

Energy Networks Association

Innovation in the GB RIIO Price Controls

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Revenues set for 8 years by Ofgem. Only change is through agreed uncertainty mechanisms, automated financial updates & mid point review

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Incentives can lead to financial rewards or penalties depending on performance during the price control period. Most incentives +/- 1% of base revenue

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Innovation funding is provided to enable trials of new technologies and operating practices on the network. Some funding is up front, the rest available through annual competitions

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Outputs are set up front with funding to meet them. Companies reporting annually against outputs and are subject to rewards/penalties

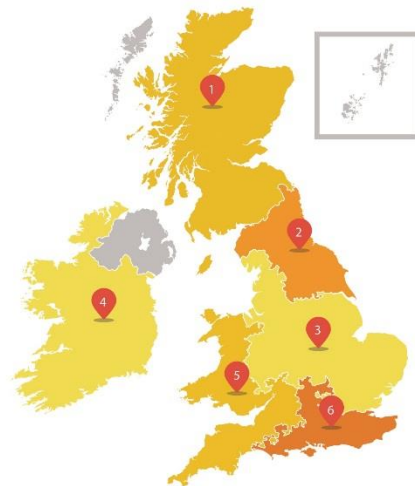
Number of UK Gas DSOs

8 Licence Network Areas

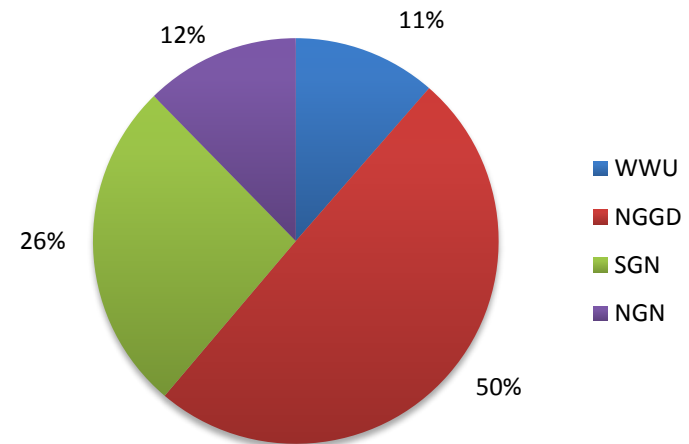
4 DSO Companies

Gas Distribution

- 1 SGN
 - 2 Northern Gas Networks
 - 3 nationalgrid
 - 4 Gas Networks Ireland
 - 5 WALES & WEST UTILITIES
 - 6 SGN
- Independent Gas Transporters



