

Welcome to the ESO RIIO-2 webinar

- Thank you for joining us! You will be joined in listen only mode.
- Please do not unmute yourself or turn your camera on
- You can ask questions via the chat function
- The WebEx details are:
 - [0800-376-8336](tel:08003768336) or [020-7108-6317](tel:02071086317)
 - Meeting number (access code): [598 101 370](tel:598101370)

Please note we will be recording this webinar

For more information on the ESO's approach to RIIO-2 please visit <http://yourenergyfuture.nationalgrid.com>

ESO RIIO-2 Webinar

28th January



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nationalgridESO

Agenda

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- 1 Introduction
 - 2 17th December workshop - feedback
 - 3 Ofgem's Sector Specific Consultation - ESO
Key messages
 - 4 Consumer Value
 - 6 Next Steps
-

How you can get involved today



Throughout the presentation please feel free to provide feedback or ask questions via the chat function and we will pause at points to respond

We will be using a poll at certain stages during the presentation to collect your feedback



We hope to have a question and answer session at the end of the webinar. Please press the 'hand' icon next to your name and we will unmute your line.

Key updates

14th November

ERSG Meeting

<http://yourenergyfuture.nationalgrid.com/national-grid-stakeholder-group-electricity-system-operator>

17th December

ESO RIIO-2 Workshop

18th December

Ofgem published Sector Specific consultation

<https://www.ofgem.gov.uk/publications-and-updates/riio-2-sector-specific-methodology-consultation>

