

Welcome to the webinar on Ofgem's RIIO-2 draft determination for our business plan

22 July 2020

- Thank you for joining us
- We will be starting at 11:32
- Please put your phone on mute



Tony
Nixon



Carole
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Charon
Balrey



Before we start...



This webinar should last approximately one hour



All callers will be placed on mute



You can message us via the webex chat function and we will take Q&A at the end of the presentation.

Agenda



1. Overview of the RIIO-2 process



2. A reminder of our RIIO-2 business plan



3. Ofgem's draft determination (DD) for NGGT



4. The impact of draft determination on stakeholder priorities



5. Next steps and questions

Where are we now?

- **Draft determination published just over a week ago.**
- **We are working through the data and developing our arguments to respond showing why the draft determination does not deliver for consumers; and why it endangers delivery of the green recovery**
- **This is our early view on key areas of consideration which we wanted to share with our stakeholders to help you understand any implications on you and your business.**
- **Keen to further discuss any key areas for you in one to one discussions and provide any further information or support.**

1. Overview of the RIIO-2 process



RIIO-2 timeline

RIIO is Ofgem's process for setting outputs and funding for energy network companies (Revenue= Incentives + Innovation + Outputs)

Activity	Date
Gas Transmission business plan submitted	9 December 2019
Independent User Group report published	19 December 2019
RIIO-2 Challenge Group report published	24 January 2020
Draft determination published	9 July 2020
Draft determination consultation closes	4 September 2020
Open meetings	October 2020
Final Determination	December 2020
RIIO-2 starts	1 April 2021

Ofgem have published their draft determination for RIIO-2

On 9th July Ofgem published their draft determination on the RIIO-2 business plans.

The determination comprised the following documents for us:

- 1. Cross sector – core document**
- 2. Gas Transmission – sector document**
- 3. National Grid Gas Transmission – company document**
- 4. Technical annexes**

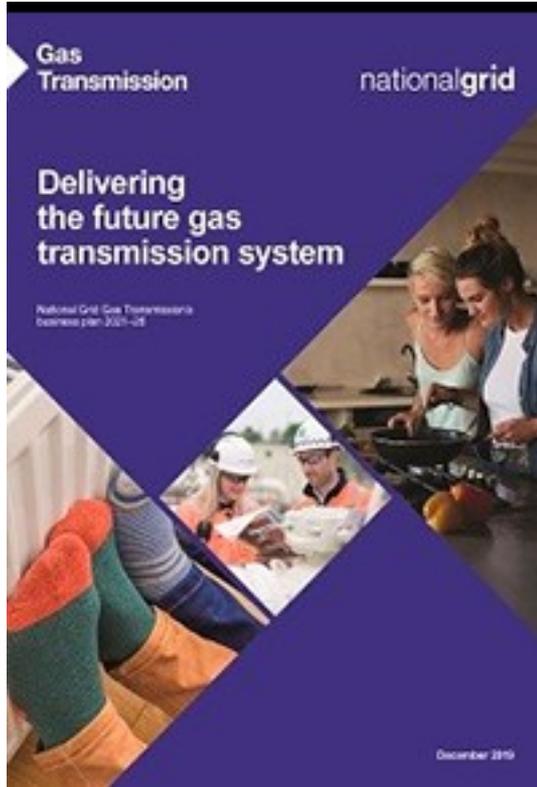
The draft determination is a critical step to ensuring the gas transmission system continues to deliver what you need today and into the future.

We encourage you to get involved with this consultation to ensure your voice is heard. The consultation is open for an 8 week period closing on 4 September 2020.

2. A reminder of our RIIO-2 business plan



We developed our plan with you



Thank you for your help in developing this plan.

