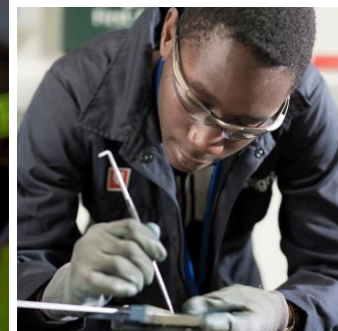


Cost Assessment and Business Plan Working Group



National Grid

19th September 2018

Review of RIIO-T1

- The fundamentals of the RIIO-T1 regime are a good starting point for the development of RIIO-T2
- The greatest consumer value should be delivered by specifying outcomes with appropriate checks and balances. It is worth spending the time to get these right, including any close out process.
- We foresee increased uncertainty in RIIO-T2 more flexibility may be required on the 'what and how' of uncertainty mechanisms.
- Reach early agreement on what good cost efficiency information looks like for main spend categories.
- All elements of the deal, including incentives and commercial regime, need to work together to deliver the right outcomes for stakeholders
- There should be a fundamental review of Regulatory Reporting to ensure it is fit for purpose and does not lead to unnecessary costs
- There is considerable benefit in working closely on process for and requirements from engagement and willingness to pay to maximise the effectiveness of these activities

Scenario Planning

- FES
- Gas Demand Forecasts
- Supply Forecasts

What is FES?



