

Welcome to the webinar on our the RIIO-2 draft determinations

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Before we start...



We're covering the electricity transmission owner part of our business, not the system operator or gas transmission.



This webinar should last approximately one hour, including time for questions at the end.



All callers will be placed on mute.



You can ask questions via the WebEx chat function.

Agenda

- ▶ **1. Overview of the RIIO-2 process**
- ▶ **2. A reminder of our RIIO-2 business plan**
- ▶ **3. Ofgem's draft determination (DD) for NGET**
- ▶ **4. The effects of the DD on delivering net zero**
- ▶ **5. The effects of the DD on our stakeholders' priorities**
- ▶ **6. Next steps and questions**

Where are we now?

- Ofgem published its draft determination two weeks ago.
- We are continuing to engage with Ofgem to clarify parts of the draft determination.
- This is our early view on the draft determination. We wanted to share it with you to help you understand the implications for you and your business.
- As you might have seen from our statement on 9 July we are extremely disappointed with the draft determination.

1. Overview of the RIIO-2 process



RIIO-2 is Ofgem's process for setting outputs and funding for energy network companies (slide 1)



RIIO stands for: setting **R**evenue using **I**ncentives to deliver **I**nnovation and **O**utputs.



Ofgem is setting the second set of RIIO price controls for electricity transmission, gas transmission and gas distribution companies (hence RIIO-2) covering 2021-26.



Ofgem started the RIIO-2 process with an “open letter” in July 2017.
Ofgem published its first stakeholder engagement guidance in April 2018.



We started engaging with stakeholders on our business plans in summer 2017.
Our independent user group has been meeting regularly since July 2018.

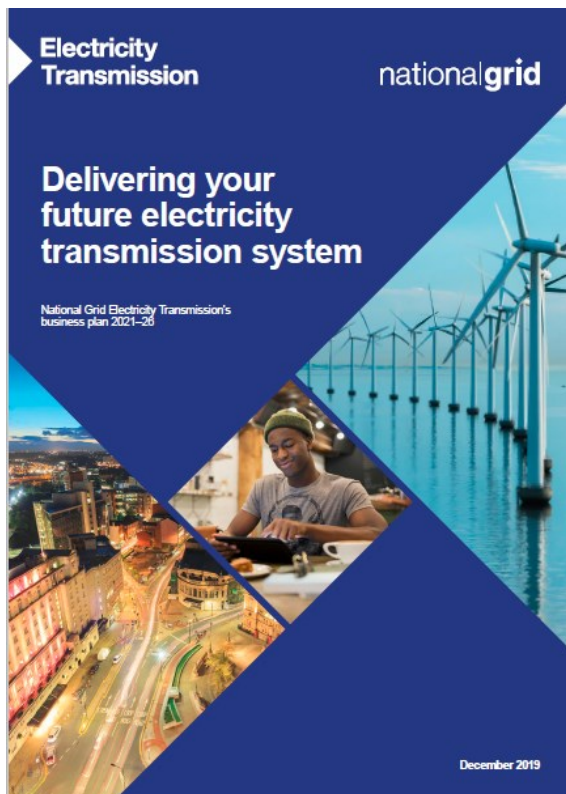
RIIO-2 is Ofgem's process for setting outputs and funding for energy network companies (slide 2)

- ▶ We submitted our stakeholder-led draft business plans on 1 July and 1 October 2019.
We submitted our final RIIO-2 stakeholder-led business plan on 9 December 2019.
- ▶ The stakeholder group submitted its reports on our plan on 19 December 2019.
The RIIO-2 challenge group published its report on our plan on 24 January 2020.
- ▶ The draft determination is where Ofgem sets out its proposals for our outputs, incentives and costs for the RIIO-2 period.
- ▶ Stakeholders have until 4 September to submit responses to Ofgem's consultation.

2. A reminder of our RIIO-2 business plan



What is our RIIO-2 business plan?



