Minutes

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Electricity Transmission Policy Working Group 8: Energy Not Supplied V.2

From: Ofgem	Date: 22 July 2019 Time: 13:00 – 16:00	Location: Boardroom 1 Ofgem 32 Albion St, Glasgow G1 1LH

This document summarises discussions of the Electricity Transmission Policy Working Group 8 on Energy Not Supplied (ENS) 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, except for the presentations made to the group. For the presentation material, please refer to the accompanying working group slides.

1. Welcome and introduction – 13:00-13:15

2. Baseline Target Setting - 13:15-14:00

2.0 Ofgem recapped the decisions on ENS in the May 2019 Sector-Specific Methodology Decision document and noted the upcoming decisions.

ENS Incentive RIIO-T2 (John Wilson, National Grid Electricity Transmission (NGET))

2.1 NGET gave a presentation on its proposals for baseline-setting for RIIO-ET2, and how to account for embedded generation (EG). NGET showed that its ENS performance has been improving, however it is difficult to attribute this improvement to specific actions they have taken.

2.2 NGET presented two methodologies for baseline-setting. The first would roll over the methodology used in RIIO-ET1. This would result in lower baseline targets as it would take into account improved ENS performance during RIIO-ET1 to date. This methodology would use long-term data, around 28 years.

2.3 The second methodology would weight performance, for example, 50% on 20-year data, 30% on 10-year data, 20% on 5-year data, in order to reflect high impact low probability (HILP) events, and also to reflect recent improved performance. There are challenges to this statistical methodology as there may be duplication of time frame, and it would also not account for randomness of events.

2.4 NGET discussed how it has engaged and tested its methodologies with its stakeholders and User Group.

2.5 One stakeholder pointed out that historic values of ENS would not be useful in setting the baseline if Ofgem decides to include EG in future baseline-setting, as past performance does not include EG. Ofgem acknowledged that this would need to be considered in setting the baseline if EG is to be taken into account.

2.6 A stakeholder asked whether there are mechanisms or licence conditions in place that protect TOs from ENS events outside their control. Ofgem noted that the licence contains a definition of an 'Exceptional Event', and a process whereby a TO can submit an application to Ofgem for an ENS event to be designated an Exceptional Event and the related ENS be excluded from the ENS incentive.

2.7 Ofgem sought clarification on how big the dataset of ENS events is. NGET clarified that the dataset includes around 80 data points over a 20-year period.

2.8 Ofgem pointed out that further consideration around weighting would be needed, if this option is preferred.

2.9 NGET presented on a proposed methodology for accounting for EG. This methodology would collect "Week 24" data from the Electricity System Operator (ESO), which has been submitted by Distribution Network Operators (DNOs).

2.10 This data consists of EG capacity connected to Grid Supply Points (GSPs). The methodology proposes uplifting T2 performance and baselines based on a percentage of EG capacity on NGET's network. NGET further explained that it could use bundling (e.g. geographical or seasonal) to determine a reflective percentage.

2.11 NGET acknowledged that this methodology, although simple, may not the most accurate. The working group discussed balancing accuracy with the administrative burden of accounting for small amounts of EG.

2.12 One stakeholder raised a concern around the quality of data being provided by DNOs and how this may affect reporting and targets for TOs. It is important to ensure that any reporting from DNOs is consistent.

2.13 One stakeholder agreed that this was a reasonable approach, and noted that assumptions of EG on the system would need to be taken into account as there is not yet an accurate way to measure all EG on the transmission system.

2.14 Ofgem sought clarity from NGET on whether it has looked into process required to get information from DNOs. NGET confirmed it has not, however raised the point that the engagement and information sharing between DNOs and ESO is more consist than between DNOs and TOs, as it falls within the Grid Code. It is unclear what the process is for ensuring the accuracy of this data.

