

Electricity Transmission Policy Working Group 5

From: Ofgem	Date: 08 November 2018	Location: Ofgem 10 South Colonnade Canary Wharf London E14 4PU
	Time: 10:00 – 15:25	

This document summarises discussions and actions from the Electricity Transmission Policy Working Group 5. 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

Review of Minutes and update on actions

- 1.1. One participant asked for an update on the RIIO-2 finance package. Ofgem explained that this would be covered in our consultation document and would be picked up at a later stage.
- 1.2. One comment was made on the WG4 minutes. One participant suggested that paragraph 28 be changed to say that metering on Embedded Generation would need to be done by the DNOs. This was noted by Ofgem.

2. Network Access Policy (NAP) – 10:30-11:10

- 2.1. Ofgem presented on the NAP, including feedback received from companies on the performance of the NAP in RIIO-1, and additional considerations to be taken into account when developing the approach for NAP in RIIO-2. Ofgem suggested this area may be more open in the consultation since it has not been covered much in the working groups and further input is sought from participants, including generators. Ofgem is considering retaining the NAP obligation for RIIO-2.
- 2.2. One participant queried the lack of additional financial incentive for additional reduction in constraint costs. Ofgem noted interactions with a parallel work-stream on whole systems. Another participant noted that the December methodology consultation should be carefully drafted to ensure that certain aspects aren't excluded (i.e. potential additional incentives e.g. around ESO/TO interactions).
- 2.3. Ofgem noted that currently, any measure of the success/ impact of the NAP is based on qualitative feedback. Ofgem would welcome views on the kind of metrics that could be put in place to monitor the impact of the NAP. One participant suggested that the existing requirements to report on system availability under standard licence condition C17 (system performance report) may be a good way to communicate to consumers in a transparent and accessible way.
- 2.4. The working group discussed whether the two NAPs could be consolidated for RIIO-2. One participant raised concerns about having one NAP for all TOs due to the large differences in the way TOs operate, in particular, SPT and SHE-T only have to

liaise with one DNO, whereas NGET TO will have to liaise with multiple DNOs. Another participant noted that SPT/SHE-T have to engage with more individual generators. One participant noted that the NAP aims to enhance collaboration, and therefore there are likely to be benefits to having one consolidated NAP in RIIO-2.

- 2.5. One participant suggested that on its own the NAP is useful but there is more that can be done to drive increased efficiencies, and that currently the ESO and TOs are being driven by conflicting incentives/ goals. There may therefore be a need to introduce a new mechanism designed to ensure incentives are aligned with a focus on benefits to the wider system. For example, some actions may increase costs for either the ESO or the TO, but lead to lower costs for consumers overall. One participant noted that to some extent this is already captured by the new STC procedure – STCP11-4¹. It was also noted that the latter procedure will enable TOs and the ESO to introduce long term plans, unlike the previous procedure (STCP11-3)² that was only addressing short term arrangements.
- 2.6. The working group discussed options for capturing wider stakeholder engagement beyond just ESO/TO. Some participants raised doubts about whether the NAP is the most suitable vehicle for third party engagement or whether this would be better captured through a stakeholder engagement incentive.

3. Energy Not Supplied - 11:10-11:50

- 3.1. Ofgem presented its views on some of the issues covered at the workings groups on ENS and the possible options for the methodology consultation in December. Ofgem stated that the consultation will remain quite open on the NAP.

Rewards and penalty vs. penalty-only

- 3.2. Ofgem asked participants to provide examples of the potential impact of removing the reward on behaviours, and noted that the question of reward/ penalty would likely remain quite open in the consultation.
- 3.3. Some participants said that specific mitigation actions are not costed; as they are embedded into operational tasks. Some participants felt that removing the reward side would not be beneficial for consumers, or reflect their value of ENS.
- 3.4. Some participants stated that ENS is not fully under the control of TOs. It is also influenced by features of the network. If the reward was to be removed, there is a risk that TOs would move to compliance only.
- 3.5. One participant pointed out that if a baseline target was set at 0MWh, regardless of whether the mechanism is penalty-only or reward and penalty, the marginal impact would be the same for TOs.
- 3.6. Participants mentioned that TOs have shown they can keep ENS at a low level, and that this should now be reflected in a new baseline and/ or should be reflected in BAU.
- 3.7. Ofgem asked participants for views on customer satisfaction with current level of reliability and whether there was a need to set targets to improve practices over

¹ Update as of January 2019: STCP11-4 approved and signed off to come into force from the 1st of April

² The code can be found here: <https://www.nationalgrideso.com/codes/system-operator-transmission-owner-code?code-documents>

time. Ofgem also asked participants if there were other potential methods for setting targets to capture improvements or reflect step changes in the management of reliability which could be considered.

