stakeholders suggested that it was not the right time to introduce a reducing target and suggested that this could have the perverse outcome of driving wholesale replacement, which would have significant costs to consumers. A consideration going forward is how this should be incorporated into business planning and cost benefits analyses and decision making.
- 4.12. Suggestion was made to consider wrapping an SF6 incentive into an over-arching low-carbon incentive.
- 4.13. Discussion touched on the idea that any future incentive for SF6 needed to focus on how to manage the uncertainty around the incentive and developments in the market.
- 4.14. There was a discussion as to whether more emphasis should be placed on promoting innovation for SF6 alternatives and whether learning could be applied across sectors from other innovation work on SF6 alternatives
- 4.15. **Action:** Ofgem to review the SF6 performance from pre-RIIO ET1.

### Environmental Discretionary Reward 13:00-13:30 (James Tyrrell, Manager)

- 4.16. There was a general consensus across stakeholders that the EDR has raised the profile of sustainability within the companies and has made it easier for the environmental areas to get support to do their job across the business. However, it was also felt that the EDR may not be focused in the right area and may need an overhaul. The main reasons cited, were it is backward looking and has an input and process-heavy focus, and competitive nature.
- 4.17. Stakeholders generally felt that an output based, collaborative incentive would be more effective and successful. It was suggested that any incentive in this space would need to be more forward looking and encourage more TO collaboration.

- 4.18. The interaction with the Business Plan was discussed and stakeholders felt work is needed to determine how much should be embedded in the Business Plan.
- 4.19. Sustainability First's low carbon incentive proposal was also discussed and it was noted that there was a desire for company leaders and investors to take sustainability seriously.
- 4.20. Discussion on a potential low carbon incentive and the interaction with the Business Plan.
- 4.21. Some stakeholders suggested that there may be a need for a potential low carbon incentive to take a whole system approach, considering things like the cheapest connection. They suggested investigating the ESO incentive as a model for a new low carbon incentive.
- 4.22. The group also suggested that there may need to be a greater focus on embedding a Low Carbon Incentive into the Business Plan and that Low carbon transition could be more central in the pricing.

#### Visual Amenity – 13:30-14:15 (Anna Kulhavy, Senior Regulatory Economist)

- 4.23. Stakeholders considered that the Visual Amenity output was generally working as intended, especially for new infrastructure. However better communication between transmission operators and local stakeholders may be needed to better explain the judgement that goes into assessing whether or not visual amenity impacts are acceptable in planning terms.
- 4.24. Stakeholders generally agreed in principle that TOs should continue to deliver mitigation projects for existing infrastructure in areas designated national parks, areas of outstanding natural beauty and national scenic areas. However, it was noted that it is important to revisit consumer willingness to pay (WTP), given the different economic climate and other developments since the last study. It was noted that the TOs are doing some joint work on WTP and that this could be added to the scope of that work.
- 4.25. It was also noted that in SPT's transmission area, opportunities within the designated areas are exhausted.

#### **BREAK – 14:15-14:30**

#### Reliability output-14:30-15:15 – (Cissie Liu, Manager)

- 4.26. TOs stated that the incentive drove them to be better asset managers, making them more aware of the risk of lost load and driving them to work with DNOs on replacement plans.
- 4.27. Stakeholders discussed targets and how they were based on previous years' performance and that there is a lagging factor. Stakeholders discussed whether rolling targets would be more effective, or whether they would have a negative knock on effect. It was suggested that targets shouldn't change, and discussed whether RII01 good performance can be attributed to luck. TOs gave examples of the impact of exceptional events on the output targets.

