

## Electricity Transmission Policy Working Group 2

From: Ofgem

Date: 7-9-2018

Time: 10:00-15:00

Location:  
Boardroom 1  
3<sup>rd</sup> Floor  
Commonwealth House  
32 Albion Street  
Glasgow  
G1 1LH

This document summarises discussions and actions from the Electricity Transmission Policy Working Group 2. 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 rule, whereby comments are non-attributable. For reference to the presentation material, please refer to the accompanying working group slides.

### 1. Welcome and introduction – 10:00-10:30

(Clothilde Cantegreil – Head of Electricity Transmission)

#### Review of Minutes and update on actions

1.1. A number of minor changes were proposed by the group to the ToRs:

- Paragraph 1.8: verb missing and add reference to the WG also considering the incentive package.
- Paragraph 1.11: clarify reference to cost and outputs Working group (should read cost analysis).

1.2. There were no further comments on meeting minutes or actions.

#### Overview of RIIO2 coordination and mapping (Keren Maschler, Senior Manager)

1.3. Ofgem provided an overview of RIIO2 workstreams and upcoming stakeholder engagement relating to other policy areas.

1.4. The group also discussed interactions with the RIIO2 enhanced engagement process. Ofgem to provide further clarity on what is expected from TOs out of this process.

1.5. Finally, the group discussed dependencies, in particular with Information Revealing Devices (IRDs), noting that the way Ofgem approaches these will have an impact on how incentive rates are set.

### 2. Connections and Losses 10.30-11.30

(Dale Winch, Manager)

#### Losses

- 2.1. There was broad agreement amongst stakeholders that the current losses incentive has helped to improve and embed consideration for losses when making investment decisions. However there are also numerous factors involved and losses are of only limited control of the TOs, due to the role of the System Operator in managing the network.
- 2.2. There was a broad discussion around the trade off between decarbonisation and decentralisation, and conflicting demands of these.
- 2.3. Stakeholders highlighted that there are three different ways in which losses are considered; system losses, losses over which TOs have direct control (e.g. substations losses), and how losses are considered in the context of investment decisions.
- 2.4. Companies noted that the definition of losses and associated network operator strategies are not always widely understood by external stakeholders. For example, it is not always communicated to stakeholders that in some circumstances increases in losses reflect increases in the amount of renewable generation connecting to the network. This is complicated by the SO's role in operating the network, and the extent to which losses and their CO2 impact are controllable. More would need to be done to make the term meaningful and transparent for stakeholders.
- 2.5. There was broad agreement that a reputational only incentive would likely still remain appropriate, as the view from the group was that not all losses are controllable by the TOs as these are affected by the operation of the network by the SO.
- 2.6. Some consideration was given to a financial incentive within the context of a discussion regarding more collaboration and innovation in technologies to reduce losses, particularly around efficiencies in substations and the use of metering to track this. It was broadly agreed that it was important to be able to quantify the losses that can be controlled by the TO to understand their value, in particular before the group considers any potential move to a financial incentive.
- 2.7. Finally, there was a brief discussion of CMA action in this space (as part of the Energy Market Investigation).

## Timely Connection Offers

- 2.8. There was a broad agreement that this incentive and the targets have driven improvements to connection times.
- 2.9. Stakeholders discussed the shift in expectations for customers from timeliness of connections to the flexibility and options of connections presented by the TOs (i.e. better offers instead of timely connection offers).
- 2.10. There was broad agreement that more may need to be done to seek to ensure that the ongoing relationship with stakeholders is successful, and in trying to ensure that this meets expectations. There are interactions with the SO as the SO is responsible for the customer interface.

- 2.11. Given the shift in customer expectations, it was discussed whether there was still a need for a stand-alone incentive, or if this could be more closely linked to stakeholder satisfaction measures.
- 2.12. The group noted that NGET treatment differs under this incentive in RIIO1. This is because of National Grid's [words missing?]. However, the group agreed that any future incentive, if retained, should be consistent across all three TOs.