Improvement factors

- 3.8. Some participants expressed that an annual improvement factor may not be as applicable to the transmission system, compared with the distribution system. Participants queried what TOs would do differently if an annual improvement factor was introduced.

Definition of exceptional/ excluded events

- 3.9. Participants discussed whether the definition for exceptional and excluded events should be amended. One participant suggested that for RIIO-2, the definition should place a stronger emphasis on excluded events on cyber security.

Accounting for embedded generation

- 3.10. Participants suggested it would be difficult to collect data on embedded generation and real time data to account to include embedded generation in the ENS incentive. Metering for embedded generation would impose costs on third parties (e.g. DNOs). Currently, there is currently no data collected on individual embedded generation.
- 3.11. Participants discussed the practicality of measuring ENS in CI/CML, rather than MWh. CI/CML data is currently collected by all DNOs. However, there may be some practical issues with collecting, and transferring this data between DNOs and the TOs. These issues may be easier to address in Scotland, as the TO/DNO model differs from that in England and Wales. In Scotland the TOs and DNOs sit under the same corporate entity, but in England and Wales National Grid TO is required to gather this information from six different DNOs holding 12 individual operating licences.
- 3.12. New data flows and processes may need to be established to account for this transfer of information.

4. Connections – 11:50 – 12:15

- 4.1. Ofgem presented feedback they had received from participants on the performance of the Timely Connections output in RIIO-1, and additional considerations to be taken in to account for developing the approach for RIIO-2. Ofgem is considering retaining the output in RIIO-2 as a penalty only. Ofgem is also considering extending the output to apply to NGET TO too.
- 4.2. The group also discussed interactions with the stakeholder satisfaction output (to capture the quality of the connections process).
- 4.3. The group also discussed the Electricity Distribution RIIO-1 incentive on Connections Engagement (ICE) and whether a similar mechanism could work for Electricity Transmission. Participants suggested that this approach would not be a good one and stated that transmission and distribution are very different in terms of number of connections (a smaller number of large connections).
- 4.4. Finally, the group discussed the importance of clearly identifying the different roles played by the ESO and TOs in this space.

LUNCH - 12:15-12:45

5. Forward looking incentives – 12:45- 13:15

(NGET TO)

- 5.1. NGET TO presented their ideas on forward looking incentives, summarising a number of suggested incentives in the areas of carbon, environmental, community, social values, sustainable procurement and, trust and legitimacy.
- 5.2. The sections on possible carbon and environmental incentives were further discussed later under the environmental outputs agenda item.

6. Whole System working– 13:15-13:30

- 6.1. NGET TO presented on whole system thinking including a strawman for a constraint impact incentive.
- 6.2. Discussion centred around how to determine the optimal solution for managing constraints between the ESO and the TOs. It was noted that a similar scheme already operates in Australia and could provide a precedent/model. One participant stated that constraint costs are increasing annually, and likely to do so significantly.
- 6.3. One participant asked what is stopping the ESO from paying the TO to reduce constraint impacts from outages, and whether there is a better way to modify the way in which network outputs are delivered to manage constraints. Another participant stated that there could be a conflict given the current mechanisms.
- 6.4. The group discussed potential competing priorities. Some participants noted that that because ESO/ TO are driven by different incentives, there is a risk that an optimal solution will not be achieved and the ESO does not have enough advanced visibility of where constraint costs are likely to arise
- 6.5. Participants noted that currently data is not available to determine what constraint costs are the result of specific outages, and that the intention of the proposed incentive is not to develop a perfect incentive but to drive action in the right direction.
- 6.6. On participant suggested that TOs need to build into BP submissions information on constraint costs and what the TOs can do in this space. TOs need to jointly agree and recognise areas they can make joint propositions where they can influence constraints.
- 6.7. Ofgem presented an update on potential approaches to whole system, including a set of potential mechanisms which could capture whole system benefits. Ofgem stated they do not intend to implement every or any mechanism they are consulting on, instead focusing on a cohesive package in the interests of consumers. They also stated they are not expecting to close anything off at this early stage and work will be ongoing after the December consultation. They reiterated that it is very important that everything that goes in the price control is benefiting present and future consumers in the long term, and that the costs of new mechanisms need to be proportionate to their potential benefits.
- 6.8. Ofgem discussed the possibility of using a business plan incentive to reward solid evidence and strong metrics supporting a company's approach to unlocking whole system benefits for their consumers. In regards to further consultation following