A look back on 2018

364 Total engagement interactions

65 Over sixty five bilateral meetings have taken place

261 Individuals who have been involved

5 Webinars have been hosted

151 Individual organisations who have been represented

4 Workshops have been facilitated

17th December Workshop - Stakeholder Feedback

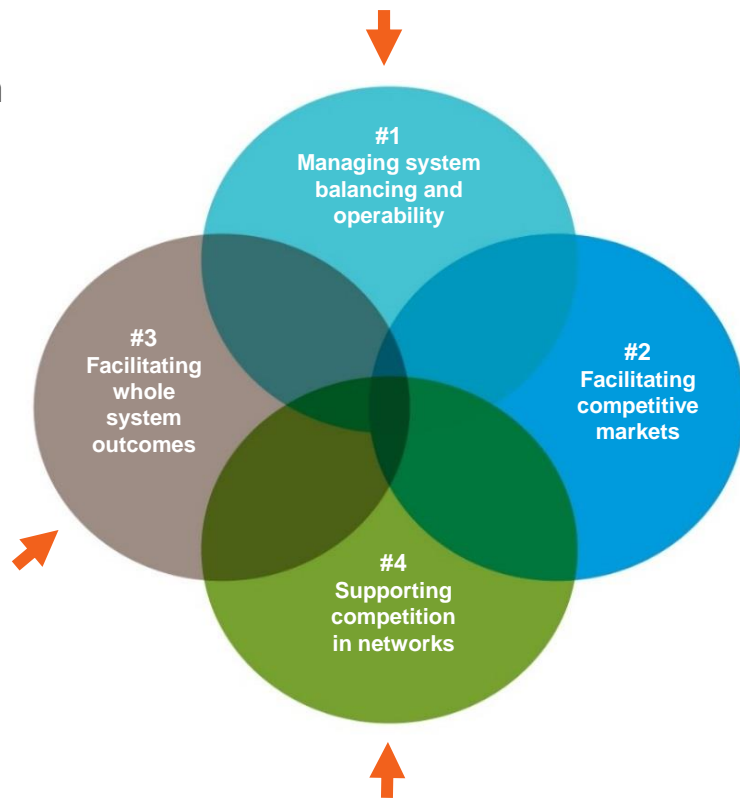


Katharine Clench
RIIO-2 Stakeholder Manager
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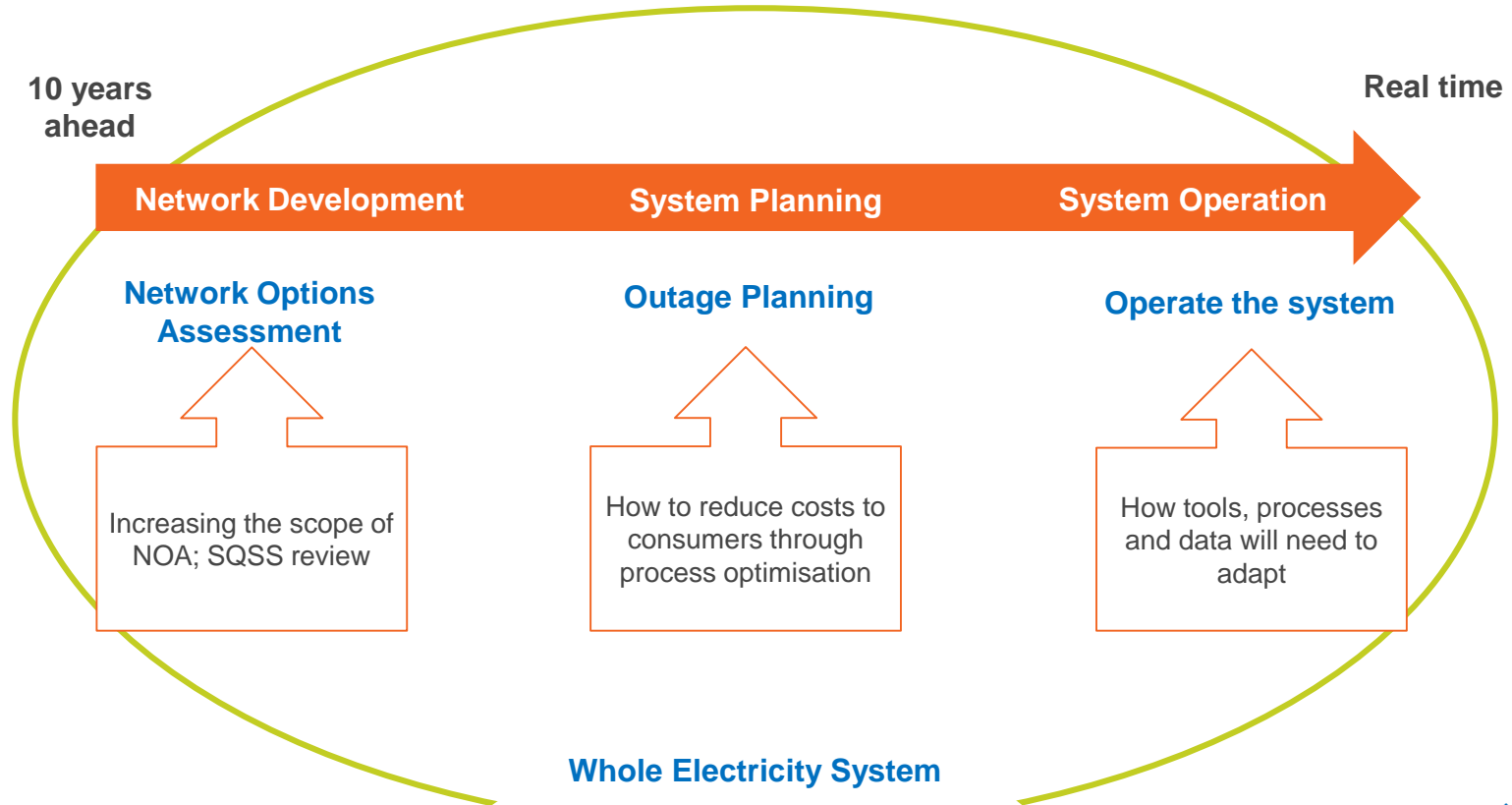


Event Overview

- **Aim:** seek views on how Great Britain's electricity system should be developed, planned and operated in RIIO-2
 - How the ESO's role and activities should evolve
 - How the ESO can create additional consumer value
 - Shaping proposals for our RIIO-2 business plan



Discussion areas



Whole Electricity System

Five strategy areas and ESO role

What we heard – key messages (1)

Network Development

- Support for looking at extending a NOA type approach into additional areas
- Lower appetite for ESO doing assessment, particularly at lower voltage levels
- Interest in seeing more specific proposals on extending the NOA
- Agreement that revisions are required to the SQSS but not clear how

System Access Planning

- Better define the problem statement
- Possible incentives on this activity - need to consider baseline, performance and metrics
- A number of interactions with other work that may impact costs
- Whole system implications with transparency being key

What we heard – key messages (2)

Operate the System

- Clarity required on roles and responsibilities particularly ESO and DSOs
- Role for long and short term contracts
- Transparency of information and data provision is important
- Be clear on the system challenge and let the market deliver the solution

Whole Electricity System

- Info and data - be brave with data provision but need a balance and the narrative is also important
- Frameworks - A WES designed framework? Shaped by markets; possible Code reform required – who could do this?
- Flexibility markets - Coordinate across networks; markets at different levels with different lengths of contract
- Roles and responsibilities for system design and operation - need a transparent process to clarify roles; incentives to collaborate?
- System risk and resilience - ESO providing more longer term info on system security and understand risk impact of digitalisation and decentralisation

<https://www.nationalgrideso.com/sites/eso/files/documents/Whole%20Electricity%20System%20thinking.pdf>

Responses to: box.WholeElectricitySystem@nationalgrid.com

Next Steps

Include outputs in our ESO Ambition document

Use what we heard to inform our thinking and development of proposals

Plan further engagement in these areas

Q & A

Any questions?

