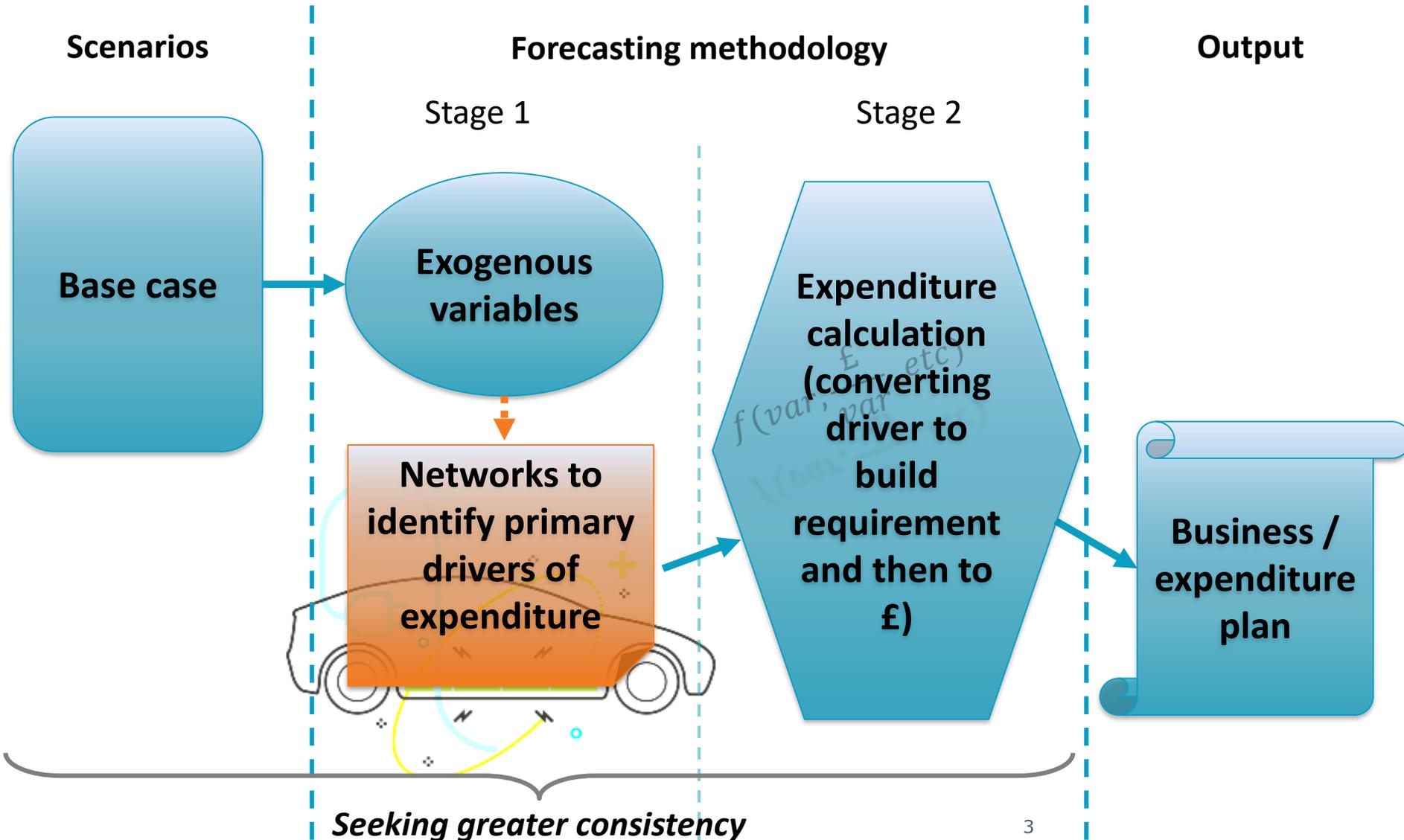


Scenarios and forecasting (RIIO-2)



- For a number of reasons, in RIIO-1 we dealt with 'best views' of scenarios and forecasts for each of the networks.
- In the interest of ensuring a cohesive GB-wide approach to S&F, we will be requiring a higher level of consistency in RIIO-2. A worked example of why we care about this consistency is in the annex.
- This consistency will improve:
 - coordination between networks and **whole system outcomes**,
 - broader **stakeholder engagement**,
 - interactions with the RIIO-2 **Challenge Group**, and
 - **smooth the process** of reaching a final determination with Ofgem