- 4.28. Stakeholders discussed lessons learned from the ED Interruptions Incentive Scheme.
- 4.29. The group discussed the extent to which reliability should be considered business as usual (BAU) and replaced by minimum standards. There was no agreement within the group, as system is volatile in nature, and even short interruptions would cause companies to surpass target limit easily. Stakeholders discussed how the ENS incentive bridges the policy gap between the minimum required standards, and a high level of reliability standards.
- 4.30. Stakeholders raised the issue of ensuring that the overlaps with stakeholder satisfaction and resilience were made clear, and that there should be coordination to manage significant events (e.g. cyber-attacks or big weather events). As well, it was discussed whether Ofgem should consider expanding interactions with other regulated sectors such as water, and telecoms to increase resilience and explore cross sector impact (e.g. Lancaster floods).
- 4.31. The effectiveness of the Value of Lost Load (VoLL) was discussed, and how this was calculated, how it varies amongst different customer segments, and whether the incentive rate should change or remain the same.
- 4.32. Stakeholders discussed the impact and challenges that embedded generation has on measuring and ensuring reliability. Embedded generation is very difficult to account for in real time. It was suggested that Ofgem may want to consider different methods or skewing.
- 4.33. Stakeholders discussed the reputational effect of the incentive, however they thought that this effect may not be strong enough due to various needs and priorities of customer segments and network companies' commercial nature.
- 4.34. **Action:** Transmission Operators to provide working examples of the impacts outages in their networks would mean for their targets.
- 4.35. **Action:** Ofgem to investigate the methodology for VoLL, specifically review ENWL NIA Project.

## Stakeholder satisfaction output- 15:15-16:00 - (Eilidh Alexander, Manager)

- 4.36. Stakeholders generally agreed that the stakeholder satisfaction output had been successful in improving transmission operator engagement with their stakeholders.
- 4.37. There was a discussion around the content of the stakeholder satisfaction surveys and KPIs with agreement that these should be more aligned across the sector.
- 4.38. Stakeholders discussed how the output interacts with the Stakeholder Engagement Incentive. Some stakeholder supported the SSO as a quantitative balance to the qualitative SEI scheme however, others expressed that having both outputs would lead to over compensation.
- 4.39. Comparisons were made in relation to similar schemes in the Water sector. The Service Incentive Mechanism is set up such that it is good at identifying the lowest scoring company however, this incentive led to companies performing with very similar scores

making it difficult to penalise and reward appropriately. Stakeholders familiar with the SIM found that this output was overall successful in driving behaviors.

- 4.40. Stakeholders raised suggestions to introduce independent assessors which was an effective approach in the consumer vulnerability groups.
- 4.41. There was also a discussion around the output measure, and how this could be adapted to ensure that this provided the correct ratio between reward/penalty, and ensuring outputs.
- 4.42. Stakeholders suggested that the SSO could be introduced as a relative incentive in the next price control; whereby only the highest scoring TO is rewarded for their performance.
- 4.43. **Action:** Ofgem to investigate options for aligning the stakeholder survey content.
- 4.44. **Action:** Request data for surveys/KPIs from TOs.
- 4.45. **Action:** Investigate the interactions between the SEI and the SSO components

## **5. Close and AOB – 16:00**

- 5.1. Next Steps – Ofgem to review actions from working group and provide an update at the next working group in September. Areas for discussion and agenda will be finalised and distributed prior to this meeting.

## **6. Date of next meeting**

- 6.1. Ofgem Glasgow Office - 10am-3pm on 7th September 2018.

## 7. Appendix – Attendee List

<b>Name</b>	<b>Organisation</b>
Clothilde Cantegreil	Ofgem
Anna Kulhavy	Ofgem
James Tyrrell	Ofgem
Cissie Liu	Ofgem
Keren Maschler	Ofgem
Dale Winch	Ofgem
Min Zhu	Ofgem
Eilidh Alexander	Ofgem
James Kerr	Citizens Advice
John Wilson	National Grid
Michele Zarri	National Grid
Jonathan Ashley	National Grid
Alan Kelly	SP Transmission
Jillian Price	SP Transmission
Stephanie Anderson	SP Transmission
Fraser Nicolson	SSEN
Shirley Robertson	SSEN
Andy Manning	Centrica
Frank Gordon	Renewable Energy Association
Ruth Bradshaw	Campaign for National Parks
Rachel Hay	The Climate Change Committee
Judith Ward	Sustainability First
Ron Loveland	Welsh Government