3. Ofgem's draft determination for NGGT



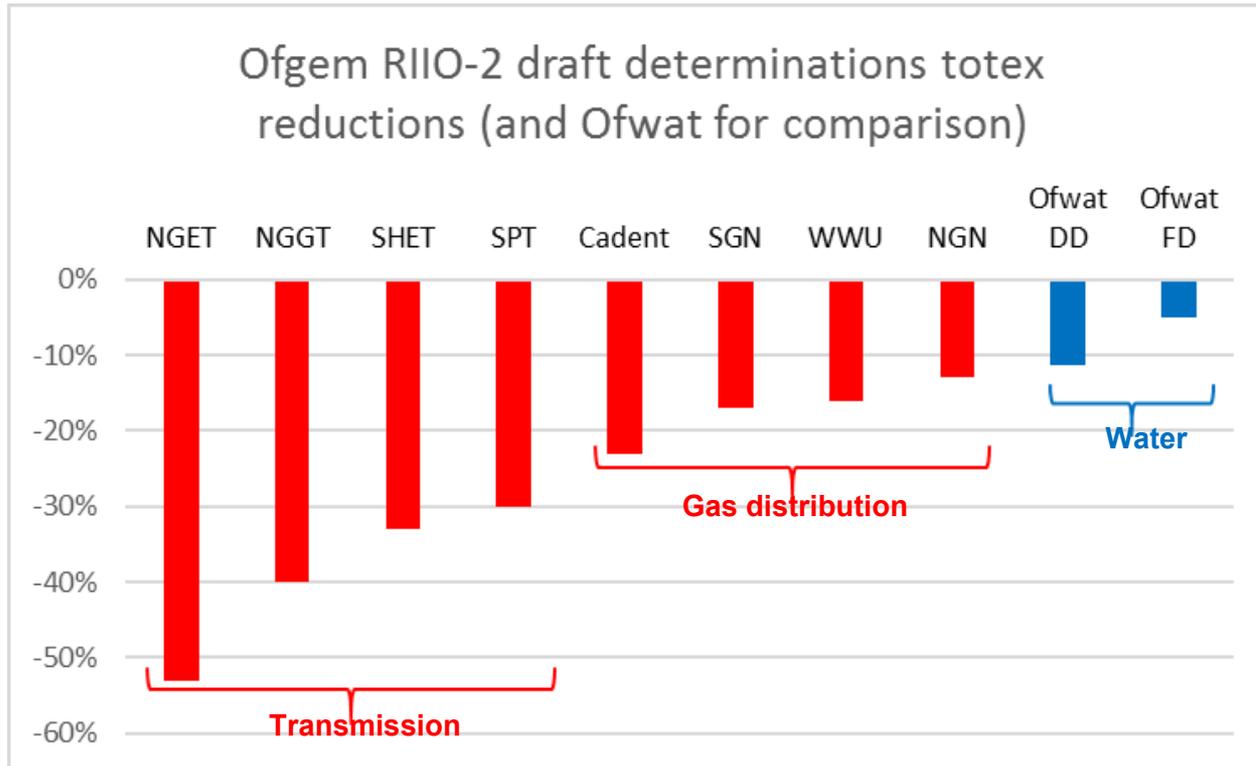
Ofgem's draft determination announcement

Network companies' returns nearly halved, Ofgem states 'unprecedented value for money' for consumers. £20 average drop in network charges per household bill. Upfront funding of £25bn with potential for additional £10bn or more so energy networks can deliver more clean energy for consumers.

- **Green Recovery:** network companies to come forward with additional ideas on bringing forward investment plans in the current price control
- **'Unprecedented' value for consumers:** allowed rate of return saves consumers £3.3bn
- **Greener energy:** Mechanisms to flex allowances to meet net zero investment needs, with large pots of 're-opener' funding available. £630m set aside for green innovation, with capacity for more if needed
- **Safe and resilient network, better service:** £6bn funding to maintain, replace and repair network assets (including physical security, IT and cyber-security upgrades)

Ofgem's proposed totex reductions

(from companies' business plan proposals)



