

Stakeholder engagement consultation

National Grid
Gas Transmission

21st October 2011

Target audience

All stakeholders

About this document

This document sets out a number of questions in areas that we would like to develop our thinking further. The consultation will be open until 18th November 2011.

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: _____

Organisation: _____

Contact details: _____

Is your response confidential? Yes/No

Business Plans

We submitted our business plans to Ofgem at the end of July 2011. Our plans have been made available on our website www.talkingnetworkstx.com. Additionally we will be publishing our Detailed Plan which will provide further information about our business plan. Sharing your thoughts on our business plan documentation will enable us to improve any further publications so that they are accessible and useful to you.

- Q1. Did you find our business plan documentation easy to navigate?
- Q2. Did you find the content contained within our documentation easy to understand?
- Q3. What did you particularly like/dislike about the presentation of our plans?
- Q4. What improvements could be made in terms of content, structure or format?
- 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?

Managing risk and uncertainty

Under the RIIO framework, the price control settlement will be based on forecasts of output requirements, demand for network services, the cost of delivery and financing costs. The ex ante nature of the regime, twinned with the 8 year length of control, means that there will always be an element of uncertainty surrounding our forecasts. In order to provide protection against windfall gains or losses for both end consumers and ourselves, we have proposed uncertainty mechanisms to provide adjustments to allowed revenues where there is cost uncertainty which is outside of our control.

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

Charging

We believe that customers value transparency and predictability in relation to charging arrangements. The introduction of the RIIO framework, along with our proposed uncertainty mechanisms, could result in year on year differences in the recovery of allowed revenue. We already do many things to help customers understand their charges, but believe there is more we could do to increase transparency and thus aid predictability.

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

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?

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?

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

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

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?

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?

Network Flexibility

The changing supply and demand patterns on the National Transmission System (NTS) will require a more dynamic transmission network in the future. We included a number of investments in our July business plan for work such as installing flow control valves or re-wheeling compressors, to enable us to deliver a more dynamic

network. Not all stakeholders were convinced of the need for this investment. We are therefore seeking to clarify our approach and to seek further views. In relation to network flexibility related investment in Scotland, we proposed to continue with our current approach because of the immediate security of supply implications, which will be outlined more fully at our stakeholder workshop.

In relation to the other investments we propose that the necessary funding remains in the plan in order to provide for detailed analysis to be carried out. Keeping the investment options on the table mitigates against long lead time delays if investment is required and helps to keep options open that otherwise might be closed within the necessary timescales. However, throughout we will be guided by the need to consider potential investment within a broader framework of other potential rules and tools, such that ultimate investment decisions (beyond the initial development work) will only take place if it can be satisfactorily demonstrated that the investment provides the most cost effective solution in all the circumstances. Broad stakeholder consultation will be a vital consideration in this further work. We believe that the uncertainty mechanisms that are being developed in this area will also provide the industry with confidence that investment will only go ahead in the appropriate circumstances, whilst keeping options open for the future.

We would also like stakeholders to provide their thoughts on the most appropriate forum for discussing the need cases for these investments and whether this is also the most appropriate forum to discuss developments to the 1 in 20 planning obligation.

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

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?)

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?

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

Connections and Capacity Processes

We are committed to delivering connections and capacity to meet our customers' needs and as such, our business plans forecast investment to meet anticipated signals from our customers. The introduction of The Planning Act in England (with the spirit applied in Scotland and Wales) will make the planning process associated with new infrastructure clearer and easier to navigate – however it does lead to a longer lead time than that to which we have been used to in the past. We are also conscious that many of our stakeholders have told us that they wish to see the connections and capacity processes aligned so that their interface with National Grid is simplified. We believe that we can work together as an industry to develop a process that addresses both of these issues – ensuring we have robust Planning Act applications to avoid unnecessary delays and also aligning the connections and capacity processes. . In the short term however we believe the priority should be to focus on ensuring that a suitable process is developed surrounding connections (such as via UNC Modification 373 (governance of NTS connections)) as a first step towards this.

