

RIIO-2 'Understanding your priorities' webinar Q & A

Electricity System Operator | 26 April 2018

On 26 April the Electricity System Operator (ESO) held a webinar titled 'Understanding your priorities'. The purpose of the webinar was to further build our understanding of stakeholders' priorities for the energy system over the next 5-10 years, discuss our proposed approach to stakeholder engagement for RIIO-2 and to share our emerging longer-term vision for the ESO. Throughout the webinar we captured all of the questions asked and have collated the questions and answers into one document for your information. In some cases the questions have been edited or merged for clarity.

General questions

Q: How do I ask questions or seek further information about RIIO-2 for the Electricity System Operator?

A: Please send questions via email to box.ESO.RIIO2@nationalgrid.com. We will answer your questions as soon as we can.

ESO Incentives and Forward Plan

Q: How does the current ESO incentive scheme relate to RIIO-2?

A: The current ESO incentive scheme runs from 2018-21; it covers the remainder of the RIIO-1 period. The RIIO-2 price control then begins and we have the opportunity to develop a new incentive scheme that integrates with the framework. We will be looking to take the lessons learnt from 2018-21 to apply to our approach to RIIO-2. This includes the consumer value it has driven, and the principles and methodology in use. We will also look at the role of stakeholder engagement in assessing the ESO's performance.

Q: Can you explain how you estimate the consumer benefit of each of your KPIs? How are you managing to link each with the £8 billion forecasted savings by delivering the optimal future energy system?

A: The KPIs are only currently a feature of the 2018-21 incentives rather than RIIO-2. This is a work in progress in terms of understanding the impact on the consumer of the decisions we make. At the end of 2018-19 we will publish an assessment of what we have delivered against our 2018-19 Forward Plan. We want to do more to show how the benefits are realised and quantified, and plan on building upon this as we build our business plans.

Regulatory Model

Q: Will there be separate price controls for all different parts of National Grid?

A: Yes we do expect there to be separate price controls. As a legally separate ESO we expect to have our own price control, alongside price controls for our electricity transmission owner business and gas transmission business (covering gas transmission owner and system operator)

Q: Is it expected that there will be a gas system operator price control?

A: The gas system operator price control will be part of the price control for gas transmission.

Q: What are the high level options for a new regulatory model for the ESO?

Q: If you are not using RAV, how much do you think you should be paid for ESO? What sort of rate of return?

Q: On the move away from RAV: Have you already looked at which other similar sectors you could build a model from? Which industries are these?

A: We have looked at a range of regulatory models including RAV-based, margin-based, layered, commitments and performance. This includes looking at other organisations, for example, the System Operator for Northern Ireland (SONI) (layered model), Gatwick Airport (commitments model), the Data and Communications Company (DCC) for smart metering (margin model). We will see how these options fit into our consumer and stakeholder priorities and want to share our thinking with you as it progresses. Ofgem will make the final decision on the ESO's regulatory model.

Q: Do you have any thoughts on how long the ESO price control might/should be under RIIO-2?

A: Ofgem proposed 5 years and we agree with this timeframe given the pace of change in the industry and the need for companies to be more agile as they respond to it. However, we are open minded as decisions relating to our regulatory model may have an impact on the most appropriate control length.

Q: What is National Grid's opinion on Ofgem's proposals to tighten up the cost of capital? Do you think it is fair?

A: We are conscious of the need to make sure returns are legitimate and consumer value is at the heart of it. We need to understand how we better deliver for customers, consumers, and what the activities will be and what the risk of that will be. We will continue to engage with all stakeholders on this.

Innovation

Q: How will the innovation fund for the SO work in future?

A: We strongly support the use of the RIIO framework to foster innovation. We are working hard to engage a wider population to look at the innovation activities we want to do and what we can work with others to do.

Business Plans

Q: When will National Grid submit its proposed RIIO-2 business plans to Ofgem? How long will Ofgem take to review before deciding whether to fast-track or look at more closely?

A: Ofgem has initially set out that we should be submitting our business plans at the end of 2019. You can see their proposed timeline in their framework consultation. The decision on whether to keep fast-tracking will be made by Ofgem.

Q: Is the ESO business plan going to be approved by the same people in National Grid that will be approving the National Grid electricity transmission owner (ETO) business plan?

A: We will use the governance and compliance processes established as part of the legal separation of the ESO. The ESO business plan will not be signed off by the ETO. We are working through exactly what the framework looks like.

Q: Is National Grid looking at other sectors/ internationally to develop its business plans?