Our initial reactions to the draft determination

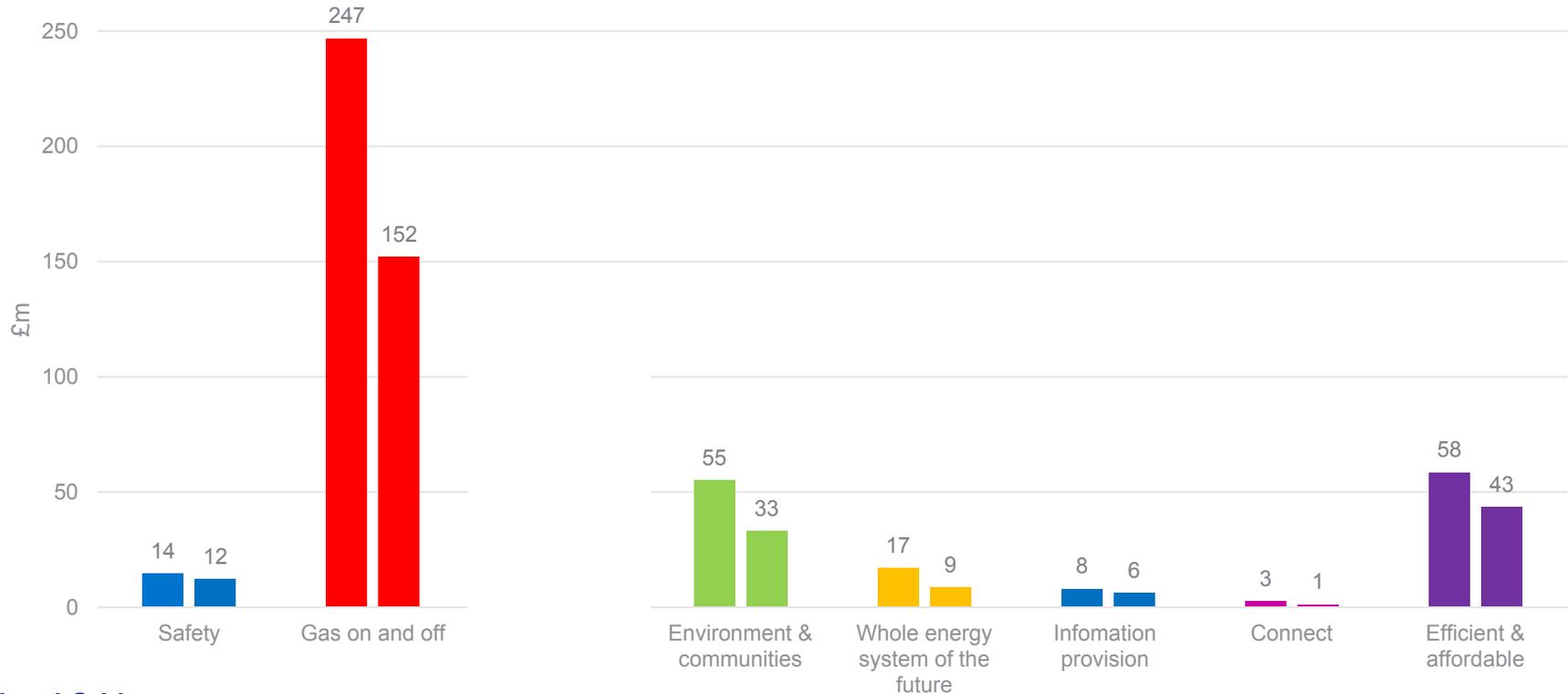
- We are extremely disappointed with the draft determination
- The proposal leaves us concerned as to our ability to deliver resilient and reliable networks, and jeopardises the delivery of the energy transition
- Eight-week consultation period underway and we will be stating the case for changes to be made including stakeholder support
- We'll be pressing Ofgem to come forward with a regulatory framework that both incentivises investment and protects consumers

National Grid Gas Transmission headlines

- **Totex allowances:** 40% reduced in totex baseline from £2.6bn to £1.6bn
- **Efficiency:** 13% reduction in costs including a 1.2% ongoing capex efficiency challenge and 1.4% opex efficiency challenge
- **Uncertainty Mechanisms:** 20% of baseline moved to uncertainty mechanisms to fund works when scope and costs are clear
- As a result of Ofgem's proposed actions for National Grid Gas Transmission results in reductions of around **0.95%** in gas transmission network charges in RIIO-2. This could reduce the average annual household bill by around **9 pence** per year.

Ofgem draft determination impact on stakeholder priorities

Stakeholder priority - December business plan vs Ofgem Draft Determination
baseline costs