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

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?

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?

System Operator (SO) and Transmission Operator (TO)

Interaction

We have a unique position as both the TO and SO. We are incentivised to make decisions which balance the costs and risks of both forms of control, we therefore consider the impact of decisions and opportunities to minimise costs through this joint role. We consider the interaction between investment and operational and contractual solutions and take the option which provides the best outcome for the consumer (which may be a combination of all three), whilst bearing in mind our safety and environmental obligations.

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?

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?

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

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?

SO Incentives

Electricity procurement for compressors

Within the structure of the Shrinkage incentive, National Grid Gas is incentivised to procure energy for Shrinkage efficiently. The incentive does this by establishing benchmark reference prices for both gas and electricity.

National Grid Gas currently procures gas for Shrinkage on the wholesale NBP gas market. Procurement of electricity for Shrinkage is done so via an electricity supply contract for which a management fee is paid.

Presently, electricity procurement for Shrinkage represents less than 10% of total Shrinkage and as the compressor fleet gradually changes from gas to electricity this

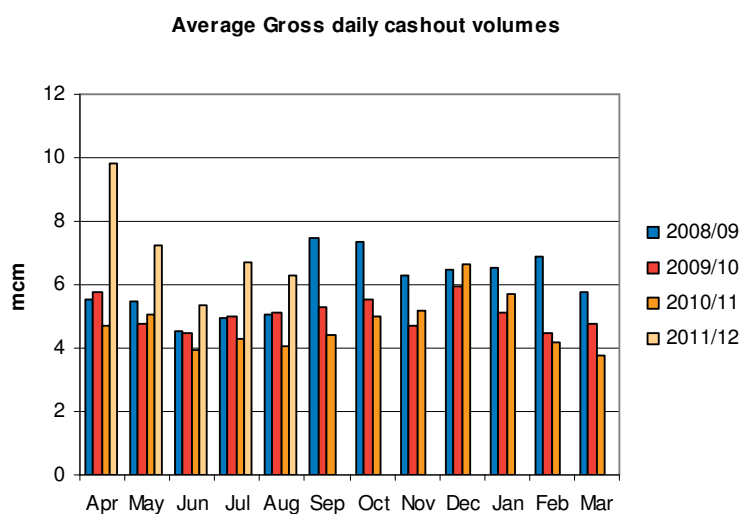
split will shift more towards electricity and by 2020 is expected to be 27% gas and 73% electricity.

Benchmarking against other energy intensive users with similar load profiles would suggest that energy would be procured via in-house trading.

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?

Gas Balancing

National Grid has the role of residual balancer for the NTS. Shippers can balance their portfolio of inputs and outputs of gas on the NTS such that they are balanced or be subject to cashout. During the first five months of the 2011/12 incentive year, the volume of gas subject to cashout when shippers were in imbalance has been the highest when compared to the previous three incentive years as shown in the figure below.



Q27. What is driving these increasing levels of imbalance?

Maintenance

Maintenance is an essential part of National Grid's role to keep the network safe, fit for purpose and operated in an efficient and economic manner in line with our various obligations. There have been suggestions that a maintenance incentive could be introduced. This would need to be considered alongside aligned obligations on all parties to ensure the current safety and reliability of service is maintained.

We request outage programmes from impacted industry parties to facilitate outage alignment where feasible and to reduce the potential impact of carrying out the required work. Industry may request changes to the maintenance plan and in 2010, we were able to accommodate 63% of customer requests.

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

Future Engagement

We have always carried out stakeholder engagement as part of our market facilitation role – through the RIIO process and our Talking Networks brand, we have formalised this process. Going forward will be embedding this in to our day-to-day activities. We will be consulting with stakeholders shortly to understand what they would like from us in this area however in order to shape our thoughts; we would welcome your opinions on the following.

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

Q30. What could we have done better?

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?

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