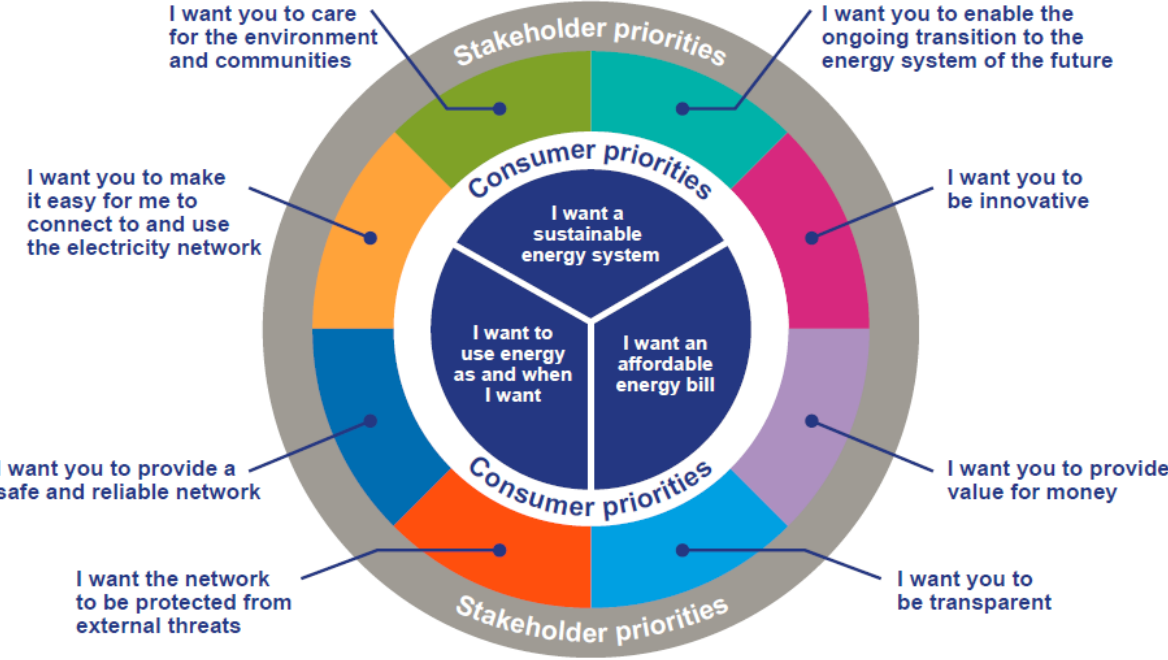
We submitted our **RIIO-2 business plan** to our regulator, Ofgem, and published it on 9 December 2019.

Our business plan **covers the five years from 2021-22 to 2025-26**, a crucial period for the energy system.

We engaged with our stakeholders more extensively than ever before on our business plan and built it around our stakeholders' priorities.

Thank you
for your help in developing our plan.

We developed our plan with you



We built our business plan around eight stakeholder priorities and three consumer priorities.

In building our plan we engaged with over 1,000 individuals covering all our main stakeholders, over 11,000 household consumers and over 750 business consumers.

The independent user group made sure we take account of your views.

Overview of our plan – some of our key deliverables

We will provide a network that enables the transition to net-zero 2050, facilitate competition and whole system solutions

We will deliver world-class levels of safety and maintain our service reliability of 99.9999 per cent.

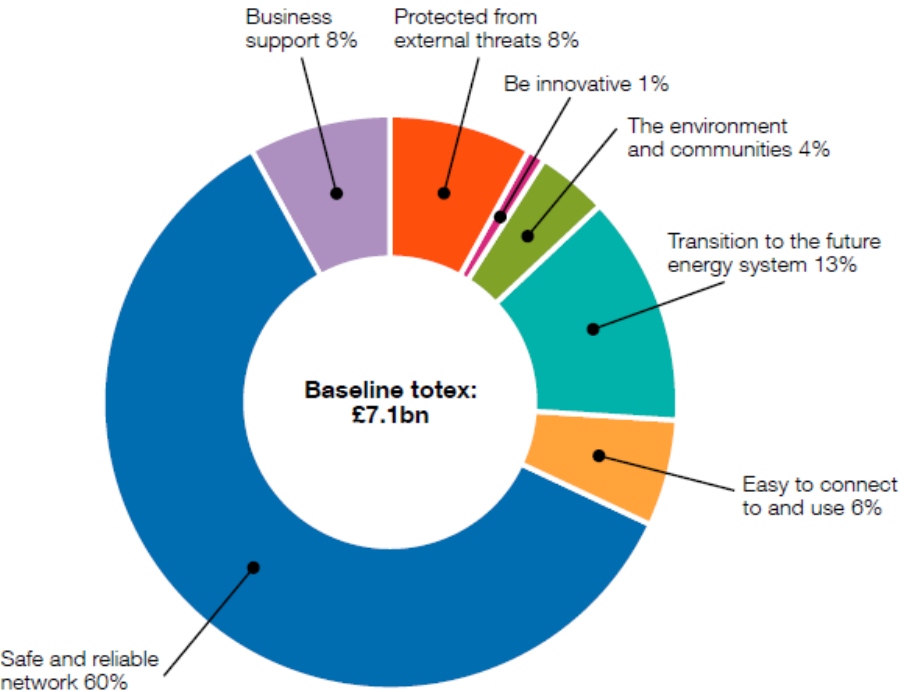
We are proposing a package of measures to improve the environment and to support vulnerable consumers and disadvantaged communities.

