National Grid Gas Transmission Stakeholder Engagement Consultation

There are a number of areas where our stakeholders have asked us for further explanation, or we would like to discuss a topic in more depth with stakeholders in order to be able to develop our business plans. We would welcome your thoughts on the questions listed below.

We request that you provide your answers by **5pm on Friday 18th November**. Responses received by this time will be taken account of in our business plan development. When responding can you please provide us with your name, contact details, the name of the organisation you represent and whether your response is confidential.

We have scheduled a workshop for 10th and 11th November, where we will be discussing the topics surrounding the questions below. We would be pleased to welcome you at this workshop where you will have the opportunity to discuss the topics below with National Grid staff, in order to aid your responses to these questions.

If you have any queries please email talkingnetworkstransmission@uk.ngrid.com or call Graham Frankland on 01926 653667 or Claire Spedding on 01926 655915.

Responder's Details

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Is your response confidential? No

Business Plans

Q1. Did you find our business plan documentation easy to navigate?

A summary (see Q4) that signposted the relevant details in the other documents would have helped navigation.

Q2. Did you find the content contained within our documentation easy to understand?

Generally the content was cohesive and well explained. The supporting annexes provided more detail where required and "The Future of Energy" annex was helpful in setting out National Grid's view of the plans' context. The plan focused on the "outputs" and "revenue" parts of RIIO, but there was little on "incentives" or "innovation".

Q3. What did you particularly like/dislike about the presentation of our plans?

The level of transparency was a step change from the previous price control process. The plans read as though they are a decision document rather than setting out a strategy to deliver a least regret or no regret plan. The use of the Gone Green generation and demand scenario as the electricity baseline drives significant supporting investment on the NTS. We believe that there are other, credible scenarios that would deliver the 2020 targets and that there should be further debate around the baseline scenario and, therefore, any consequential impact on NTS investment.

Q4. What improvements could be made in terms of content, structure or format?

To the extent that it is practicable, a summary that sat between the "Headlines" and the "Overview" documents and contained a bullet point list with some descriptive narrative setting out what National Grid was planning to spend, where, when and why. This would allow a reader to quickly understand the business plan.

The move to an outputs-based framework necessarily means that it is difficult to identify a direct linkage between investments and outputs. Where investments deliver more than one output this should be highlighted to avoid double-counting.

For instance, it is not clear how IED-related expenditure on compressors impacts network flexibility/resilience. Some sensitivity of the input assumptions in the context of a Gone Green outcome would have helped in the justification of some of the specific transmission investment cases.

Q5. In terms of the business plans themselves did we represent your views and previous feedback correctly? And do you think we have incorporated it into our plans correctly?

It appears that National Grid has reflected stakeholder views, although it would be useful to understand reasons why some views/options were rejected. A good example of reflecting stakeholder views is the additional work and analysis undertaken to help demonstrate the need to improve network resilience (flexibility).

Managing risk and uncertainty

Q6. Do you agree that uncertainty mechanisms should be employed to adjust allowed revenues where the associated costs are uncertain and outside of our control? If not, what other mechanisms do you consider could be appropriate?

The eight year RIIO price control will be set against the background of a significantly changing energy sector over the next decade. This makes it difficult to be precise, ex ante, about the outputs and demand for services that the networks will be required to deliver and the revenue necessary to fund them. Given this we agree, in principle, that uncertainty mechanism should be employed. However, key will be agreeing the baseline outputs that the uncertainty mechanisms will flex then around. The extent of the financial impact where outturn diverges from the scenario needs to be better explained.

We recognise that much of the planned expenditure is on incremental capacity provided in response to user signals rather than funded as an ex ante allowance. An alternative mechanism would be one such as TIRG or TII in electricity where additional funding is provided outside the main price control and is based on a demonstrable needs case. Such an approach does add more complexity into what is an already complex framework but considering the sums of new planned

investments, complexity alone should not be cited as a reason not to pursue alternative approaches which can deliver a lower cost option.

Q7. Do you believe that the range of the uncertainty mechanisms proposed is appropriate?

We agree that the set of uncertainty mechanisms proposed is appropriate given the range of risks faced but it is not completely clear what the range of costs may be given some of the uncertainties facing the industry.