the December consultation, Ofgem would expect they only need to go back out for further consultation if completely new ideas come up that aren't covered in the broad themes of the consultation.

- 6.9. Participants stated they want greater visibility of the whole system outputs. Ofgem agreed to continue consulting with networks and stakeholders in the lead up to the December consultation publication.
- 6.10. Some participants mentioned that they would like to see additional incentives to encourage a reduction of constraint costs and that these may sit well with potential whole system mechanisms. The working group discussed the importance of ensuring additional incentives are not placed on activities that should be business as usual. And as a corollary, activities which exceed business as usual practices, and which benefit consumers, should be facilitated and incentivised through the price control. For example, TOs may identify early while preparing their BPs the potential to carry out work in a way that would be more expensive but will result in an obvious reduction in constraint costs (and lower overall supply costs to consumers) – such behaviour should be encouraged.
- 6.11. Participants highlighted the complexity of proving the direct link between TO activity and reduction of constraint costs. The working group discussed the need for transparency and full understanding of the impact of TOs activity on constraint costs if an incentive will be put in place.

7. Stakeholder Satisfaction Output – 13:30 – 14:10

- 7.1. Ofgem presented feedback they had received from companies on the performance of the Stakeholder satisfaction output in RIIO-1, and a proposed approach for RIIO-2. Following the ESO separation in RIIO-1, Ofgem is considering streamlining the incentive structure so it is the same for all TOs in RIIO-2.
- 7.2. Ofgem presented the options for modifying the incentive metrics, noting that there is a question of consistency across sector and differences should only occur where it is appropriate and justified. There is a need to be able to articulate how the incentive is set, how the money is determined, and how to set baselines/recalibrate baselines.
- 7.3. The working group discussed the survey details, in particular options for using the User Groups to provide guidance on who should be surveyed throughout the price control. Some stakeholders questioned whether Ofgem has concerns around who is currently being surveyed and whether Ofgem believes the balance is right. Ofgem responded that the proposal to use a User Group to suggest who should be surveyed is to provide assurance that the surveys are being undertaken using best practice and covering a representative User Group. Participants also highlighted that the external assurance component should indicate this best practice.
- 7.4. The working group discussed separation connection stakeholders from other wider stakeholder group, and with two separate surveys under the SSO. Participants asked for clarity on the definition of what stakeholders would constitute connections stakeholders. Participants also indicated that the overlap between the ESO and TO in the connections process, and that the role that the TO plays would need to be highlighted up front in the survey structure.
- 7.5. Ofgem proposed an option to remove the financial weighting of the KPIs, but maintain them as reportable metrics. Some participants were supportive this

proposal and agree that they should be maintained because of the contribution they have in providing key identifiable and relatable metrics to their participants.

- 7.6. Participants discussed proposal to remove the financial weighting of the external assurance and to maintain this component as a licence obligation with most participants supportive of this approach.