### **3. Low Carbon Priorities 11.30-12.15**

(Christianna Logan. SHE-T)

- 3.1. In this presentation, SHE-T took us through the various considerations they aim to take into account when making decisions. SHE-T highlighted that these considerations are only partly dictated by Ofgem's incentives and are more closely related to the company's values and their input from their own stakeholders.
- 3.2. SHE-T highlighted that some of the goals are partly within the company's controls such as reduction of greenhouse gasses (financial incentive – SF6) and BCF reduction (reputational incentive), but some although desired are outside their control.
- 3.3. SHE-T further highlighted that considerations of sustainability may need to go beyond low-carbon and may need to take into account the whole lifecycle (“from cradle to grave”) rather than focusing on specific areas to avoid creating perverse incentives. For example elevated levels of losses are sometimes the result of transmitting renewable energy that is often located far from centers of demand.
- 3.4. The group also discussed the extent to which company strategies and/ or price control arrangements would need to align with the wider policy environment (e.g. government targets etc.). The challenge was posed to the TOs to think about what they cannot do within the current framework and what is required to allow them to go the extra mile?
- 3.5. The group had discussed what would be considered BAU and what goes above and beyond. This was categorised into three areas; what is within TO control, areas that TOs can influence or enable and what is outside TO control.

### **LUNCH - 12:15-12:45**

### **4. Incentive Outputs**

Low Carbon Incentive 12.45-13.45 (James Tyrrell, Manager)

- 4.1. The session started with a recap of Working Group 1, including the group's request to discuss Sustainability First's Low Carbon incentive proposal and how the SO incentive framework may provide a starting point for building incentives in RIIO2. The aim for RIIO2 is to try and achieve an approach to environmental outputs that is less disparate, more holistic, more cohesive and increases consistency across sectors.

- 4.2. A key discussion centred around the role of the Business Plan in relation to Environment and low carbon incentives and outputs in RIIO2, in particular how much would need to be built into business plans versus incentivised separately.
- 4.3. A robust discussion occurred around the scope of Sustainability First's proposal. Stakeholders provided some examples of what areas could be in scope, wouldn't be in scope and warranted consideration.
- 4.4. Stakeholders noted the importance of ensuring the "non-low carbon" aspects of the environment did not get missed if a low-carbon incentive was to be developed. Stakeholders also wanted to ensure that an aspect of culture change was maintained in any environmental incentive for RIIO2. There was agreement that these types of incentives have helped shift and maintain an appropriate company "culture" for environmentally focused decisions.
- 4.5. It was suggested that the environmental aspects may need to be split into: areas which TOs have direct control over, areas they could influence/enable, and areas they can't influence/have no control over.
- 4.6. Stakeholders discussed the role of TOs in shifting demand and highlighted that the role of the TO has changed. They also stated that a potential incentive could go beyond the energy sector and also touch on sectors such as transport, heat, government.
- 4.7. There was a discussion around the difference between enabling low carbon connections and connecting in a low carbon way. Stakeholders questioned the overall objective of a potential incentive, and a discussion around what could be included in the scope of this incentive; i.e. SF6, fleet, embedded carbon and scope 3.
- 4.8. Stakeholders raised the point that there are sometimes restrictions meaning innovative approaches are required i.e. SHE-T's example of the Scottish Isles. Stakeholders discussed whether such an incentive innovation that is not covered by NIC or NIA.
- 4.9. Alternative options for assessment (instead of panels) were discussed such as the role of user groups.

## Reliability 13.45-14:30 (Cissie Liu, Manager)

- 4.10. Discussion began around purpose of using VoLL as a base for the incentive rate.
- 4.11. There was discussion around whether VoLL would need to capture minimum standards provided by SQSS standards, rather than assuming that minimum level is zero.
- 4.12. TOs highlighted three main components of reliability. Long term considerations, short term considerations, and resilience considerations. TOs indicated that NOMs are a strong incentive that capture long term investment. However, NOMs don't capture short-term considerations and risk. ENS better incentivises local and time limited risk management and operational considerations, rather than long term investment decisions. Resilience is another aspect of consideration which is being covered by the cross-sector team within Ofgem.