Ofgem's sector specific consultation – ESO key messages



Louise Clark
Strategy Manager
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We welcome some of Ofgem's proposals, but have concerns that some aspects will risk consumer benefits

Positive proposals

Bespoke price control

Activity-based funding model

Commitment to strong incentives

Recognition of ESO risks and the need for a fair return

Innovation funding tailored to the ESO

Areas of concern

Two year price control

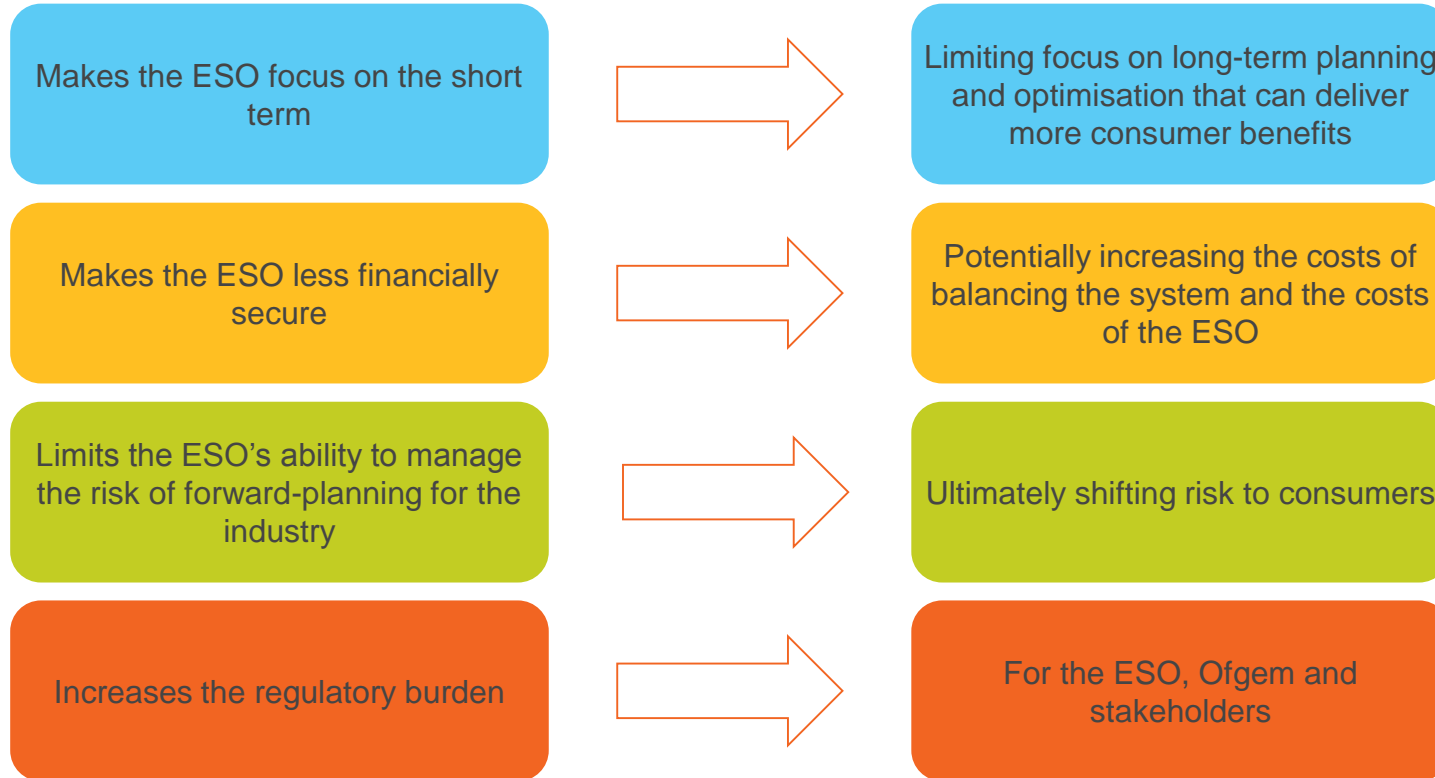
Pass-through funding model with multiple mechanisms to scrutinise costs