We will connect 15.3 GW of customer capacity, providing the UK with clean power, flexible storage and access to clean and cheaper power from Europe.

We will improve the resilience of our business IT systems and operational technology to cyber attacks.

We will deliver a programme of innovation focused on reducing greenhouse gas emissions and our asset management costs

Overview of our plan - costs



We planned to spend **£7.1bn** to operate and invest in our network over five years to deliver your priorities.

We committed to **£1.1bn of efficiencies** in our plan.

We said we would deliver our plan while **keeping the same, or reducing, our part of bills**, excluding inflation.

In independent research **87% of consumers found our plan and its bill impact to be acceptable.**

The independent user group played an invaluable role

- ▶ The IUG challenged and reviewed how we engaged with our stakeholders in developing our plan.
- ▶ The IUG scrutinised our business plan by assessing the outputs we committed to, our costs, our proposed incentives and our proposals for dealing with uncertainty.
- ▶ The IUG held 13 meetings, with all the associated work that goes with them.
- ▶ The IUG set up sub-groups and chapter “buddies” to really drill down into our proposals in depth.
- ▶ All the IUG’s work culminated in significant improvements in our business plan and a report on our plan in December 2019.

We really appreciate all the work of the user group members.

**Electricity
Transmission**

3. Ofgem's draft determination for NGET

nationalgrid

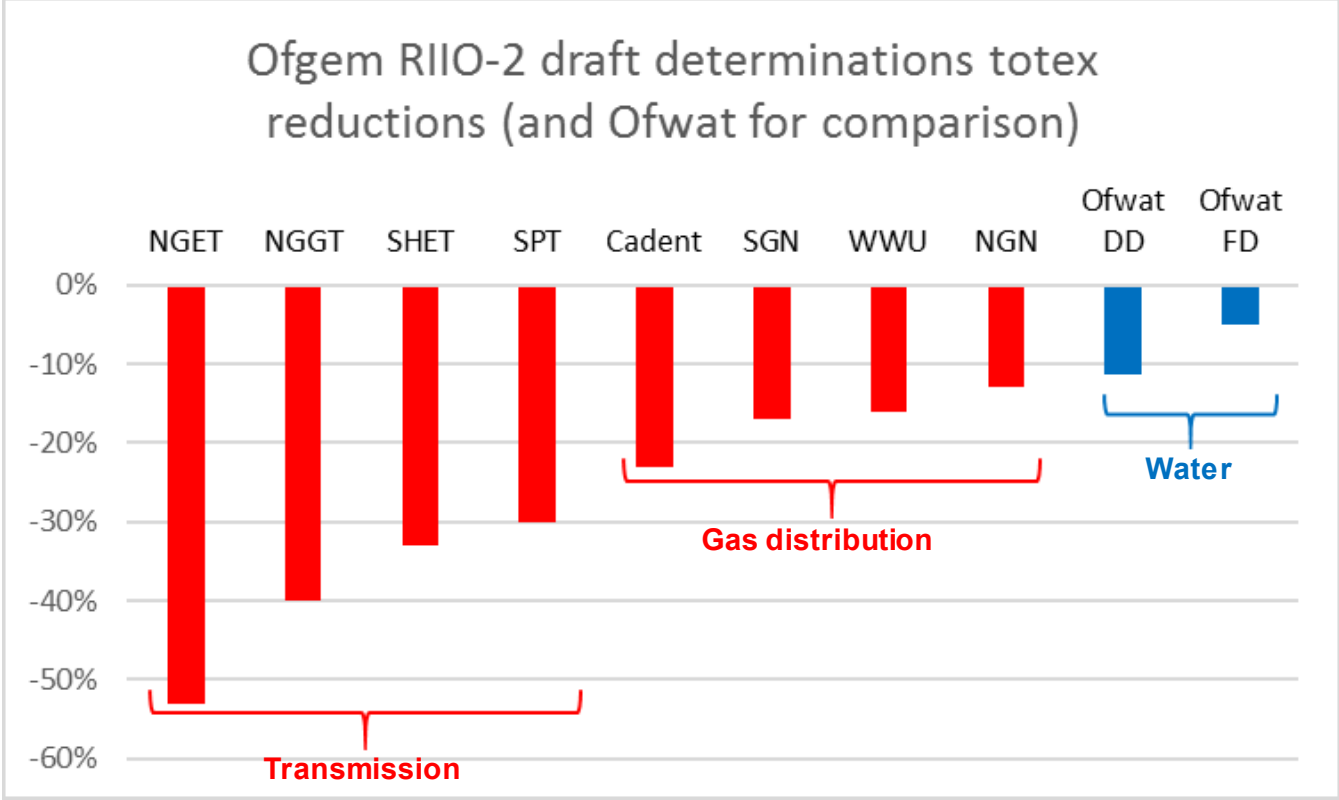


Some key features of the draft determinations

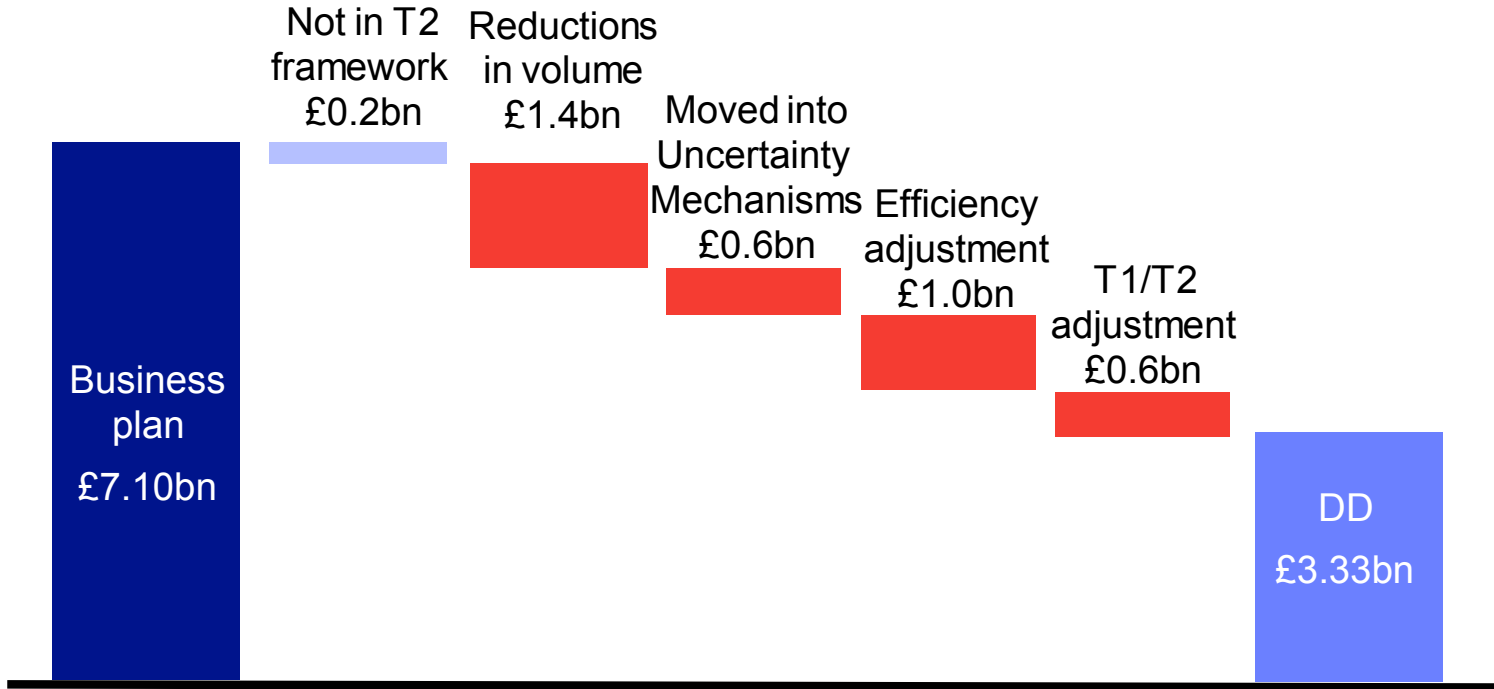
- £20 fall in network charges on average annual household bill from 2021.
- Large reductions in baseline expenditure for network companies.
- Lower returns for investors: cost of equity reduced to 3.95% (CPIH).
- A bigger emphasis on ex post (after-the-event) regulation.
- Relying on re-opener mechanisms to deliver net zero.
- Reduced incentives to improve services for stakeholders and consumers.