4.13. Stakeholders asked whether customers were informed of the costs of delivering the output in the VOLL study.

4.14. Stakeholders recognized that VoLL is useful to see what customers value. Stakeholders indicated understanding of the difference in willingness to pay method and willingness to accept method.

4.15. However, there was general agreement that granular customer segmentation wouldn't apply to TOs as it does for the DNOs. Customer differentiation won't change TO behaviour.

#### Stakeholder Satisfaction Output 14.30-14.45 (Eilidh Alexander, Manager)

4.16. This section was delivered to reflect our understanding of the discussion that took place in the last WG (WG1). Additionally, Ofgem highlighted the direction of travel based on the input from stakeholders and our next steps for further development of this output.

## **5. Close and AOB – 14:45-15:00**

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. Some of the areas that were agreed to be taken forward in the next working groups include:

### 5.2 Working Group 3 (28<sup>th</sup> of September)

- Whole Systems Update:
  - Outcomes from the Whole Systems WG on the 18th and what this means for ET2 (Presentations from NGET)
- Electricity Transmission framework and examples of what we mean by:
  - Outputs
  - PCDs
- An update from the Electricity Transmission Cost Assessment team
- Availability, Network Access Policy and Safety (Presentations from SPT)
- Visual Amenity

### 5.3 Working Group 4 (11<sup>th</sup> of October)

- Stakeholder Outputs
  - An update from Cross Sector Policy on Stakeholder Engagement Incentive
  - Stakeholder Satisfaction Output
    - (Presentations from SHE-T)
  - Connections
- Environmental Outputs
  - Deliver some options and a draft proposal for an environmental package for RII02
  - Losses (Presentations from SHE-T)
- ENS
  - (Presentations from SPT)
- Discussion on the overall incentive package

### 5.4 Working Group 5 (TBC)

- Summary of the overall package for Electricity Transmission Policy ahead of the consultation document

## 6. Date of next meeting

6.1. Ofgem London Office- 28<sup>th</sup> of September 2018.

## 7. Appendix – Summary of actions

<i>Action</i>	<i>Allocated to</i>	<i>Due date</i>
Update ToRs	Ofgem	Next WG
Circulate complete list of RIIO2 WS and key contacts and updated version of WG2 slides	Ofgem	14 September 2018
Provide clarity on interactions with enhanced engagement process	Ofgem	Next WG
Consider the CMA Energy Market Investigation implications for losses	Ofgem	Next WG
Investigate and quantify the level and value of losses (where this can be controlled), and to provide clarity on how these losses are measured	Transmission Operators	WG4
Meet with the System Operator and Access Reform Team regarding interactions with connection offers	Ofgem	Next WG
Action to speak to Cross Sector Policy on user groups and the consumer vulnerability groups	Ofgem	Next WG
Speak to ENWL on the methodology of the VOLL study, specifically if respondents were informed of cost associated with increased levels of reliability.	Ofgem	Next WG
Follow up with NGET to follow on the demand at risk procedure.	Ofgem/NGET	WG4

Investigate calculating and including embedded generation into ENS calculation methodology.	TOs	WG4
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## 8. Appendix – Attendee List

Name	Organisation
Clothilde Cantegreil	Ofgem
James Tyrrell	Ofgem
Cissie Liu	Ofgem
Keren Maschler	Ofgem
Dale Winch	Ofgem
Eilidh Alexander	Ofgem
James Kerr	Citizens Advice
Jamie Stewart	Citizens Advice Scotland
Ivo Spreeuwenberg	National Grid
Jonathan Ashley	National Grid
Alan Kelly	SP Transmission
Jillian Price	SP Transmission
Fraser Nicolson	SSEN
Shirley Robertson	SSEN
Christianna Logan	SSEN
Andy Manning	Centrica
Eddie Proffitt	Major Energy Users Council
Judith Ward	Sustainability First
Kalpana Balakrishnam	Natural Resources Wales
Mike Hemsley	The Climate Change Committee
Leigh Rafferty	Scottish Government
Ron Loveland	Welsh Government