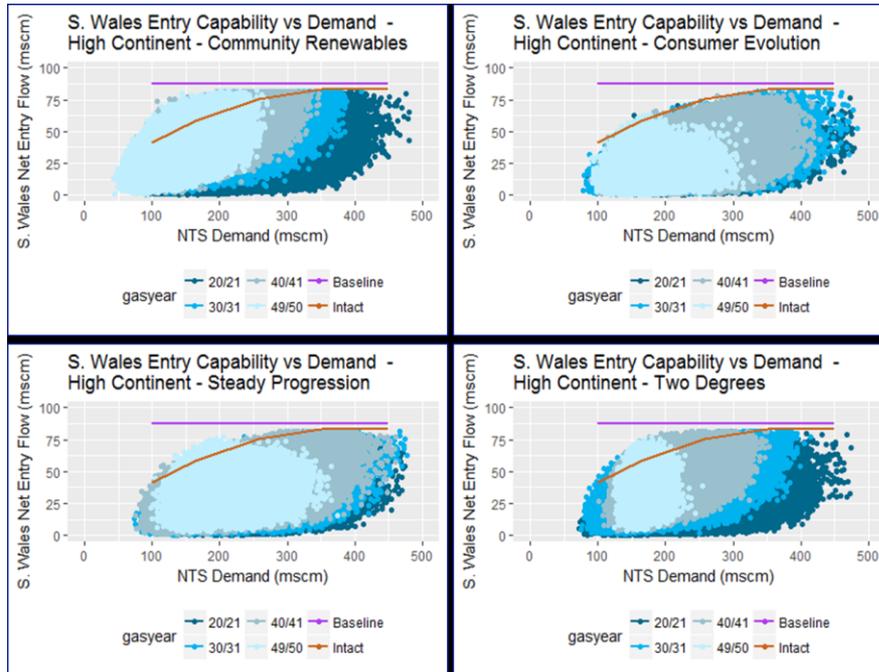


4. The impact on stakeholder priorities



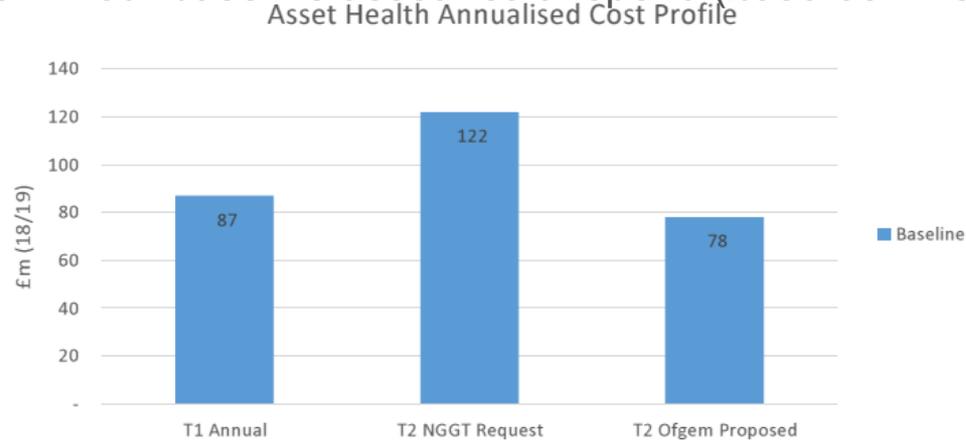
Network capability

The capability of the network can be measured by its ability to accommodate levels of gas flows onto and off the network. The capability at any entry or exit point that can be delivered in any day will differ depending on the specific situation on the day.



I want to take gas on and off the transmission system I want and I want the gas system to be safe

Providing a safe, reliable and resilient network through asset health - Ofgem has proposed 37% reduction in our baseline asset health spend (£389.68m vs £616.11m).



We will be assessing the impacts on the level of risk for the network. Ofgem are proposing a lower level compared to RIIO-1, this leaves us concerned as to our ability to maintain the reliable and resilient network you need.

I want to take gas on and off the transmission system where and when I want

Output delivery incentives to deliver maximum benefits to stakeholders

Ofgem has proposed significant reduction in incentive scope, value and targets.

In RIIO-1 incentives worked as intended by creating demonstrable consumer value:

- Reducing upward pressure on wholesale energy prices providing the network capability customers need.
- Minimising disruption to gas flows and costs (such as constraint management actions).
- Allowing the market to function as effectively and efficiently as possible, ensuring shippers can flow gas so that demand can be met at the cheapest cost

Weaker incentives could lead to maintaining existing service level to avoid penalties rather than improving services for current and future customers

I want all the information I need to run my business, and to understand what you do and why

Providing valuable information through demand forecasting incentive – the lower proposed incentive level weakens our ability to carry out additional improvement activities.

Forecasting charges - with half of our plan now in uncertainty mechanisms, there may be implications in ensuring a predictable forecast of charges.

Data and digitalisation – 13% of our proposed IT spend has been included by Ofgem in baseline funding with the rest under uncertainty mechanisms, including projects such as Gemini.



With more of our costs in uncertainty mechanisms reduces ability to enhance the information, data and digitalisation needs of stakeholders.

I want you to facilitate the whole energy system of the future – innovating to meet the challenges ahead

Net zero – reduction in innovation allowance to enable energy transition work and risk around net zero reopener being only triggered by Ofgem.



Concern that we won't be able to provide timely investment needed to accelerate net zero projects.

I want you to be efficient and affordable

Having the people to carry out activities (operating expenditure - opex) - Ofgem has assumed our operating costs flex with our capital activities with no certainty that they will fund future capital activities.



We had already set ourselves an ambitious efficiency target but we are concerned we may now be stretched too far to deliver stakeholder needs.

In summary, we are concerned at this stage with:

- being able to provide reliable and resilient networks,
- providing timely investment to aid the green recovery and being innovative and agile to support the energy system transition to net zero,
- the impact of the volume of uncertainty mechanisms which could impact the delivery of projects and lead increase charging volatility if forecasting of reopener costs is not permitted.
- Ofgem's proposed actions for National Grid Gas Transmission results in reductions of around 0.95% in gas transmission network charges in RIIO-2. This could reduce the average annual household bill by around 9 pence per year.

5. Next steps and questions



Next steps

- ▶ The consultation for draft determinations ends on **4 September**
- ▶ Ofgem's informal consultation on licence changes in September
- ▶ Ofgem's open meetings for stakeholders in October
- ▶ Final determinations in December 2020
- ▶ Formal licence changes consultation ends in January 2021
- ▶ RIIO-2 period starts on 1 April 2021

Questions?

Please get in touch to discuss further

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