2.15 One stakeholder noted that a specific framework for obtaining this information may need to be put in place.

Baseline Target-setting (Cissie Liu - Manager, Electricity Transmission)

2.16 Ofgem presented on its proposals and policy principles for setting baseline targets.

2.17 One stakeholder noted that the risk and reward consideration behind the ENS incentive refers to the risk the TOs carry to operate the system reliably, whilst any reward from the ENS incentive offsets any cost incurred building contingencies (e.g. offline builds). The stakeholder noted that it is important to balance network risk and minimise disruption to consumers from ENS events. Minimising the potential reward available through the incentive would not allow the TOs to justify spending for contingency purposes.

2.18 Two stakeholders pointed out that the network risk may be higher in the future than in the past, as TOs will have to take decisions to reduce security of supply, to modernise the network and connect new generators. Baseline targets should take this into account.

2.19 One stakeholder pointed out that if reliance on electricity is increasing, there may be more appetite to invest more to reduce network risk. They suggested that they will be consulting with larger demand customers to better understand their value of reliability.

2.20 Ofgem asked why the TOs shouldn't be as exposed to penalties as they are to benefits. Ofgem also pointed out that TOs should have learned from past experience to better deal with risk in the future.

2.21 One stakeholder suggested that the net reward and net investment of the price control package as a whole should be considered.

2.22 Ofgem sought clarification on whether contingency measures were already funded within allowed revenues. One stakeholder explained that some of it is, however projects can change during the price control with the result that new contingencies may be needed, funding for which was not sought at the beginning of the price control.

2.23 Another stakeholder explained that some network solutions, such as an offline build, are only undertaken in order to reduce ENS.

2.24 One stakeholder noted that significant investment is required in order to earn a reward under the incentive. If baselines are tightened and the available reward and penalty are negligible, then the policy intent behind the incentive would be neutralised. Ofgem needs to appropriately calibrate the incentive properties in order to drive the right type of behaviour.

2.25 Ofgem noted that should TOs include and justify contingency measures in their Engineering Justification Papers submitted as part of their Business Plans, detailing how they are in the interest of consumers and demonstrate best value. Ofgem also noted that the definition of 'Exceptional Events' already adequately covers low probability, high impact events which are outside the control of TOs. Ofgem further stated that as ENS performance has decreased to historically low levels.

2.26 One stakeholder noted that due to nature of the network, contingency solutions can oftentimes be limited.

3. Embedded Generation – 14:00 –15:10

Accounting for Embedded Generation (Cissie Liu - Manager, Electricity Transmission)

3.0 Ofgem presented policy principles for accounting for EG within the ENS incentive. Ofgem also presented an option on how to account for EG using half-hourly metering data collected by Electralink. This would require TOs to investigate sites/routes affected by a transmission fault, and report on the duration and time the fault took place.

3.1 There was broad agreement that this half-hourly data method is one method of accurately reflecting EG on the system, and it would allow for consistency of reporting across the TOs. There was also broad agreement that the administrative burden of collecting EG data below 30MW could outweigh the benefits of doing so, and therefore that 30MW should be the minimum capacity.

Energy Not Supplied Incentive and Embedded Generation (Alan Kelly, Scottish Power)

3.2 SPT presented on its proposal for accounting for EG, why reporting Customer Interruptions/Customer Minutes Lost is a more reflective measure of how transmission faults affect the distribution network, and also a bespoke proposal in relation to ENS.

3.3 SPT explained that this new proposal would allow it to associate costs incurred with mitigation actions taken, in order to be more transparent to stakeholders. SPT recognised that this proposal is bespoke to its network.

3.4 The bespoke proposal would be a targeted ring fenced funding approach, which would be a "use it or lose it" mechanism (similar to a volume driver). The amount that could be claimed would be capped (similar to the mechanism provided for system outages in Special Condition 8B). In principle, the proposal would function similar to STCP 11.3 and 11.4, where TOs are compensated for reducing constraint costs.

