

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

Name: Julie Cox

Organisation: Association of Electricity Producers

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Is your response confidential? No

Business Plans

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

The Association welcomes the transparency that publication of the business plan documentation and stakeholder engagement processes brings and feels this is a major step forward from previous arrangements. That said we feel rather swamped by the volume information published and it is simply not possible for us to review all of the published information.

In terms of navigation of the information, we consider there is scope for better signposting of where further information may be found with page and paragraph references.

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

Generally the documents are well written and explain detailed issues well, such as the feeder 9 issue and IED consequences and uncertainties.

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

We like the fact that so much information has been published, we consider this is necessary given the size and complexity of NG's business.

We dislike the fact that it is difficult to track issues between documents and understand inter-relationships and interdependencies on activities and costs. For example work on compressors is referenced in several sections in relation to investment to maintain 1 in 20 in Scotland, work to maintain DN capacity, network flexibility more generally, and compliance with LCPD and IED. It is therefore difficult to track whether work on a particular compressor meets several needs. Also there is likely to be a link between network investment in response to incremental or flexibility / resilience drivers and to buyback incentives both at entry and exit, yet these linkages are not explored at this stage.

We also dislike the absence of cost information in the Overview document, for example the South West reinforcement is barely mentioned in the Overview document but in the Detailed Plan it emerges the cost is of similar magnitude to that for network flexibility.

The document on how we deliver describes structures and principles of in-sourcing or outsourcing at some length, yet in searching to find whether more connection related activities will be carried out in-house as has been discussed during 373 development to better meet customer expectations I have been unable to find a specific answer.

All in all the Detailed Plan was probably the most useful document in informing understanding of NG's proposals.

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

We consider there would be merit in a document which falls somewhere between the headlines and overview documents, which provides information on proposals and costs at a relatively high level. Greater use of tables, graphs should be considered and there should be better signposting to where more information on a particular issue can be found.

Information could also be tabulated to show whether activities are in / out sourced and for changes from prevailing arrangements.

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?

Yes, NG has done this reasonably well

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?

Broadly yes but we note that the uncertainties are very significant with NG only being certain of 25% or £1.6bn of it's plan, with the remainder being driven by external uncertainties. However this is preferable to NG having higher fixed allowances and requiring a higher rate of return. We are not entirely sure whether the longer price

control period, which was supposed to provide greater certainty for NG's investment is actually providing this or just adding to uncertainties.

We would also like to check that the £ 500M uncertainty against incremental entry and exit capacity represents uncertainties over how much capacity will be signalled rather than some mechanism on top of the revenue drivers to adjust for variances between costs used to derive the revenue drivers and actual outcomes.

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

Yes – these seem appropriate given the range of uncertainties. However there does seem to be rather a lot of them.

Charging

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

Yes, clearly the two are interlinked since transparency of data inputs and charging models can promote predictability of charges. Stability is also important when long term investments are being considered as charges can influence the location and competitiveness of a project. In the shorter term stability will also be important for large consumers setting budgets as transportation charges are generally passed through. Stability is also desirable for suppliers setting tariffs which are paid by domestic and smaller I&C customers so that they may have confidence if these tariffs and to ensure competitiveness is driven by factors which can be managed by suppliers.

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?

Generally consumers are more interested in the charges that they actually pay rather than the way in which they were derived. That said given the past and expected future volatility in charges they have an interest in understanding all the methodology and data changes that determine the charges they face. Historically small changes in supply / demand assumptions seem to have prompted disproportionate changes in

charges. Clearly there will also be an interest in the split between fixed capacity charges and variable commodity charges depending on their demand characteristics. Changes to these factors should be carefully considered so that predictability and stability of charges are maintained whilst being mindful of the impact on the end consumer.

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?

Predictability of the overall charges is important and particularly the locational element as this influences relative competition.

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

NG already publishes the transportation model and supporting data, along with indicative charges. An issue is the variance between the indicative and actual charges. Under the RIIO framework this has the potential to become more pronounced as a greater proportion of capex is recovered in the year of spend leading to larger fluctuations in allowed revenue than previously and hence more variation in charges.

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

NG may help understanding of this issue if it were to publish indicative charges based on its business plan assumptions and proposals as they currently understand to help shippers and consumers appreciate the materiality of this issue.

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?

We believe there is quite a lot of information provided in relation to SO costs but we note these are currently at historically high levels because of the effects of meter errors and UAG levels.

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?

It is our understanding that a greater proportion of capex spend will be recovered in the year in which the money is spent, where capex is not uniformly spread over the price control period this will lead to more year on year variability in charges. The materiality of these year on year changes is unclear, hence our request for indicative charges across the control period based on the assumed capex profile. Where such variability is predictable with some degree of precision this will be more manageable than where changes are unpredictable. However we also wonder whether the front-loading of revenue recovery is consistent with cost reflectivity principles given that existing customers will be funding a greater proportion of new investment with less being recovered from the customers who benefit from the investment once it is completed and operational.

Network Flexibility

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

The investments to support supplies in Scotland were presented as necessary to support 1 in 20 obligations. If this is the case they would not seem to be optional. However, as the industry does not have sufficient transparency of the assumptions and modelling we believe only Ofgem can comment on this in an informed way.

