



Forward Work Programme 2019-20
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Dear Ofgem,

Forward Work Programme 2019-20

We at National Grid Gas and National Grid Electricity Transmission (the transmission owner function following separation of the ESO) welcome the annual opportunity to comment on your forward work programme. The document helps us understand your priorities and the expected timing of developments so that we can be prepared with our thinking and inputs. This response is not confidential.

2. Enabling future markets and systems for future consumers

b) Working with innovators and stakeholders to develop sustainable energy solutions and systems for future consumers

We welcome the joint working of Ofgem with other regulators and Government to support the decarbonisation of heat and transport. From discussions with our customers and stakeholders we have heard how important it is to consider wider effects and new related objectives, for example addressing air pollution and the effectiveness of the wider transport system. Given this, it would be very helpful if the forward work programme could highlight where and how Ofgem will obtain additional policy guidance for effective participation in these areas that are outside its core and established responsibilities.

We agree with the stated objectives for regulation relating to these areas; of enabling innovation, providing certainty to encourage investment and fair cost allocation. In our discussions with the electric vehicle sector we have heard the case for near-term strategic investments, including network infrastructure for charging, to enable the growth of EV use required if Government's mission for all cars and vans to be effectively zero emissions by 2040 is to be achieved. As such investments are often not easily attributable to specific parties prior to the market becoming established, 'fair cost allocation' will need careful consideration in the wider policy context if necessary system changes are to be accommodated.

c) Developing improved network access, charging, system operation and wholesale market arrangements to enable efficient future energy markets

We agree with the requirement for all network and system operators to work together to facilitate whole system coordination. There are many new opportunities arising from new communication and control technologies to enhance network access by matching use with the characteristics of existing network assets and extending performance envelopes beyond those currently used by network operators. To harness these opportunities requires suitable regulation of network owners including preservation in RIIO-2 of meaningful incentives with upsides that justify designing and trialling new techniques.

3. Network preparedness and performance

We agree with the planned focus on how the changing nature of the energy system affects the services that need to be provided by network operators. An important aspect is how existing and new network facilities can be used differently to meet emerging needs, for example, by retrofitting new monitoring technology and harnessing new data insights so that more useable capability and flexibility can be delivered. During such change, it is important to avoid a lock-in to current practices and equipment performance envelopes. To this end, the RIIO framework with innovation facilitating incentives to address emerging customer needs for network outputs is robust and provides regulators with regular options to react to new information and needs in price control resets. Long-term equipment specific arrangements such as CATOs, SPVs or CPM provide owners and operators with much less scope to consider wider needs and provide very limited options for changes to the initial service specifications. We suggest there are important policy learnings, such as those related to use of PFIs, which should be captured to ensure expected consumer benefits from these arrangements are robust.

For our licensed networks, we look forward to working with Ofgem on preparing the RIIO-2 price control such that it ensures consumers immediately benefit from current best-practice and are also best placed to get further benefits from our ongoing drive and investment in our businesses to achieve still better performance in the future. We understand that this activity demands significant resources within Ofgem which we trust will be dedicated. For our part, we aim to contribute our plans, evidence on current best-practice and information about the prospects for different future outcomes in as accessible form as possible. As RIIO-2 will inevitably cover many activities that are currently in-progress, it is also important that regulatory activities associated with facilitating the remainder and closeout of RIIO-T1 are also adequately resourced.

Yours faithfully,

Chris Bennett

Director, UK Regulation