Ofgem's proposed baseline totex reductions

(from companies' business plan proposals)



How Ofgem proposes to reduce our baseline totex



4. The effects of the DD on delivering net zero



The UK Government has made a net-zero commitment by 2050

- Our futures depend on us all tackling climate change.
- The UK government has mandated that we should achieve **net zero by 2050**
- Electricity is vital for decarbonising **transport** and as an element in the decarbonising of **heating**.
- Our plan makes sure **we retain options for supporting the delivery of net zero** until the energy future is clearer.

Net zero: our business plan commitments

For National Grid group:

We, as the National Grid Group, will **achieve net zero for our scope 1 and 2 emissions by 2050**, with interim UK targets of a 50% reduction by 2030 and 34% by 2026, from 2018/19.

For our ET business:

- We will be ready to respond to an acceleration of **new low-carbon connections** during the price control period.
- We have developed a set of robust, cost-reflective, automatic mechanisms **to deal with future uncertainty**.
- We will make £600m of critical investments in the existing network **to deliver net-zero system capability**, and to drive down costs.
- We will provide brave leadership with targeted investments **to replace leaking SF₆ equipment**.

We consider Ofgem's DD reduces our ability to deliver net zero

- Ofgem is proposing detailed re-opener assessments for net-zero critical investments when we need to deliver at pace to enable the transition.
- Ofgem is proposing to re-assess allowances and outputs at the end of T2, undermining the certainty needed to invest and innovate.
- Ofgem is proposing low returns relative to the level we consider necessary to attract and retain capital for these investments, despite the investment in energy networks needed and the uncertain pathway to get to net zero emissions.



Ofgem's draft determination jeopardises the delivery of the energy transition and the green recovery

5. The effects of the DD on our stakeholders' priorities



Reliability was our stakeholders' top priority

- Maintaining current levels of reliability was our stakeholders' top priority.
- Ofgem proposed an allowance of £1,272m for Reliability, against a submission of £3,347m (Capex)
- Ofgem proposed a reduction of £556m, to 'claw-back' allowances unused in T1
- We have identified errors in Ofgem's assessment which increase our allowance
- LPT2 was funded in full, with no reduction in spend, with other large projects removed from the baseline with the option of funding through other mechanisms



Ofgem's draft determination leaves us concerned about our ability to deliver a reliable network

Our stakeholders want a resilient network

- Our stakeholders have told us that they want us to protect the network from external threats and to respond and recover from incidents when they happen
- Our business plan proposed investment to protect the network from physical attack and extreme weather and to improve the resilience of our business IT systems and operational technology to cyber attacks
- Many of these investments are required to meet mandatory requirements
- Ofgem has reduced our resilience expenditure from £445m to £142m baseline capex



Ofgem's draft determination leaves us concerned about our ability to deliver resilient networks

Environment and communities

- We have been asked to submit information for an SF₆ baseline investment plan
- We have been granted the funding to deliver net zero construction and 60% fleet transition to EVs - although we have had 15% of our diesel fleet request cut
- Ofgem have rejected our stakeholder proposed urban improvement provision
- Ofgem have proposed a £465m funding cap for transmission VIP works



Ofgem's proposals mean we risk not being able to maintain our operational fleet or fulfil our stakeholders' needs in urban communities

Weaker incentives to deliver for stakeholders

- Ofgem has rejected our incentives on accelerating low-carbon connections and managing outages better.
- Ofgem has reduced the strength of the incentives for customer satisfaction with connections, delivering our environmental commitments and reducing costs.
- Ofgem has rejected our proposal to save consumers up to £188m per year through offering more flexible services to the system operator.