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 generally support the continuation of development work to work up investment options and retain the option for investment subject to the needs case. It would be preferable if the funds were not part of the base case but subject to some kind of trigger when the needs case has been better established. Some clarification on the costs of development work would be helpful.

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?

Agree

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

These topics should be taken forward in a holistic manner so that all aspects are considered. As stated above the industry does not have full transparency of system modelling assumptions, inputs and results so we must rely on Ofgem consider these in detail. In any event wind intermittency scenarios need to be credible from an electricity system operation perspective not just from an idealised merit order approach. Therefore the electricity system requirements for frequency response, reserve etc must also be considered to provide a realistic generation mix scenario against which gas demand requirements when the wind drops or is tripped off can be assessed.

Connections and Capacity Processes

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

Securing capacity in a defined timescales is essential for CCGT commissioning and delivering cash flows towards project returns. We would not like to see any erosion in

the current 38 month lead time for booking incremental exit capacity unless this were reflected in the rate of return as NG would be facing less risk.

The question is more about the difference between commercial and physical capacity. Both are important but in reality different types of connections may have different responses to requests from NG for assistance in managing physical capacity issues. Gas connection offtakes for generation may respond differently from storage connections or incremental capacity at an existing entry point or a new LNG terminal. It will be important to understand the trade-offs eg commercial capacity may be available in three years but not physically firm until year five. Clearly then a balance needs to be struck between buyback risk and the potential for a commercial solution, an interruptible contract for instance. Alternatively the entire project may be delayed until physically firm capacity is available, but this may create risks and impose costs on the electricity market.

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?

Yes, but as we expect mod 373 to proceed to consultation shortly and hopefully be implemented prior to April 2013 this is not really a RIIO issue. Rather it is the first step in developing a more joined up connection and capacity process. However we caution that any new process should not be driven by a lowest common denominator 'worst case' view of development and planning processes nor should it predefine developer decision processes.

We consider a more pressing problem to be the transitional arrangements for CCGT developments that already have planning consent but are yet to book or signal capacity requirements. There are quite a number of these that could currently book capacity with 38 months notice, whilst NG may be unable to deliver firm physical capacity in those timescales. We estimate there is over 10 GWe plant in this category.

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?

A good starting point would be the transmission workgroup with subgroups and bilateral meetings as appropriate.

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?

This is a very general question, the answer may depend on the part of the network under consideration and the type of products required. Commercial alternatives to CLNG may be different to OM type services. If demand side response or exit capacity curtailment at CCGT offtakes is considered an option then careful consideration will need to be given to interactions with the electricity market. On the one hand expectations of lower load factors in the future but also the provision of back up for wind intermittency and other services to NGET all coupled with potential capacity mechanism requirements under EMR.

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

This should be a consideration, ideally assumptions about commercial solutions should be subject to market testing or benchmarking. It will also be important to consider the materiality of any contribution to volatility in charges by such products in the context of the volatility arising from capex allocations.

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

No, investment should be focussed on meeting legal requirements. .

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?

NG should consider an efficient solution which may differ from an 'optimal' solution, an efficient solution may include NG taking on some risk. From a stakeholder perspective it is important to ensure that the division of TO and SO roles does not lead to less efficient decisions than if both roles were covered by one price control.

In respect of 1 in 20 obligations the views of the HSE will need to be considered.

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?

We have some concerns over the term in-house but take this to mean a capability to trade with the wider electricity market. In principle it would seem appropriate to allow NG to procure electricity in a similar manner to other customers of a similar size.

Gas Balancing

Q27. What is driving these increasing levels of imbalance?

The Association does not have an explanation for this but considers it would be hasty to assume it is linked to the change in cashout prices in April 2011 as the changes were small in absolute terms.

Maintenance

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

Yes, any incentive should encourage NG to take more account of the impact maintenance has on directly connected consumers, avoiding short notice changes

without agreement. We recognise it is not easy to design an incentive structure around this without losing the current flexibility in the arrangements which sometimes works to the benefit of both parties. However there are times when there are last minute changes to plans, both in terms of timing (change of days) and duration (5 days planned become 2 hours actual). Both of these are difficult to manage when electricity market positions need to be covered. Previous discussions have centred on improved communications and better understanding of each other's priorities. At one time the potential for bilateral contracts were considered where the incremental costs (of moving to off-peak / weekend working) may be shared with the consumer but we have not heard anything about these recently.

Future Engagement

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

There has been a good level of transparency and a willingness of NG to listen to concerns and questions of stakeholders.

Q30. What could we have done better?

NG's business plan and supporting documentation is necessarily long and detailed. This has made participation by stakeholders very challenging and few will have been able to read all documents. To assist stakeholder participation better use could be made of data tables, summaries and signposting to more detailed information. Also highlighting changes to current arrangements, such as; charging, uncertainty mechanisms and activities carried out in-house or outsourced.

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?

We consider these activities are pitched at about the right level

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

The Association is happy to continue to attend workshops and respond to consultations and facilitate bilateral meetings as appropriate.