3.5 Ofgem clarified that in past working groups, stakeholders have indicated that it is difficult to allocate benefits to exact contingency actions taken. Ofgem also pointed

out that without benchmarks it may be difficult to justify whether the costs incurred are efficient.

3.6 One stakeholder pointed out that with this proposal, there would be no risk on the TOs, as there are no penalties. SPT explained that there would be no penalty or reward, but this method is a more proportionate method to account for network risk.

3.7 Ofgem asked for clarification on whether this proposal would apply only to outages, and whether other contingency measures would be included. One stakeholder explained that network risk relates primarily to outages.

3.8 SPT explained that they recognise many contingencies are business-as-usual, however this new funding proposal would cover non-BAU scenarios.

3.9 Another stakeholder suggested the following would need to be considered: how the lack of penalty would affect consumers and stakeholders; how to differentiate between BAU works and non-BAU works; and, what behaviours this would change or drive.

3.10 One stakeholder noted that at its current level of 3% this penalty is really reflective of network companies long term network design and asset management performance. Isolating this penalty from the ENS incentive is appropriate as ENS is targeting shorter term reliability in support of network.

3.11 SPT recognised that the funding proposal as presented does not include a penalty, but agrees it should be developed as part of an overall network reliability framework. An overall penalty could therefore be included along with the funding approach proposed.

3.12 Ofgem reminded stakeholders it is not assessing draft business plans at this stage, and in order for proposals to be considered, they would need to be submitted in Final Business Plans.

4. Willingness to Pay Study – 15:10- 15:55

Willingness to Pay (Sara McGonigle, SHE Transmission)

4.0 SHE Transmission presented on the Willingness to Pay study that was jointly commissioned by the TOs. It emphasised that this study is a small part of the wider stakeholder engagement it has been undertaking.

4.1 SHE Transmission explained the methodology, and how it tested attributes with User Groups. It explained that the study is grounded in reality, and the sample population was informed of the effect of improving services had on their bills. SHE Transmission recognised that values were high, but are not far off other studies that have been undertaken. Conservative figures were used.

4.2 SHE Transmission reminded the group that this study was not a Value of Lost Load (VoLL) study.

4.3 Ofgem asked if there were any milestones in terms of how the results would be considered or used. SHE Transmission stated that it will present the results to its User Group and to Citizen's Advice in October/September. It will consider if and how to use study figures, and if the study has accomplished what it set out to do.

4.4 SHE Transmission offered a more in-depth presentation and analysis to Ofgem if there is appetite.

4.5 Ofgem asked what measures the study had in place to take into account complex issues that study participants may not be aware of. SHE Transmission elaborated that it provided participants with descriptions and videos of what TOs do, what services entails, and explained the trade-offs between bill impact and technical service improvements.

4.6 A stakeholder confirmed that the TOs would take an aligned approach in considering and implementing (if applicable) the study results.

Action: Ofgem to consider and revert on SHE Transmission's offer of an in-depth presentation on the Willingness to Pay study.

5. Close and AOB – 15:55

5.0 Ofgem explained that the VoLL value will consulted on at Draft Determination stage, and that it will continue to review more recent VoLL studies. It also explained that further work will also be done on the working assumption of the 3% cap on penalties.

5.1 One stakeholder noted that Ofgem needs to think about the incentive package as a whole and the overall risk to TOs before considering the value of the cap.

6. Appendix – Attendee List

Name	**Company**
Cissie Liu	Ofgem
Alan Kelly	Scottish Power
Milorad Dobrijevic	Scottish Power
Sara McGonigle	SHE Transmission
Neil Sandison	SHE Transmission
Laura Hutton	Ofgem
Phone	
Niall McDonald	Ofgem
Aoife Clifford	Ofgem
David Manson	SHE Transmission
Richard Druce	NERA Economic Consulting (on behalf of SHE Transmission)
Anna Kulhavy	Ofgem
John Wilson	National Grid ET