Annual publication

Four scenarios

Covers gas and electricity, demand and supply

Find out more: <http://fes.nationalgrid.com>

How the scenarios are used

Transmission system development



System operability



Network Options Assessment



Capacity Market



Security of supply



European developments



Charging

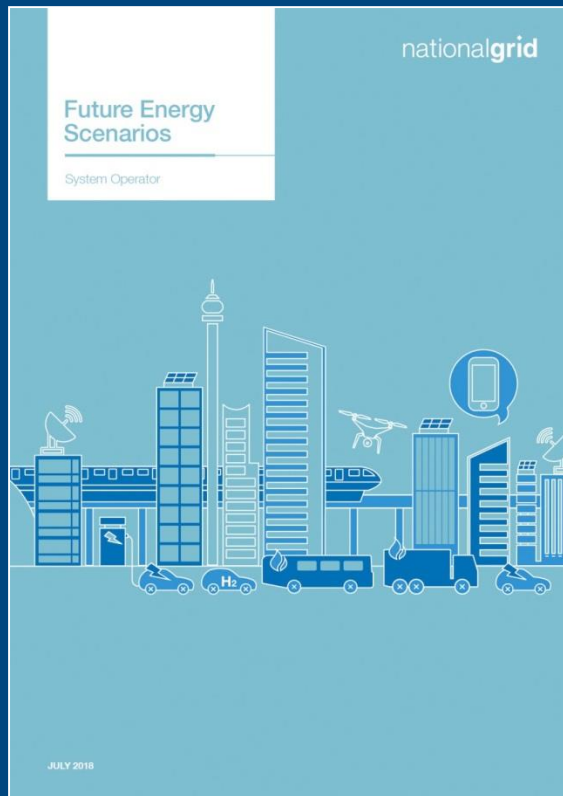


Strategy projects



FES & other SO publications

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Network Options Assessment



Winter Review and Consultation



Gas Ten Year Statement



Summer Outlook Report



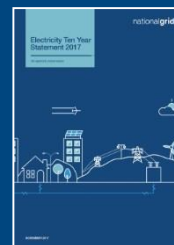
Winter Outlook Report



Gas Future Operability Planning



System Needs and Product Strategy

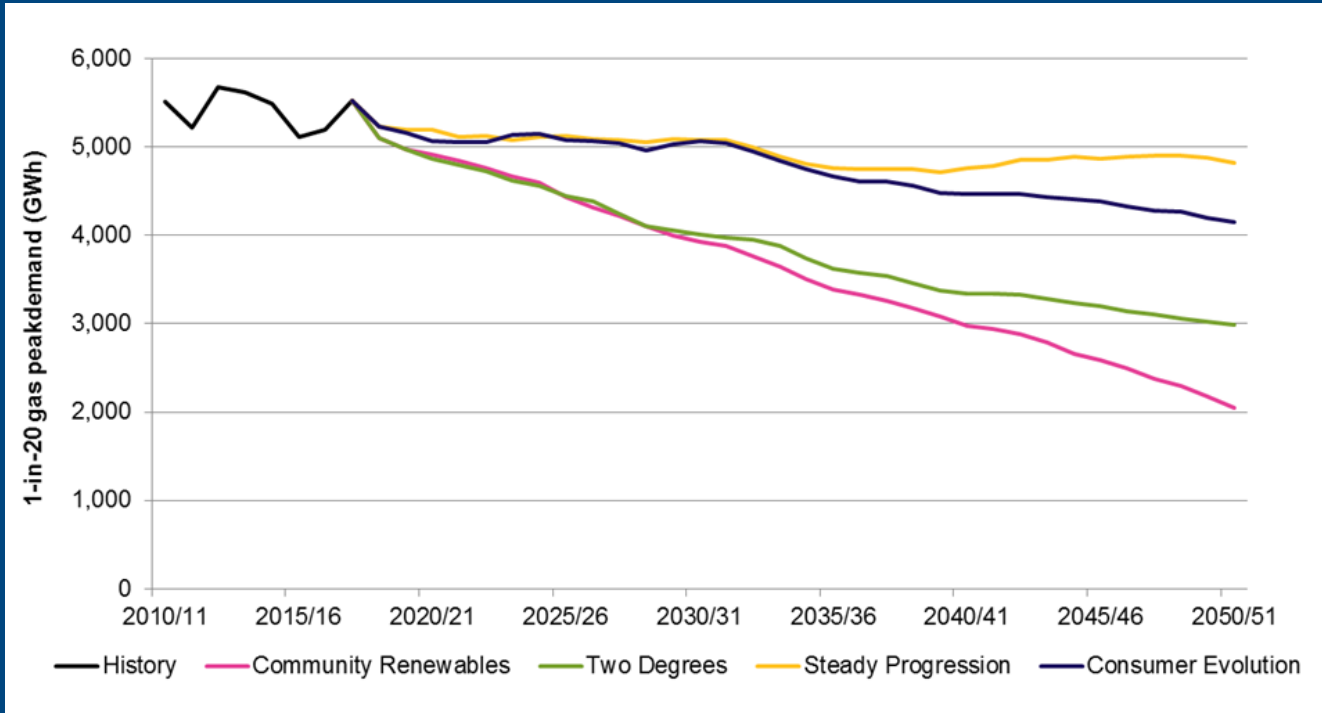


Electricity Ten Year Statement



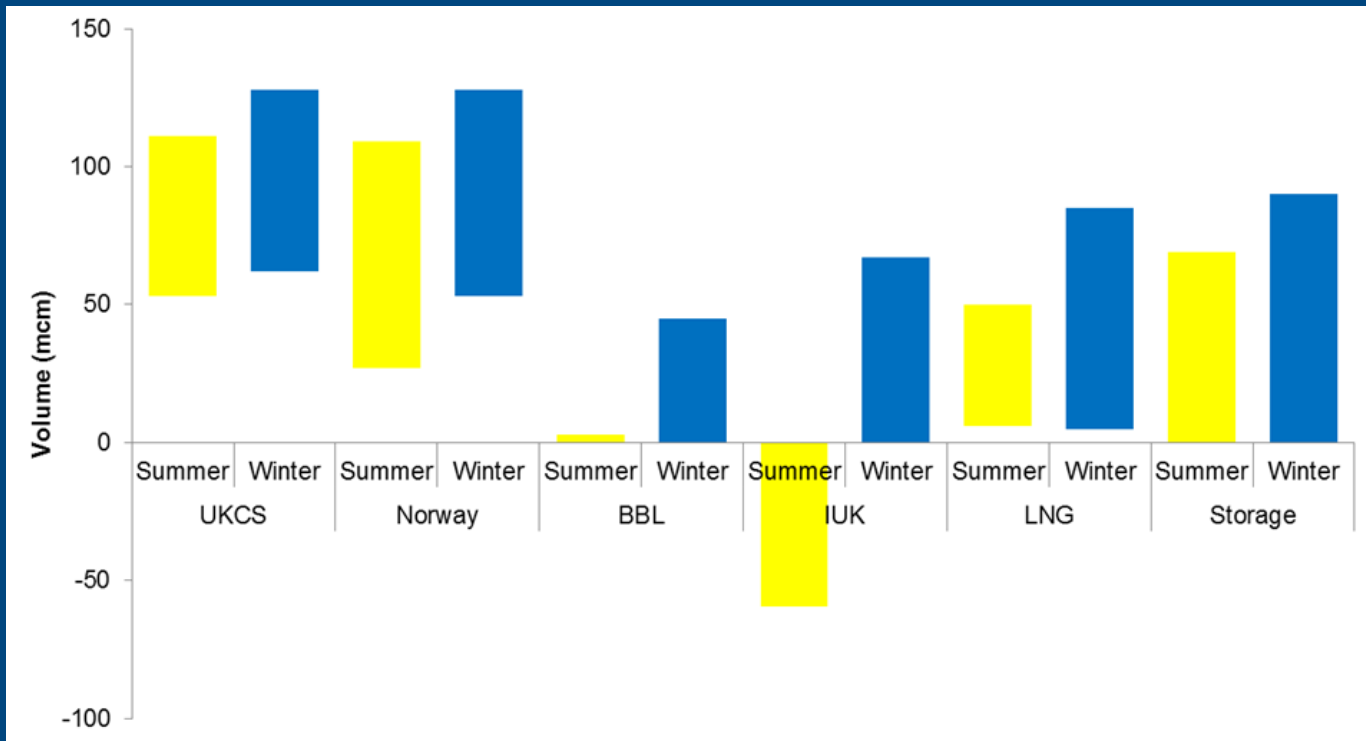
System Operability Framework

Gas 1-in-20 peak demand

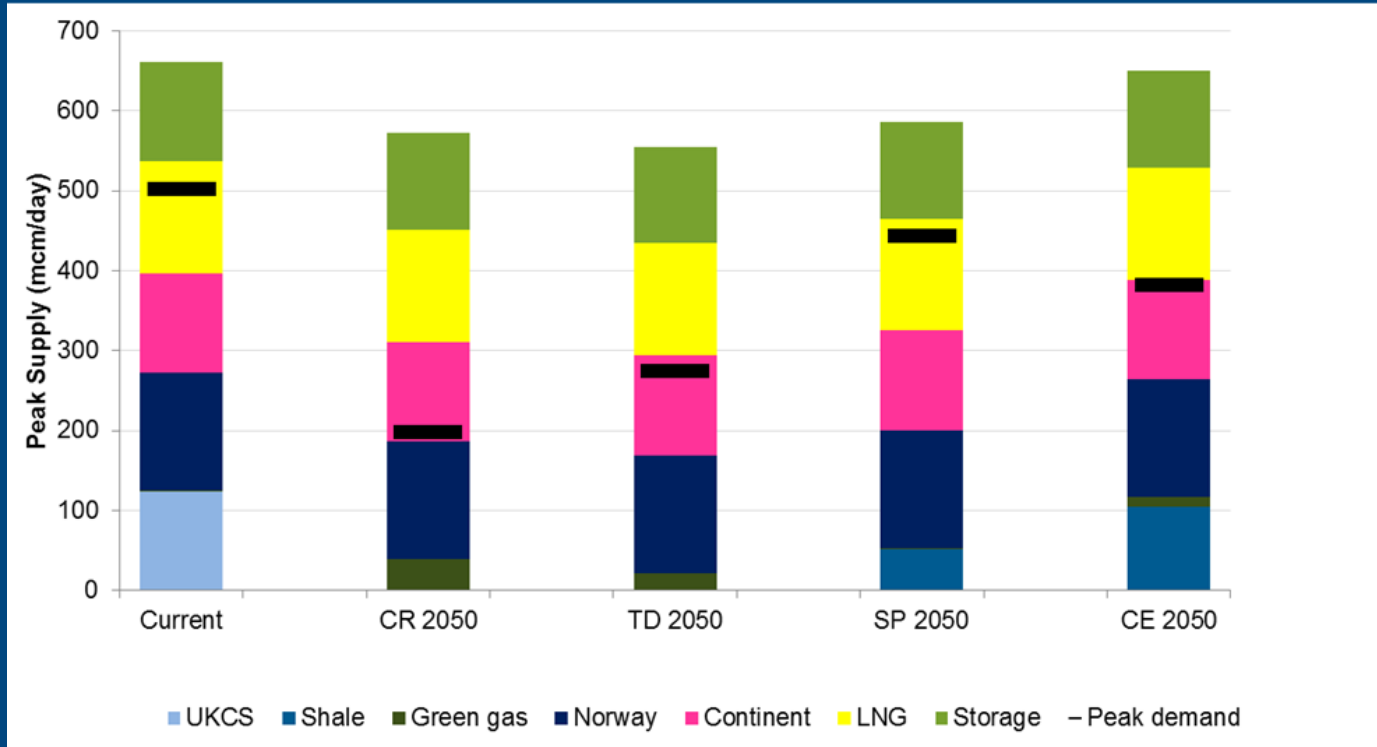


Range of daily gas supply volumes in winter and summer 2017-2018

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Peak supply summary 2050



CBA

Initial Thoughts

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CBA Success Factors

- CBA is widely used to assess the investment decisions for major infrastructure projects