Charging

Q8. Are predictability and transparency your key concerns in relation to charging? Why?

We have long argued the case for predictable and transparent transportation charges as it is important for suppliers setting tariffs to include accurate forecasts of future charges. Given anticipated future volatility of charges driven by the introduction of incentives around delivery of a range of primary outputs, efficiency incentives and uncertainty mechanisms, ensuring stability of charges (perhaps within a range) is likely to become important.

Q9. Changes to tariffs can be caused through changes to the methodology that dictates how tariffs are calculated, changes to the inputs to that methodology and new products being offered. Which of these factors are of most concern to you?

As a shipper/supplier that needs to forecast these tariffs, it is important that we understand the derivation of charges and all the factors listed will feed into the level of charges. Investment in new capacity will alter the allowed revenues and therefore the level of charges year on year. The Transportation Model is very sensitive to input assumptions about flows on and off the NTS. Transparent assumptions and a stable methodology and model are required.

Q10. Charges are made up of a residual element, changes to which alter the charges all customers pay, and a locational element, changes to which change the

relative signals between customers. The predictability of which of these elements is most important to you and why?

Both the residual and locational elements combine to produce the overall charge that allow the TO to recover its allowed revenue, so both are important. On the assumption that locational charges will be capacity based, these are relatively predictable in the medium term, as National Grid publishes its Transportation Model. We accept that as flows change on the NTS, the relative costs of the entry and exit points may change. There is a long-running debate about the predictability of residual (commodity) charges as they are driven not only by SO costs but also by the under/over recovery of TO charges in capacity auctions. Each of these components is uncertain and it is important to understand their derivation.

Q11. Can we do more to help you understand and predict NTS charges?

We believe that with the TCMF and availability of the Transportation Model, National Grid currently provides a good understanding of the charges. Whether this framework needs to be enhanced under RIIO will be determined by the additional complexity and volatility that arises.

Q12. Do you have any suggestions as to how we can improve predictability/transparency?

There is clearly a linkage between charging predictability and revenue predictability. National Grid may need to provide more frequent updates of its revenue recovery against allowed revenue, together with any changes to revenues that may lead to a mid-year tariff change.

Q13. Changes to the SO related costs can be caused by the cost of services required by the system operator or the number of those services required. How well are the SO related costs communicated to you?

SO related costs are generally made available and in particular those costs that are covered by the SO incentive scheme. It is more difficult for us to judge the requirement for expenditure associated with the broader market facilitation activities.

Q14. Our current understanding is that funding for the provision of incremental capacity will be provided via the TO control and therefore will be subject to the RIIO principles relating to fast/slow money. What impact does this have on you?

We are still trying to fully understand the impact of fast and slow money. As a concept, it moves away from the principle established in earlier price controls of recovering capital expenditure over the asset life and equitably between current and future users of those assets. Treating a percentage of capital expenditure as operating expenditure to be recovered in a formula year will increase within and between year price volatility which will be difficult for system users to manage.

Network Flexibility

Q15. Do you agree or disagree that we should retain the investments in our plan that relate to supplies in Scotland?

We agree, as these appear to be investments to meet statutory requirements.

Q16. Do you agree or disagree with our proposal that for all other network flexibility investments we continue to do the initial low cost development work, to keep the investment option open. However, with a strong recognition that actual significant investment would only take place if our analysis/ further stakeholder discussion demonstrated that it was the right option (given the range of other rules and tools that might be considered?)

We agree to continue with the initial development work and, in parallel, consider the appropriate balance between the commercial framework, commercial tools and investment options required to deliver any future flexibility requirements. Visibility of the cost of this initial development work is required.

Q17. Do you agree or disagree that our uncertainty mechanisms should provide the industry with sufficient comfort that investment will only go ahead if it has truly been shown to be the best option for UK plc., whilst also enabling options to be kept open at this time?

Our understanding is that these investments will allow National Grid to better utilise existing NTS assets rather than providing additional capability. As such, the key will be how to agree that the uncertainty mechanism will be triggered in the absence of a formal, incremental signal. A suitable proxy for this signal therefore needs to be determined in order to provide "sufficient comfort that investment will only go ahead if it has truly been shown to be the best option for UK plc".