DSO Market Share



Network
Innovation
Competition

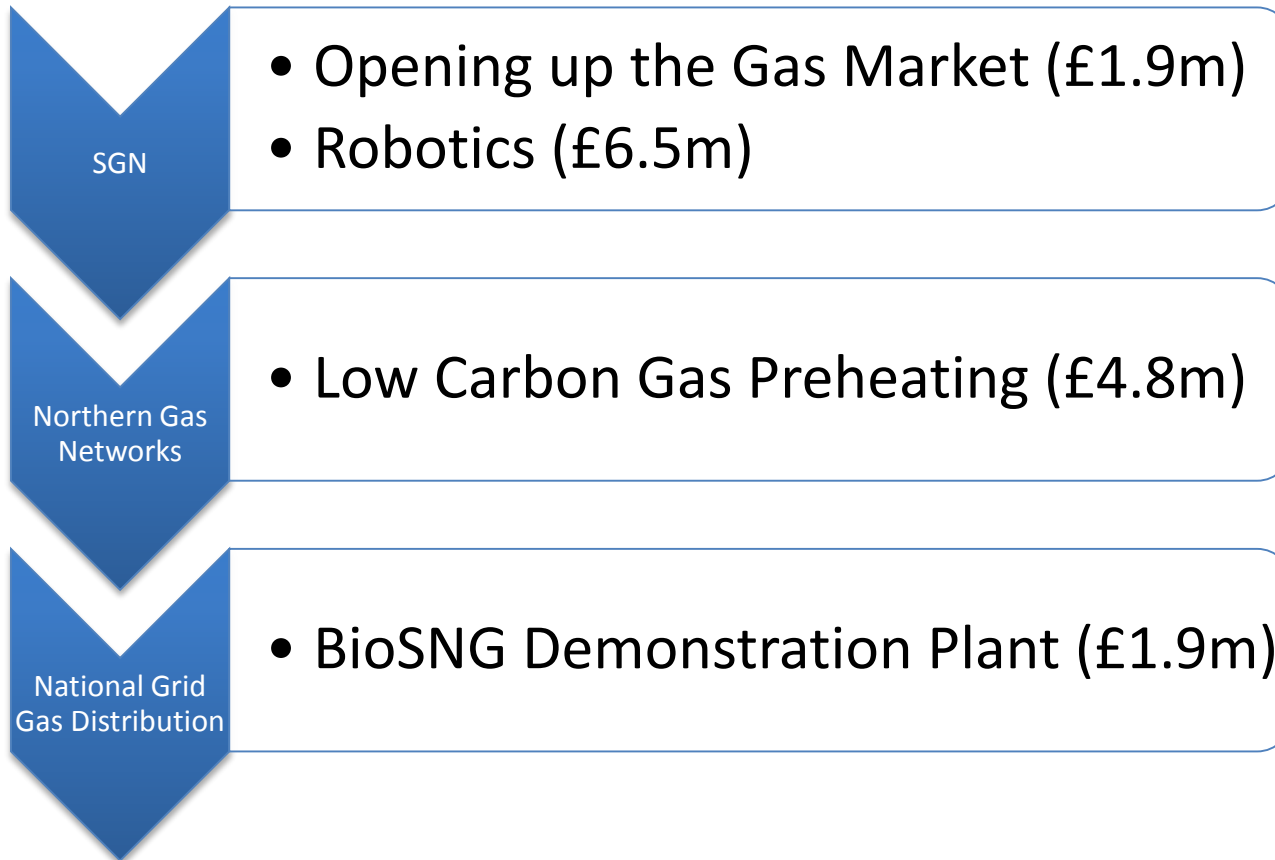
Network
Innovation
Allowance

Innovation
Roll Out
Mechanism

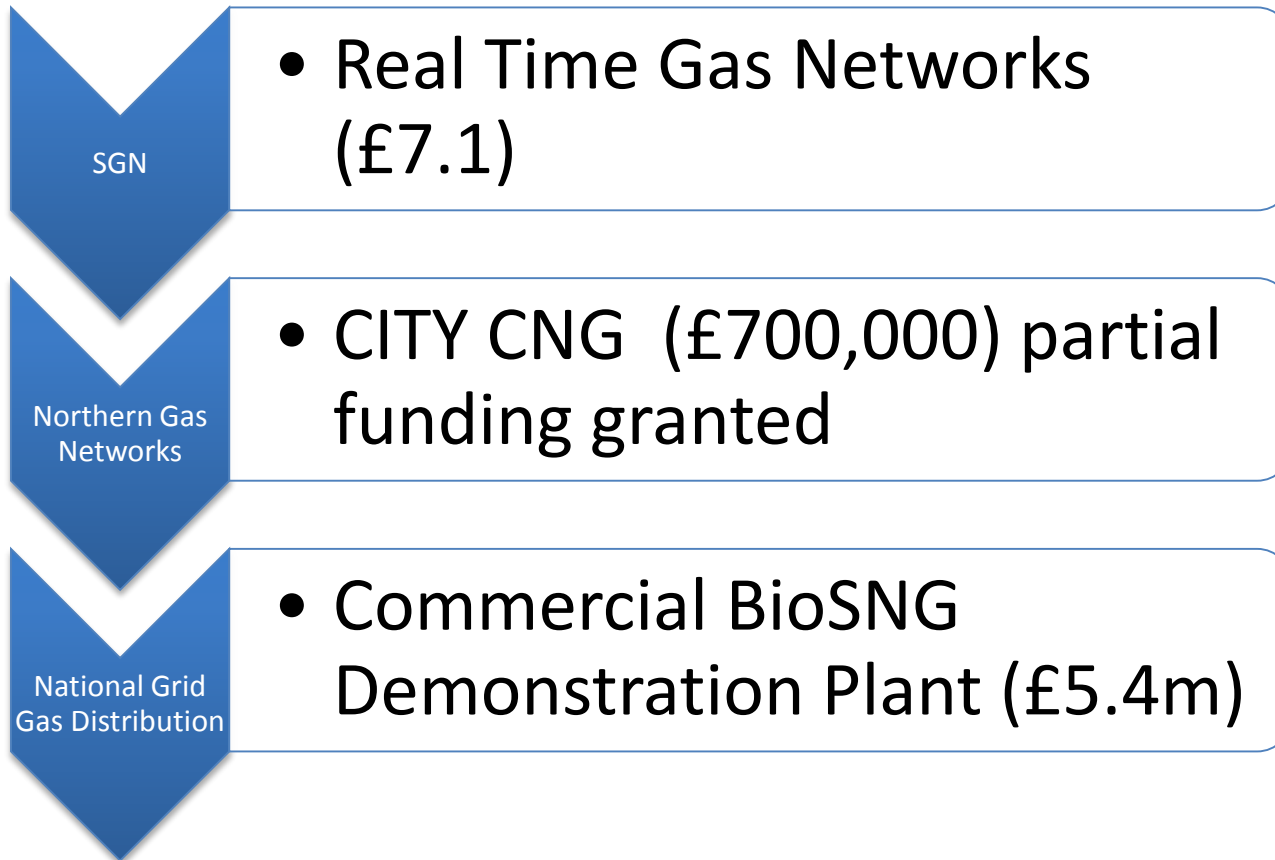
Network Innovation Competition (NIC)

- Opportunity to compete for funding
 - New technologies
 - New operating regimes
 - New commercial arrangements
- Provided environmental benefits
- Reduces Costs
- Aides Security of Supply
- Up to £18m per annum

2013 Gas NIC Projects



2015 Gas NIC Projects



Network Innovation Allowance (NIA)

- Limited funding to use for two purposes
 - Smaller technical, commercial or operational projects with the potential to deliver financial benefits; and/or preparation of submissions to the NIC
- NIA is granted as a % of allowed revenue between 0.5% and 0.7% annually, set at the time of the price control settlement.

Network Innovation Allowance (NIA)

