

Electricity Transmission Policy Working Group 6 Minutes

From: Ofgem	Date: 06 February 2019	Location: etc. Venues County Hall Riverside Building Belvedere Road London SE1 7PB
	Time: 10:00 – 15:25	

This document summarises discussions of the Electricity Transmission Policy Working Group 6 and any follow-up actions. This document focuses on capturing the main issues and themes raised in discussion.

All minutes and notes were recorded in accordance with the Terms of Reference for workshops and Chatham House rules, meaning comments are non-attributable. For the presentation material, please refer to the accompanying working group slides.

Please note that this discussion took place after the publication of the December consultation¹ and therefore the discussion only covered the policy as set out in that document.

1. Welcome and Housekeeping - 10:00-10:10

2. Discussion and initial thoughts on the consultation document – 10:10-11:30

The working group discussed their initial thoughts on the December consultation document and Ofgem proposals set out therein.

Cross-sector proposals:

- A number of participants suggested that the overall package (taking financial parameters and incentives together) was too low, and also expressed concerns about the proposed allowed vs expected returns distinction.
- Participants requested further discussion on the Blended Sharing Factor.
- The working group discussed the whole system proposals with a number of participants suggesting that the definition of whole system needed to be clear as to what this included, to ensure that incentives don't curtail developments outside of Electricity Transmission.

ET proposals:

- Some participants highlighted that the incentive framework was tilted towards penalty over reward. It was noted that this may drive the behaviour of TOs to be more compliance-focused and less risk-driven.
- There was broad agreement in the working group that additional clarity was needed on the potential direction of the incentives, so that these could be accurately modelled. The group also agreed that so far the proposed incentives largely matched what was discussed with stakeholders at previous working groups.
- One participant suggested that the proposals should be more forward-focused, to take into account the need for increased flexibility within the energy market in the future. Ofgem noted that there is a need to ensure that the whole range of proposals is kept open for the future but that flexibility is also taken into account.
- The working group further discussed the outputs and incentive proposals, with some suggesting that these appeared to be less focused on outputs and more on inputs (for

¹ https://www.ofgem.gov.uk/system/files/docs/2018/12/rriio-et2_sector_methodology.pdf

example, in the environmental space). Ofgem noted the need for data inputs to provide important information.

- One participant expressed the view that the number of outputs should be higher, and that they intended to propose a number of bespoke ODIs.
- One participant emphasised that baselining is essential for incentives to function. However, they are concerned that changes to incentives such as the SSO and Connections will require new baselines, which could result in aspects of these incentives being switched off for a time, in order to provide a new baseline. Ofgem noted this and suggested they will look to avoid this where possible.

Enhanced engagement:

- There was broad agreement within the group, that there should be more consideration about the role of the User Groups in monitoring TO performance, as these have provided value. Ensuring their independence is also key.

2.1. The incentive package as a whole

- [SHE-T presented](#) on their early thoughts on the consultation and the overall incentive package.

ET proposals:

- The group discussed and clarified the total potential value of the costs outputs and incentives presented in RIIO-ET1 vs RIIO ET2, in particular for the Environmental Discretionary Reward.
- One participant noted the importance of Ofgem considering the short term vs long term impacts of the incentive package. For example, if costs are reduced, savings are passed on to consumers in the short term, but long term this can drive an increase in costs for consumers if TOs are not incentivised to make improvements.

Innovation

- Participants also discussed innovation and how this is currently funded and impacts performance.

BPI and enhanced engagement:

- One participant noted concerns about the proposed Business Plan incentives vs bespoke incentives, highlighting there can be confusion over whether collaboration or competition is expected.
- Another participant noted the importance of the TOs' User Groups in the RIIO-ET2 process. They also noted that the groups needed to know what detail there is on the outputs and business plan data tables, in order to be effective.

2.2. Relative and dynamic targets

- One participant asked for clarification on how dynamic targets would work in practice, and how often these would be set. Ofgem noted that needs to be decided and would depend on the incentive. However, the target/process for setting targets would be made clear ahead of time.
- Participants discussed dynamic targets, with most suggesting that setting targets are a good thing. However, one participant noted a risk that incentives are made more complex with dynamic moving targets. Another participant noted that this reduces the attractiveness of exceeding targets, as it potentially makes later targets harder to achieve. This could drive unintended behaviour.

2.3. Assessment of the price control package

- It was agreed that this section did not need to be specifically covered due to overlap with earlier discussions.

3. Whole System outcomes - 11:30-12:20

3.1. Whole systems proposals - Ofgem

- Ofgem presented the six potential Whole System mechanisms and the main feedback from the Whole System working group on 5th February 2019.
- The group discussed the Business Plan Incentive with some participants noting that this mechanism was likely to have the biggest consumer benefit, but may limit the scope of what is defined as whole system, or push competition over collaboration.
- One participant suggested there needs to be a high level common and consistent whole system framework in order to make the most of the mechanisms.
- Another participant highlighted the positives to the coordinated reopener proposal contained in the December consultation document, noting that an absence of such a mechanism was potentially a barrier in RIIO-1. However clarification is needed on how this may work in practice, and ensuring we limit this as much as possible to reduce the unnecessary administrative work.

3.2. Whole system presentation - National Grid ESO

- [NGET ESO presented](#) its views on the Ofgem Whole System proposals noting a number of areas where whole system improvements could be implemented.
- The ESO also noted that it has published a paper on Whole System outcomes recently.
- The group discussed the barriers to the ESO supporting TO investment plans and how a joined up framework could help this.