 - CBA is a recognised investment appraisal technique used in circumstances when costs and benefits would include wider societal benefits
 - CBA therefore, is often used in appraising projects which have environmental, social or safety benefits which may span several generations
-
- A successful outcome would be:
 - A common methodology across gas and electricity which provides a consistent approach to non-monetised impacts (e.g. environmental and social impacts) using recognised quantification techniques
 - Clear criteria for defining which regulatory decisions are subject to a CBA, agreed in a timely manner with Ofgem
 - Consistency of inputs and assumptions facilitates transparent results which can be easily shared and understood by stakeholders, both in the submission build and for the duration of the price control
 - Provides stakeholders the data they need to evaluate and ratify our investment decisions

Arguments for and against an 'ED1' style approach

For	Against
Consistent with preferred Ofgem approach, with the potential for greater consistency across TOs	Current template may not support risk based / condition based asset replacement (as per CEPA assessment of ED1)
Simple Excel template that is easily navigated and understood by all stakeholders	Simplistic model doesn't adequately take into account whole system impacts
Provides a consistent approach with the UK Government's Green Book on investment appraisal	Lack of clarity around how the model links to the needs case and existing processes such as NOA
The model is available today and can be used in our stakeholder engagement now	No agreed criteria for demonstrating completeness of long and short lists of engineering options
Removes the time and capacity required to develop a new approach	No consensus on how sensitivity analysis should be performed
The benefits and limitations are well known (and recognised by Ofgem?) given independent CEPA review of ED1 process	
Provides consistency with ED1 and there is some opportunity to exploit knowledge/learnings from ED contacts	

Discussion topics:

1. Clarifying the linkage between needs case and CBA
2. Establishing selection criteria for which investments should be subject to a CBA:
 - Legislative (e.g. safety) or confidential (e.g. cyber security) requirement
 - Funded through a different mechanism (e.g. Incentive)
 - Materiality threshold
3. Agreeing approach to demonstrate all possible options have been identified and appropriately evaluated
 - Long list vs short list
4. Defining methodology for applying probability to outcomes

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