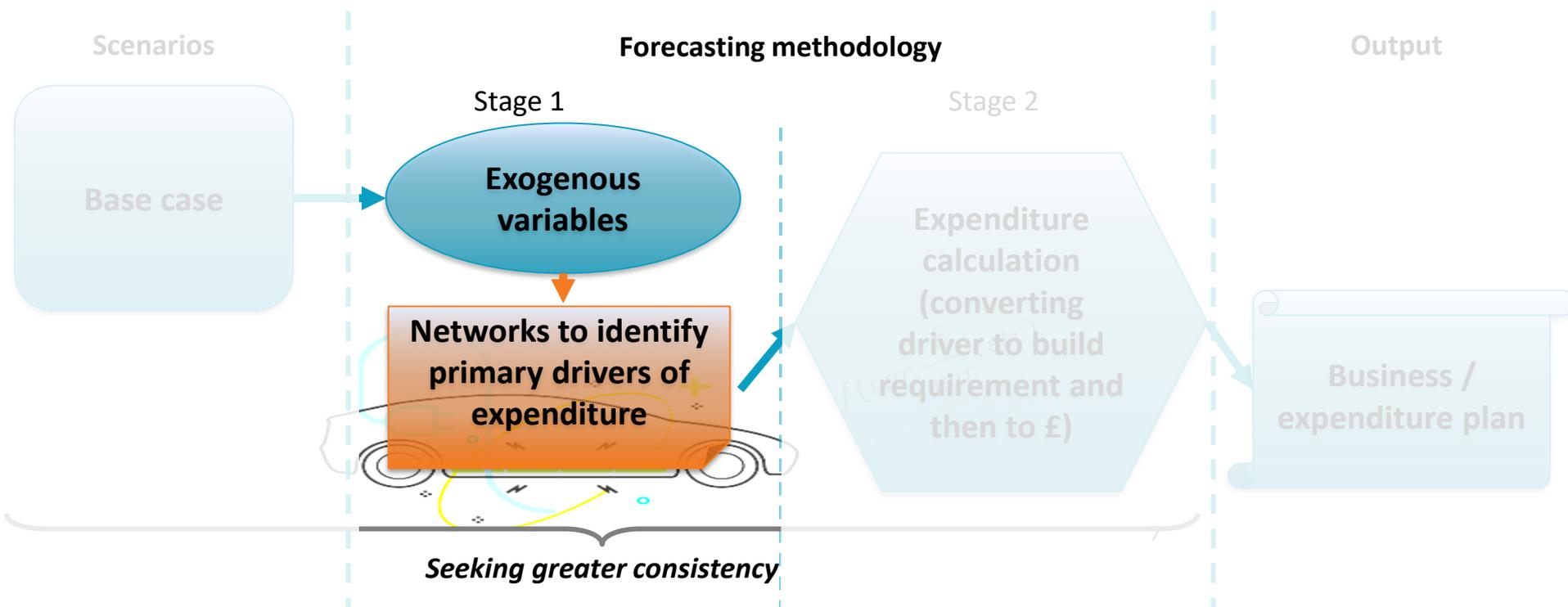


- At the highest level, we want to ensure we have a single core scenario across all sectors (gas and electricity)
- The depth of information that the core scenario deals with will depend on each sector, but will at least need to include:
 - General view of future energy system and transition path
 - Level of demand
 - Characteristics of demand
 - Major drivers of expenditure
- In the first instance we will prioritise consistency within gas and electricity, but we will expect gas and electricity companies to be eventually consistent

- Networks will be expected to use the core scenario in their business planning and expenditure proposals
- Networks are expected to work together to agree a core scenario. While Ofgem does not intend to dictate the core scenario, if a networks agreed core scenario is not viewed as being in the best interest of consumers, intervention may be required.
- Some level of regional variation may be allowed, but the scale of variation will require a proportionate amount of evidence to justify.