4. Competition – 13:00 –13:45

4.1. Introduction to competition - Ofgem

- Ofgem gave an overview of its proposals and policy thinking on competition in the next price control. This included an overview of the difference between Early, Late and Native competition.
- Ofgem noted that the native competition best practice principles were not simply about ensuring that totex works are tendered out but that networks ensure the long-term interest of consumers is taken into account in tendering designs and processes.
- The working group discussed the proposals with some noting that incorporating new competition processes may be difficult to add to the TOs' Business Plans in the current timeframes.
- One participant suggested that Ofgem should be the body to run competitions to make sure they are run without conflict of interest.
- Another participant noted that extended competition will make whole system planning more complex, due to more (and less experienced) third parties involved. These parties will need to liaise with ESO, DNO and TOs to ensure all organisations' priorities are taken into account.

4.2. Competition presentation - SPT

- [SPT presented](#) their early thoughts on Ofgem's competition proposals and the differences between the early, late and native competition models, as well as a number of existing potential opportunities.

4.3. Competition presentation - NGET

- [NGET presented](#) their early thoughts on Ofgem's competition proposals, highlighting the differences between the different models of competition, and what this means for them.
- The group discussed the different models and noted running an early or very early model gives more potential for innovation and consumer benefit, but late competition models provide more certainty to bidders, with positives and negatives for the different approaches.

5. Large Capital Investment Projects – Ofgem – 13:50- 14:15

- Ofgem explained the rationale behind this proposed policy and the need to ensure successful and timely delivery of large capital investment projects.
- To minimise the impact delays to these projects have on consumers, Ofgem described the proposals being consulted on to ensure that companies do not benefit from delay and/ or poor quality delivery and to ensure that consumer detriment is minimised and/ or shared with TOs.
- The group discussed the proposals and highlighted the importance of the principle of sharing risks with consumers when projects are delayed while outlining that the design of this penalty and the application of it was critical. A number of participants noted that they were not in favour of a penalty reflective of constraint costs, adding that this liability would likely drive higher insurance costs (with a knock-on effect on financing). This could result in higher bid-in costs by TOs to counter this risk and therefore potentially have an adverse effect of higher costs to consumer. Participants also noted that these proposals had not been discussed prior to consultation.

6. Environment – 14.15 – 14.40 (Group Discussion)

- Ofgem gave an overview of the environmental output proposals and noted that there will likely be an additional information request to TOs ahead of RIIO-ET2 around SF₆, to help inform Ofgem's understanding in this area.
- One participant sought clarity on what was intended to be covered through ODIs vs. price control deliverables. Ofgem noted that generally, bespoke ODIs would be for smaller non-capital activities for which Ofgem may not have a clear view of costs.
- Ofgem highlighted that it expects companies to show how they will help reduce carbon emissions (as well as other environmental impacts) in line with the Government's environmental targets. This would likely capture price control deliverables and is about demonstrating how companies are committed to the environment, through work they are already doing.
- One participant made the point that it is important to have clarity on what is defined as an ODI or PCD, before May, or it will be difficult to input into July's Business Plan submission.
- One participant also noted that it could be difficult to set bespoke ODIs on the low carbon transition. Ofgem noted the importance of ensuring that there isn't double funding.
- Another participant noted that they are positive about the proposed environmental methodology for Electricity Transmission and highlighted how this is suitable for whole system thinking, if applied across the other sectors.
- Some participants noted that there needs to be more information on how the Business Plan Incentive will interact with the environmental outputs.
- In addition, one participant noted that Ofgem needs to clarify how the methodologies link to the future ESO role, whole system and other areas, and ensure that the same message is consistent across the different sector decision documents.
- **Action – Ofgem to liaise with the group on how these can be taken into account.**
- **Action – Ofgem to clarify on the interactions between the Business Plan incentive and Business Plan submissions.**

7. Close and AOB – 14:40

7.1. Next Steps

- The group discussed if there was the need for another working group.
- **Action - Stakeholders to feed back by Wednesday 13th February on the appetite for this and any potential topics for discussion.**

Appendix 1 – Summary of Actions

Action	Allocated to	Due date
To liaise with the group on what is covered within ODIs or Business Plans for the Environmental Output.	Ofgem	March 2019
To provide clarity on the interactions between the Business Plan Incentive and Business Plan submissions.	Ofgem	March 2019
Group to feedback on appetite for another working group and potential topics	Group	13 th February 2019

Appendix 2 – Working Group List

Attendee	Organisation
David Bowman	National Grid ESO
Jonathan Ashley	National Grid
Jenny Mills	National Grid
Ljubo Mitrasevic	National Grid
Niall Cave	BEIS
Alan Kelly	Scottish Power
Martin Hill	Scottish Power
Jill Price	Scottish Power
Ron Loveland	Welsh Gov
Fraser Nicolson	SHE/ SSE
Lois Paton	SHE/SSE
Judith Ward	Sustainability First
James Kerr	Citizen's advice
Mike Hemsley	The CCC
Yonna Vitanova	Renewable UK
Gregory Edwards	Centrica
Zak Rich	Ofgem
Tim Wood	Ofgem
Keren Maschler	Ofgem
Fraser Glen	Ofgem
Dale Winch	Ofgem
Sarah Barry	Ofgem
Diana Deju	Ofgem
Aoife Clifford	Ofgem
Alex Fong	Ofgem
James Tyrrell	Ofgem (phone)
Eilidh Alexander	Ofgem (phone)
Cissie Lui	Ofgem (phone)
Ben Pirie	Ofgem (phone)