A: We looked at other sectors and countries when we were developing the 2018-21 incentive proposals and again for potential regulatory models that could apply to the ESO in RIIO-2.

Stakeholder Engagement

Q: What types of trade-offs may there be between User Group and Challenge Group? Who will have decision making power?

Q: Will the User group distinguish the TO and SO functions. Will you have one for each?

A: Ofgem has provided proposals for the TOs. We will be proposing a similar engagement model for the ESO. Panels would be established by us, with an independent chair. The user group will be set up by Ofgem, again with an independent chair. The groups are not decision making bodies but are there to provide robust challenge, agree areas of broad consensus and highlight areas of contention. Open hearings will most likely discuss those areas that have been difficult to land a position on. Ultimately Ofgem is the decision making body.

Q: When the stakeholder groups are set up for this project you will need to ensure you also have real consumer end users involved i.e. building users/owners and bill payers... you need to avoid having too many energy industry representatives that believe they know what the end consumer would like/needs.

Q: Given the complexity of this area interested to understand how you plan to engage with consumer groups and ensure that they can contribute in a meaningful way?

A: We agree and are thinking about how best to ensure consumer interests are represented in our stakeholder engagement and how we get a balanced range of views. This is another area where we want help in understanding on how we can best engage. We have spoken to representative groups and organisations, and have undertaken market research. Other proxies are through Ofgem and user groups.

Q: Is this stakeholder group the same as the group Ofgem is having for the 2018-21 incentive scheme?

Q: How do you see stakeholder group meshing with the ESO Performance Panel's remit? Is the enhanced engagement limited to the development of the longer term RIIO-2, while the Performance Panel looks at yearly incentives for example?

Q: Do we know why we need two groups?

A: They are different groups. We are conscious of the resource requirement these groups place on stakeholders and are looking to manage this while ensuring we have a good cross section represented on both. The purpose of each group is different - the performance panel will (each year) score the ESO's performance based on agreed criteria before making a recommendation to Ofgem on the ESO's incentive payment or penalty. The RIIO-2 group will be more forward looking, testing whether we have engaged appropriately, identified the right priorities, considered the right options and developed a sound business plan.

Whole System

Q: Future Power System Architecture (FPSA2) discussed the idea of a system architect for the whole energy system. Is that what you are considering when you refer to the Whole System?

A: We don't think we need this but a clear architecture and a clear way of articulating what the challenges and potential benefits are is key. We favour a world where there are a more opportunities for a wider range of participants to come forward with solutions and options. A single pathway may stifle creativity and innovation in the business models we have seen.

Other

Q: Why ESO and not TSO?

A: A TSO is an integrated transmission operator and owner; we are moving away from this model. The ESO will be the legally separate operator of the electricity transmission system - we are thinking much more broadly about the electricity system as whole.

Q: We have a behind-the-meter domestic battery solution software that reduces customer energy bills and maximises the use of low carbon energy. The short term of tenders hinders access to the market. Would it be possible to gain a long term tender contract at a lower rate than is forecast i.e. cheaper for grid, and cheaper for consumer?

A: We are reforming the procurement of balancing services already and continuing the work on the system needs and product strategy. We are publishing a series of roadmaps so service providers have clarity on the plans we are making and when changes will happen. We will build all that thinking into how we procure services and balance the system as we go into the RIIO-2 period.

Q: What are your thoughts on reclassifying pumped storage as a network asset, so that it could fulfil a similar role as interconnectors and treated similar to an interconnector (e.g. no TNUoS and a Cap & Floor mechanism for future projects). What is the best forum to raise this idea?

A: We will be listening throughout our engagement and will transfer them back to the relevant business areas. Unfortunately this is something that we cannot answer here.

Q: Does ESO not cover distribution also?

A: No the ESO does not have a remit over electricity distribution networks.

Q: Do you think that RIIO-2 should be aligned with UK carbon targets? What would you suggest as modifications to the framework to ensure that robust targets are incorporated?

A: We are often asked if FES scenarios should all be bound by the 2050 targets but they are about showing potential pathways and the consequences of choices in those landscapes, even if that means the 2050 targets are not met. All scenarios are created to ensure security of supply. RIIO-2 is based on consumer value and captures affordability to ensure people understand what value for money they are getting, along with considerations of decarbonisation. It is not up to us to dictate what consumers want but we do want to understand stakeholder, customer and consumer priorities. This includes lots of ideas on a sustainable future beyond the UK carbon targets.