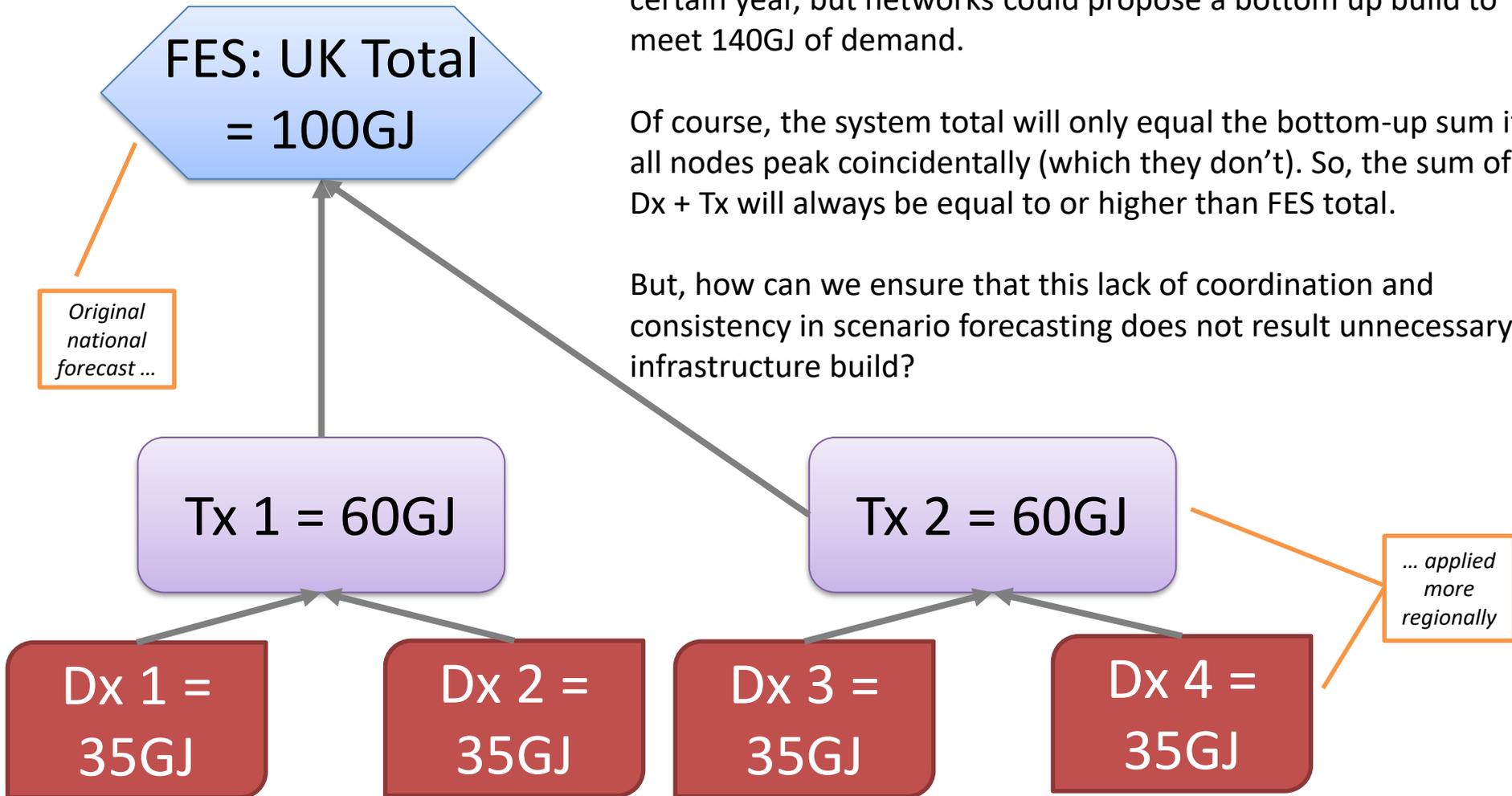
- October – within gas and within elec agreement
- November – broad agreement across gas and elec
- End-November – core scenario presented to RIIO-2 Challenge Group

- What do we mean by forecasting methodologies? The process of converting scenario outputs into expenditure drivers. For example, if the core scenario involved a high uptake of hydrogen networks, then the expenditure driver would be the hydrogen-related investments in a particular network's region.



- We want each company to identify the set of variables which have the largest impact upon their overall expenditure. We also expect networks to draw out policy implications (Access Reform, TCR, TMS, flexibility).
- Each network will need to make transparent the process by which these variables are translated from the scenario to their business planning and investment needs.
- The networks will determine the most impactful set of common variables across the sector and develop a consistent approach to converting these variables from the core scenario into their business planning needs.
 - NOTE: Numerous working groups (Cost Assessment Working Groups) will work through the process of converting these variables to expenditure.
- If required, a plenary session across gas and elec will be held.
- The forecasting methodologies will be presented to the RIIO-2 Challenge Group

- Timing: there is less immediate time pressure here; we will work with networks to determine the best path forward
- Where networks are unable to agree to consistent methodologies, this signals to Ofgem that there is less confidence in the forecasting of these variables, and therefore less likely to be included in baseline revenues. This incentivises networks to cooperate.
- Where networks are unable to agree to consistent methodologies, Ofgem retains the option to select methodologies for networks to use.



The FES might provide for an additional 100GJ of demand in a certain year, but networks could propose a bottom up build to meet 140GJ of demand.

Of course, the system total will only equal the bottom-up sum if all nodes peak coincidentally (which they don't). So, the sum of $Dx + Tx$ will always be equal to or higher than FES total.

But, how can we ensure that this lack of coordination and consistency in scenario forecasting does not result unnecessary infrastructure build?

This time for EVs, imagine the FES predicts an additional 100 EVs over the RIIO-2 period, the bottom up build could be 140 EVs.

While clustering is a genuine cost driver, and difficult to forecast, an incautious/uncoordinated approach to forecasting/scenarios can lead to unnecessary infrastructure investment.