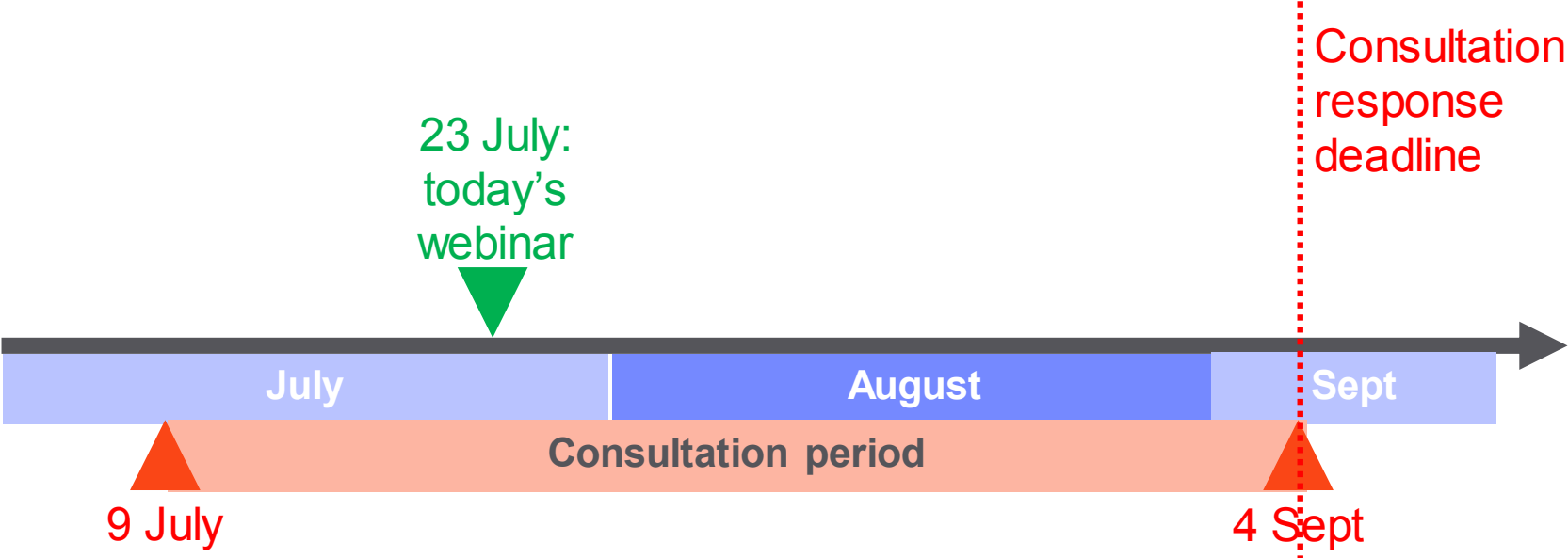


Weaker incentives could lead to lower levels of service and higher cost for our customers and consumers

6. Next steps and questions



The consultation period ends on 4 September



Next steps

▶ The consultation period for draft determinations ends on 4 Sept



In our response we'll be strongly arguing the case for a better final determination that:

- delivers for our stakeholders' priorities;
- supports the path to net zero emissions; and
- supports the economic recovery from Covid-19.

▶ Ofgem's open meetings for stakeholders in October

▶ Final determinations in December 2020

▶ RIIO-2 period starts on 1 April 2021

Answering your questions

You can ask them through the WebEx chat function, although please be aware everyone will be able to see your question.

If you would like any further information on the issues we have discussed in this webinar we are happy to help.

Please email your query to: box.RIIO.PMO@nationalgrid.com

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