Continuation of current incentive scheme

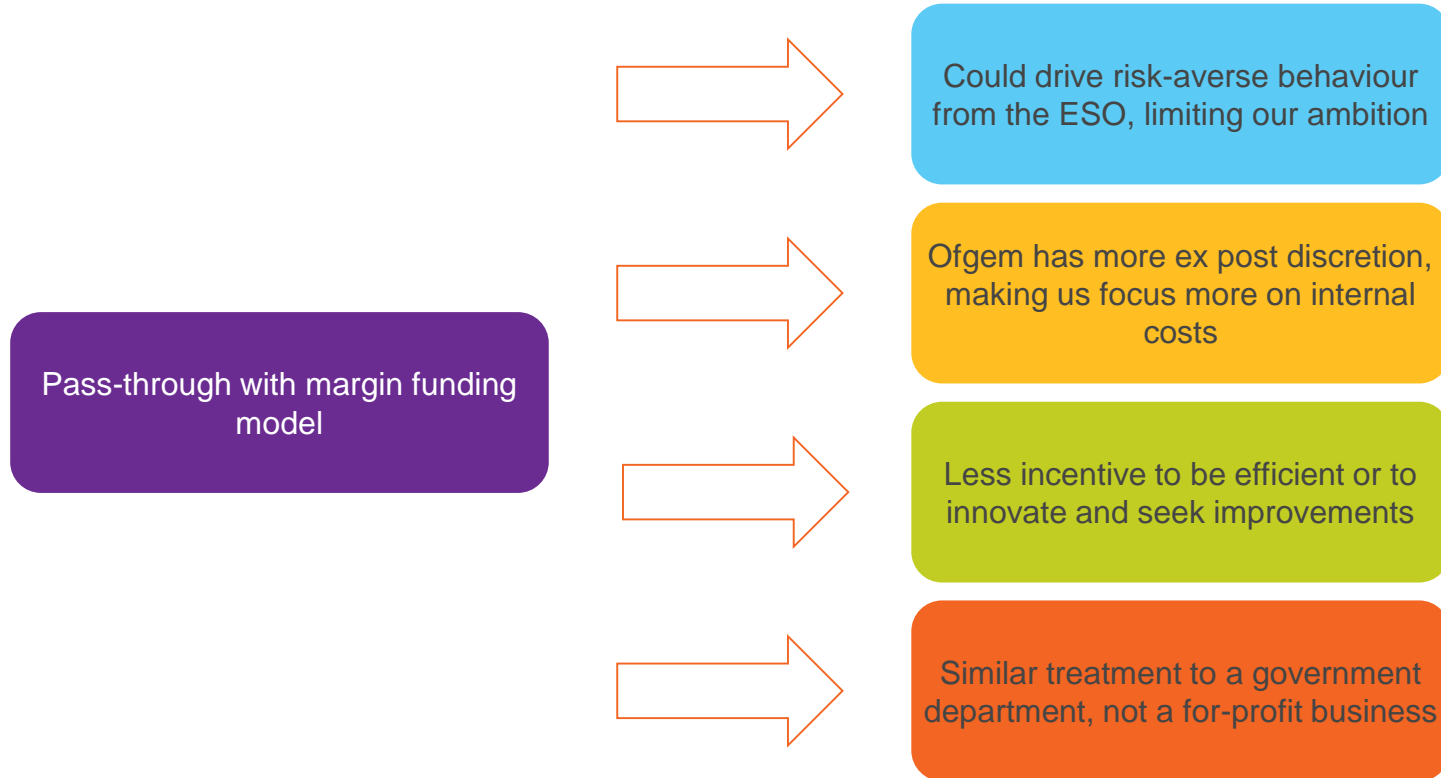
The length of the price control, the funding model and incentives need to be considered together to create a coherent framework that mimics the competitive forces that drive a company to deliver



There are a number of potential implications of a two year price control...



We are concerned that the funding model proposals will not drive the behaviours stakeholders have told us they want



The length of the price control, the funding model and incentives need to be considered together to create a coherent framework that mimics the competitive forces that drive a company to deliver



Next Steps

Seeking clarity from Ofgem on a number of areas in the consultation

Engaging with stakeholders to share views and understand how the proposals would affect our ability to deliver for them and for consumers

Using what we hear to continue to develop our views as we draft our response to the consultation

Ofgem has asked for responses to its consultation by 14 March

<https://www.ofgem.gov.uk/publications-and-updates/riio-2-sector-specific-methodology-consultation>

If you'd like to talk to us about the impact of proposals on you and consumers, please get in touch via
Box.ESO.RIIO2@nationalgrid.com

Q & A

Any questions?

