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Dear Cheryl,

Transmission Access Review – Enhanced Transmission Investment Incentives: Final Proposals

National Grid welcomes the proposals to provide additional capital investment allowances and associated revenues for specific schemes which help facilitate the achievement of Government's 2020 targets and which are beyond the scope of works funded by the current price control (TPCR4). These funding arrangements cover:

- Pre-construction costs on specific projects that will be incurred in financial years 2010/2011 and 2011/2012.
- Construction works on specific projects that will commence in financial year 2010/2011 and will result in additional financing costs in financial years 2010/2011 and 2011/2012.

We note the final proposals are silent on:

- The treatment of costs that would result from the above projects in financial year 2012/13 (the year prior to transmission price control 5 now that this control has been delayed by 1 year).
- Those additional projects that have construction proposed for commencement in financial year 2011/2012.
- Those additional projects that have construction proposed for commencement in financial year 2012/13 (the year prior to transmission price control 5 now that this control has been delayed by 1 year).

Given this position, we remain concerned that although the proposed funding approach avoids creating immediate barriers to progressing works that will help achieve 2020 targets, it gives rise to additional risks and costs due to:

- The delayed introduction of incentives that would permit better allocation of responsibilities for investment decisions between Ofgem and licensees (particularly incentives with respect to meeting future needs that are not yet the subject of financial commitments by network users).
- The need for both licensees and Ofgem to keep the currently agreed allowances and funding under review as circumstances related to market developments and the practicalities of achieving specific reinforcement programmes inevitably change.

- The need for licensees and Ofgem to undertake a further detailed review on works that should commence in financial years 2011/12 and 2012/13.

In order to minimise the administrative burden on licensees and Ofgem during a period when significant effort will be required to progress the measures that will deliver a low carbon energy sector and implement new regulatory settlements (the 2012/13 rollover, TPCR5 and the implementation of RPI-X@20 findings), we suggest future reviews of the identified reinforcement measures focus on the key uncertainties relevant to specific works rather than undertaking a further review of the wider methodology and scenarios.

Qu 1 Do respondents have any comments on the principles or the proposed drafting of the legal text to give effect to our final proposals?

In order to facilitate progress towards achieving a low carbon energy sector, we suggest that a key principle should be to assist licensees to progress those works agreed to be important in facilitating that objective. This intent is important so that licensees can gain the required long-term engagement of equipment suppliers and other stakeholders.

A few more detailed comments on the proposed licence drafting is attached in the annex to this response.

Qu2 Do respondents have any views on the way forward?

In order to minimise delays to measures that will help facilitate a low carbon energy sector and which may reduce customer exposure to constraint costs that may otherwise result, National Grid intends to submit an updated case for the identified reinforcement schemes that should commence in 2011/12 and 2012/13 by end summer 2010. We would appreciate the development of a joint work plan with Ofgem that would ensure this submission and the ongoing activities associated with the other schemes subject to this regulatory approach can receive adequate and timely assessment during a period with many other resource demands at Ofgem and the transmission licensees.

Yours sincerely,

Lewis Dale

Cc:

Paul Whittaker
Mike Calviou
Andrew Hiorns

Annex 1: Comments on licence drafting (as appearing in Appendix 9 of Final Proposals Document)

1. In the text extracted from D2, the definition of RPI_t departs from that used in National Grid's current licence (which measures retail price index numbers published between May and October). We suggest the current definition of RPI_t should not be changed.
2. The definitions of Cxn in D9 (3) refers to total capex with the only exclusion being capex associated with TIRG as specified in D3. This means that there is the potential for capex associated with the works specified in D11 to be subject to incentive exposures in both D9 and D11. The definitions of relevant capex should be drafted to avoid such double exposure.
3. In D11(2), the reference to "Part 2 of special condition D5" would appear to be incorrect (as this relates to the IFI incentive). We assume it should instead relate to the 09/10 pre construction funding (RevApOx) set out in Part 4 of D5.
4. In D11 (3), ConTOInct, AAVConTOInct and AVAConTOInct are not calculated for the financial year 2009/10 such that the values set out in the columns of Annex A for that year are never allowed. We suggest either all definitions are adjusted to include 2009/10 or the schedules in Annex A are adjusted so that the allowance for 2009/10 is added to that for 2010/11 and the column for 2009/10 is removed. In practice, given that any allowance introduced for 2009/10 will need to be the subject of a Kt calculation, these two alternative approaches will be equivalent.
5. In D11 (3), the definition of ARPI uses a definition of RPI which departs from that currently used in National Grid's licence in D2. We suggest the same definition of RPI is used in D11 as in D2 (see also item 1 above). For ARPI to be used as defined, the tables in Annex A to licence condition D11 should be expressed in corresponding 2004/5 prices.
6. In D11 (4) (a) (iii), change "the" to "this transmission licence".
7. In D11 (5), the defined value for TOCIRn for 2010 incorrectly departs from the value of 0.1357 defined for CIRn for 2010 in D9 (2).
8. In D11 (5), the 2 definitions of PIT contain the wrong cross reference to paragraph 3 of D2 (which is logging up). They should refer to paragraph 2 of D2. Given this definition of PIT, TOIncBCxn should be given in corresponding 2004/5 prices.
9. In D11 (5), TOIncBCxn has a value for 2009/10 which is never used by the formula for CxIncTOt. The definition of n should be amended so that the first relevant year is the year commencing 1 April 2009. The tables defining TOCIRn and PVFn should be extended to include a value for year 2009. (NB this is a similar issue to that identified in item 4 above).
10. The preamble to Annex A to D11 provides that the pre construction and construction costs may, on receipt of notice and evidence from the licensee, be changed by the Authority by notice after due consultation. How does this process for modifying the licence in this respect relate to the normal statutory section 11 process?