Q18. How should we take the topics of wind intermittency and developing the 1 in 20 planning obligation forward as an industry?

Determination of the proxy, together with wind intermittency and developing the 1 in 20 planning obligation should be taken forward as a separate industry workstream. The workstream needs to align with work being undertaken on managing intermittency on the electricity network.

Connections and Capacity Processes

Q19. What is most important to you – having capacity available in defined timescales or having a physically firm product?

Our real concern is the additional timescales introduced by the Planning Act 2008 and we broadly agree with National Grid's estimate of 7 years. Assuming that these timescales are unlikely to be amended, the issue for us to manage is the time between having a connection to the NTS and non-firm access and physically firm access following reinforcement. At this stage, we support National Grid developing a hybrid firm/non-firm product, subject to detailed development of constraint management options.

Q20. Do you agree that the development of a suitable connections process (such as UNC Modification 373) should be prioritised ahead of address the capacity process?

We agree as this represents a necessary first step in improving the governance of the connection process.

Q21. What is your preference for taking these discussions forward for future development? Through a transmission workstream group, an alternative or new industry group, or via another route?

Probably a sub-group of the transmission workgroup as there will need to be input from engineering/project development experts and commercial framework experts.

System Operator (SO) and Transmission Operator (TO) Interaction

Q22. Do you believe there is sufficient depth and long term certainty in the provision of commercial services to negate the need for large-scale physical reinforcements of the network?

It will depend on which commercial services are required. Experience with OM tenders has shown that there may also be locational restrictions. We are planning to undertake significant generation investments on the NTS and would prefer National Grid to deliver levels of network services that are no worse than currently levels.

Q23. Commercial solutions have the potential to create volatility charges, whereas investment solutions allow greater certainty. To what extent should these be taken into account in deciding on the optimal solution?

There will be a balance between commercial and investment solutions that should be considered on a case by case basis. We support National Grid continuing to develop commercial options.

Q24. Should we consider investment to mitigate environmental impacts beyond that which is required by legislation?

National Grid should be funded to comply with the relevant legislation and no more.

Q25. Should network security (including 1 in 20 obligations) be met through physical/asset solutions only, or should we consider greater risk through SO/commercial solutions?

We understand that the equalisation of incentives in the totex approach under RIIO will remove the current skew towards capex under TPCR4. Where commercial options are considered the benefit needs to be demonstrated and the balance of risks between parties made transparent.

SO Incentives

Electricity procurement for compressors

Q26. Would in-house trading of the electricity Shrinkage requirement be appropriate for National Grid Gas, as Gas System Operator, to consider as a means to procuring Shrinkage electricity for the RIIO-T1 period?

Given the proposed growth in the electric compressor fleet, it is worth considering how National Grid procures electricity. There are safeguards in place to restrict National Grid's gas purchasing activity and, in principle, similar arrangements could be established for its electricity purchasing.

Gas Balancing

Q27. What is driving these increasing levels of imbalance?

We have no comment.

Maintenance

Q28. Do you consider that a maintenance incentive would have value? If so, what behaviours should any incentive drive?

There may be value, but it is unclear how you would design a suitable incentive structure. Initiatives to improve communications between parties have been beneficial. Ideally, any incentive should reduce the incidence of last minute changes.

Future Engagement

Q29. What have you liked about our Talking Networks engagement?

The facilitated workshops have worked well, especially as National Grid has brought forward specific proposals based, in part, on stakeholder feedback. This has built

confidence in the consultation process. There has been a good mix of stakeholders at the workshops and a reasonable level of debate.

Q30. What could we have done better?

Stage 1 workshops suffered as both National Grid and its stakeholders were a bit unclear about how the process would work. Also, the sessions where a bit unfocused in that stakeholders were requested to give views about what we wanted from RIIO, without much detail on what was actually realistic.

Q31. What do you like / dislike about the day-to-day stakeholder engagement activities we carry out? For example, the SO Incentives consultation, new transmission route consultations. What else could we do?

In general, National Grid manages day to day stakeholder engagement to a good standard. There are industry meetings and formal consultations as well as bilateral meetings if required.

Q32. How would your organisation like to be consulted in the future?

We are happy with retaining the current points of communication / contact with National Grid.