2014

Around 170 Projects
spending £12.6m

2015

Around 220 projects
spending £18.9m

Innovation Roll Out Mechanism

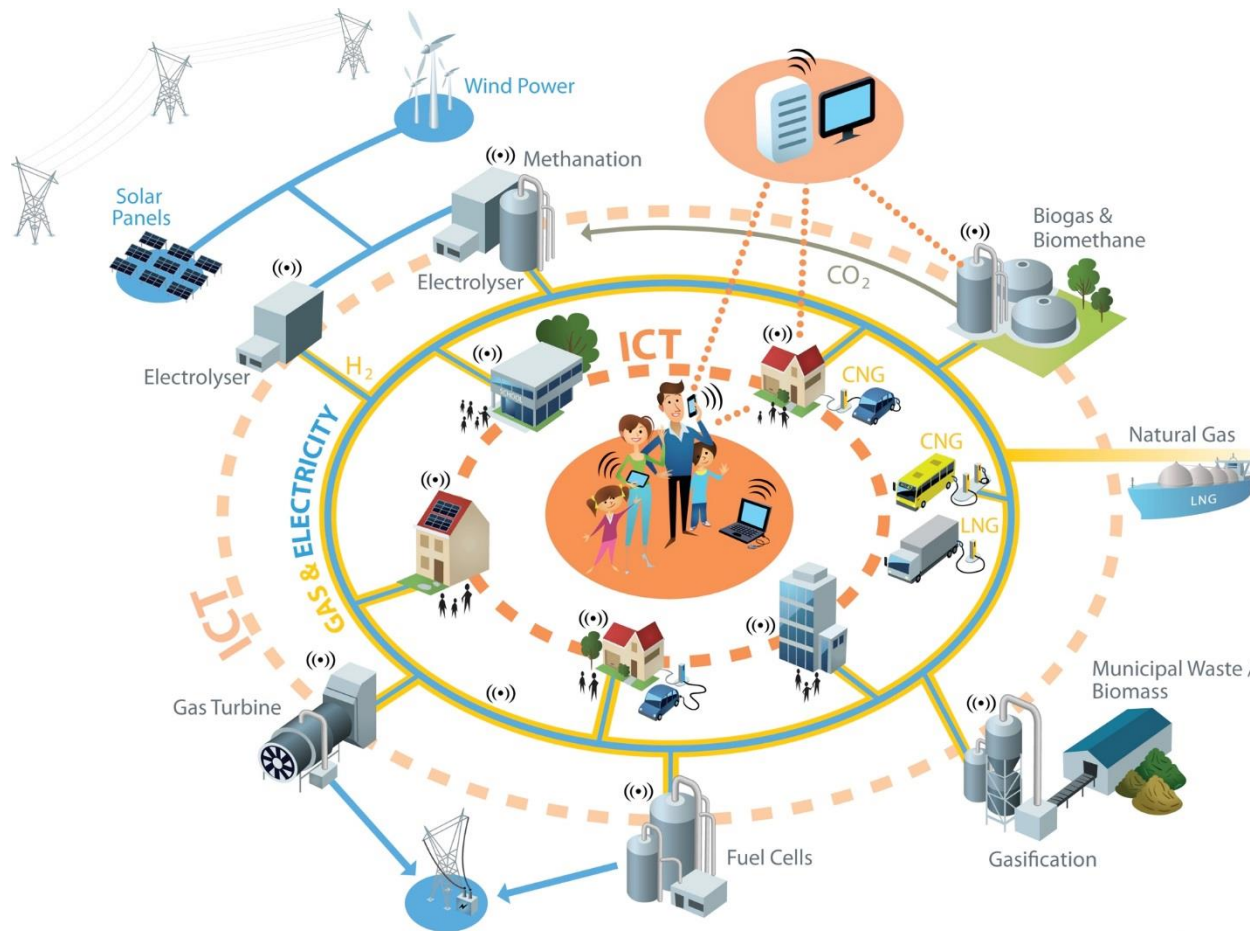
- The IRM is a 'Revenue Adjustment Mechanism' that enables companies to apply for additional funding within their price control period for the rollout of initiatives with demonstrable and cost effective low-carbon or environmental benefits.
- The IRM is intended to facilitate the roll-out of proven innovations, which will provide long-term value for money to customers, in advance of the next price control period. To qualify roll-outs must deliver carbon and/or environmental benefits.
- There will be two reopener windows and the mechanism will be subject to the materiality threshold.

Innovation with a small “I’

- Totex Incentive
- Discretionary Reward Scheme
- Other Incentives
 - Broad Measure of Customer Service
 - Shrinkage



Future Role of Gas



© Eurogas, Marcogaz, GERG 2014.

- The energy Market is getting more complex
- A multi-vector perspective
- Structure of government interventions
- Local or national energy provision
- Need to consider the role for heat
- The decarbonisation road maps to 2030 and 2050
- Quantify the costs and benefits of the potential solutions
- Networks have a significant role to play here

Future Sources

- Shale
- Biomethane
- Bio SNG

Future Uses

- CNG Vehicles
- Hydrogen Networks
- Power to Gas