Consumer Benefit



David Bowman
RIIO-2 Regulatory Analyst
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Consumer benefit unlocks the SO's mission

Our RII0-2 proposals will be shaped by the SO's mission...



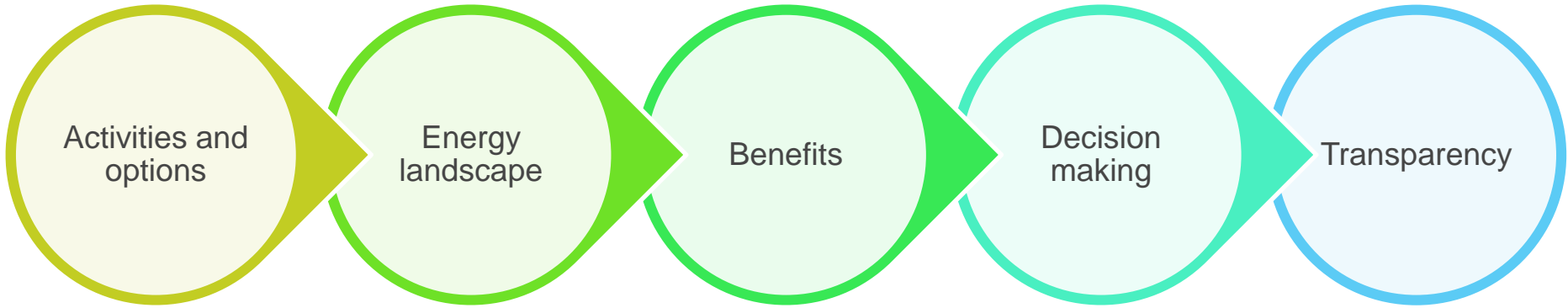
which means we need to be understood and articulate the consumer benefit delivered

We keep the lights on and the gas flowing round the clock for GB energy consumers. We play an essential role in enabling the transition to a more sustainable energy future.






Therefore we believe that:

- We **deliver value for consumers first and foremost**, while also ensuring that we build and maintain trusted partnerships with our customers and stakeholders.
- We influence the energy debate positively with our independent perspective.
- Through using **markets, data and networks** in new ways across gas and electricity, we help move GB towards a more reliable, **affordable** and sustainable energy world.
- An incentivised for-profit model ensures we deliver the **best long-term outcomes for consumers**, society and the GB economy.

The work on consumer benefits forms one part of our decision making process



We will build on the Forward Plan in articulating benefits:

-  Lower bills for consumers
-  Improved security and reliability
-  Reduced environmental damage
-  Improved quality of service
-  Benefits for society as a whole

Consumer benefit tab (illustrative)

Benefit title	Reduced risk premia
Description	Valuation Approach (illustrative)
<ul style="list-style-type: none"> • BSUoS costs are becoming more unstable • Inaccurate BSUoS forecasts mean generators and suppliers factor in risk premia that get passed onto consumers • Accurate forecasts lower risk premia and reduce consumer bills 	<ul style="list-style-type: none"> • Compare forecast and actual BSUoS prices for 5 years • Forecasts are typically lower than actual • Multiple under forecast by demand to get risk premia that suppliers add • Assumption: <ul style="list-style-type: none"> • All is risk margin • Note: <ul style="list-style-type: none"> • Application of risk premia commercially sensitive so hard to know how applied • Evidence: See CMP250 (2.163) ~£80m • Benefit: 10% forecasting improvement = 10% of £80m = £8m per year

Clear, robust methodology to determine £ figure

Transparent assumptions and counterfactual

Evidence based approach

These scorecards will be submitted with the business plan



This number gets included in the CBA

Get involved

Our aim is to develop a robust and transparent process for determining and articulating the consumer benefit we deliver.

Please use the chat function for your comments and questions

If you would like to be involved further in this work, please contact us at box.ESO.RIIO2@nationalgrid.com

Q & A

Any questions?

Next Steps



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Upcoming Activity

January

February

March

30th Jan
ERSG Meeting



Feb
ESO RIIO-2
Podcast



Feb
ESO RIIO-2
Bulletin



March
ESO Ambition
published



Q & A

Any questions?

How to get involved



<http://youreenergyfuture.nationalgrid.com>



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