8. Environmental Outputs - 14:10-14:50

- 8.1. Ofgem presented a more detailed view of the framework options it is considering for setting network environmental outputs and price control deliverables in RIIO-2.
- 8.2. One participant questioned whether the environmental action plan and PCDs limited flexibility for TOs to deal with change in RIIO-2. They suggested the considered approach is very input based, and noted they would prefer it to be outcome based for flexibility. It was noted that this would be considered for inclusion in the methodology consultation document in December.
- 8.3. Ofgem presented its considerations for the SF₆ incentive and the possible options it is considering for the methodology consultation in December.
- 8.4. One participant stated a strong signal to the market is needed and asked the TOs what they as an industry are doing at a high level to communicate their expectations, with the supply chain, for developing SF₆ alternatives. It was noted that the TOs are having discussions regularly and are trying to make it clear there is a market for alternatives. There was a call for TOs to set up a joint group on SF₆ to discuss what is feasible and ensure: consistent messaging to suppliers; collaboration on technical issues; share learning; and set up a market for alternatives.
- 8.5. In WG4, TOs were asked to consider what they may be able to do in the ODI for additional contribution to LCT. Some proposals were brought forward including collaboratively developing and implementing a roadmap to reduce SF₆ in transmission, and work on capturing embedded carbon through the supply chain, such as developing a strategy for what a zero carbon network might look like.
- 8.6. National Grid TO presented its views on forward looking environmental incentives, summarising possible carbon, environmental, and community incentives, including purpose and potential metrics for measurement.
- 8.7. Metrics for SF₆, embedded carbon, BCF, Losses, cable leaks, and natural capital, were discussed, as well as the idea of legitimacy for the community. Regarding SF₆, the idea of incentivising insulation and interruption gases, rather than SF₆ was raised to ensure alternatives are captured.
- 8.8. One participant queried Ofgem's definition of sustainability. It was noted to date the focus has been more on direct environmental impacts, but community aspects are covered as part of the group and are done as a core business requirement.
- 8.9. One participant suggested that local community satisfaction could be captured, but this would be more appropriate under the stakeholder incentive. It was also noted that some aspects of community legitimacy are already reported by the Scottish TOs under the SSO KPIs, which NGET TO does not have at the moment.

9. Losses – 14:50 – 15:15

- 9.1. It was agreed that due to time constraints, further discussion on losses was not required ahead of the sector methodology consultation in December.

10. Close and AOB – 15:15

- 10.1. It was agreed that a future working group would be held in late January.
- 10.2. A general invitation was made for working group participants to get in touch if they had additional thoughts or views on the content of Ofgem's presentations covered at the fifth working group.
- 10.3. It was requested that we further discuss the whole systems approach and have a more focussed discussion on what this means for ET specifically.
- 10.4. It was noted that participants are keen to see the development of the incentives and the package and participants are keen to engage on how the incentive development takes shape

Appendix 1 – Summary of Actions

Action	Allocated to	Due date
<p>NGET TO/SO to find out what the cost distribution for each outage is in relation to constraint costs – (slide 30) is it spread equally over each outage, or is it from a couple of large/high cost outages.</p>		
<p>Ofgem to provide update on the potential whole system mechanisms proposed for consultation following board decision on what will be included.</p>		
<p>Ofgem to follow up with NGET TO and discuss how difficult retrieving CI/CML data would be.</p>	Ofgem	WG6
<p>Ofgem to check with ED whether annual improvement factor includes performance of previous year</p>	Ofgem	WG6

Appendix 2 – Working Group List

Attendee	Organisation
Jon Ashley	National Grid TO
Ljubo Mitrasevic	National Grid TO
Alan Kelly	SP Transmission
Shirley Robertson	SHE Transmission
Fraser Nicolson	SHE Transmission
Gregory Edwards	Centrica
Leigh Rafferty (by phone)	Scottish Government
James Kerr	Citizens Advice
David Bowman	System Operator
Judith Ward	Sustainability First
Niall Cave	BEIS
Yonna Vitanova	Renewable UK
Ben Pirie (by phone)	Ofgem
Aoife Clifford	Ofgem
Anna Kulhavy	Ofgem
James Tyrrell	Ofgem
Eilidh Alexander	Ofgem
Keren Maschler	Ofgem
Stephanie Gallo Mendoza	Ofgem
Cissie Liu	Ofgem
Dale Winch	Ofgem
Clothilde Cantegreil	Ofgem
Niall McDonald (by phone)	Ofgem
Zak Rich	Ofgem
Alex Skinner	Ofgem