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Dear Hannah

**Open letter consultation on Transmission Price Control Review 5 (TPCR5)
– the way forward**

1. National Grid own and operate the high voltage electricity transmission system in England and Wales and as National Electricity Transmission System Operator (NETSO), operate the Scottish high voltage transmission system. National Grid also own and operate the gas transmission system throughout Great Britain and through our gas distribution business distribute gas in the heart of England to approximately 11 million offices, schools and homes. The issues addressed in this consultation directly affect National Grid.
2. National Grid's Transmission businesses (National Grid) welcome the opportunity to work with Ofgem to develop a price control process which protects the interests of consumers whilst at the same time ensures that adequate funding is made available to maintain safe and reliable operations of the assets in delivering the network outputs.

Key issues

3. In the letter dated 30th July 2010, Ofgem have listed a number of key issues for the review. In addition to the issues listed we would add the following to the gas and electricity transmission list:
 - a **Transmission Owner / System Operator price reviews** - Ofgem have stated a desire to unify the price review periods of the Transmission Owner (TO) and System Operator (SO), the outcome of this aspiration will have an impact on the price reviews and the degree to which incentives interrelate. A pragmatic solution to this ambition is supported and we look forward

to working with Ofgem on how this might best be implemented. Naturally this work interacts with the constraints modelling which is currently under way.

- b **Development and calibration of uncertainty mechanisms** - it is vitally important that sufficient time and attention is dedicated to developing and calibrating the mechanisms to be used to cater for the uncertainty to be faced in the future eight year price review.
 - c **Impact of planning and consents** - following the introduction of the Infrastructure Planning Committee the planning process has changed significantly. As businesses gain a greater understanding of how these new rules will impact the business, the implications will naturally flow through to the business plan and in particular workforce planning and the resources required in navigating the planning regime.
 - d **Skills and training** - the industry faces the combined challenge of an increasing capital profile and an aging workforce as well as the introduction and development of new technology and changing industry challenges which will impact the skill requirements of the workforce.
 - e **Real price effects** - the network's experience of real price effects during TPCR4 has demonstrated how volatile real price effects can be despite best efforts to accurately forecast prices. This has a direct impact on many other aspects of operation and thus is deemed to be a key matter to consider within the uncertainty mechanism discussions as part of the review.
 - f **EU Third Energy Package** - the interpretation and application of the EU Third Energy Package could have a significant impact on the shape of the networks' operations and therefore business plans going forward, it will be important to ensure that this is retained as a key variable through out the process.
4. For electricity transmission we would add:
- a **Commercial framework evolution**, in particular the impact of the electricity charging review being undertaken by Ofgem and the interaction this may have on the output from stakeholder engagement undertaken by the networks and Ofgem, in particular any work undertaken on 'willingness to pay'.
 - b **Undergrounding policy** - stakeholder engagement on the new routes being proposed in Somerset and Suffolk for nuclear connections has made it clear that stakeholders have a desire for us to consider a greater degree of undergrounding of the lines in our proposals. This is currently outside of our policy and thus it is anticipated that this will be an area that stakeholders will be active in proposing alternatives as part of the TPCR5 stakeholder

engagement activities. The degree of undergrounding will impact the forecast capital plans and operational capability of the network and further links into the outcome of the electricity charging review.

- c **Offshore regime** - the on and offshore regimes are intrinsically linked and it will therefore be essential for the interdependency of these to be considered fully within the scope of the review.

- 5. We have no extra key issues to add to gas transmission.

Output led regulation

- 6. National Grid fully support the concept of outputs and are deeply involved with Ofgem; interested stakeholders and the other UK transmission companies in developing the outputs proposed by Ofgem under RPI-X@20 for transmission. This work is ongoing and thus is not commented on further under this response.
- 7. In addition to the development of outputs National Grid are conscious that the other key area of the strategy document due to be issued by Ofgem in December 2010 are the proposals for uncertainty mechanisms. National Grid have previously raised this with Ofgem as whilst progress is being seen on the outputs, we are not aware of any progress on uncertainty mechanisms and as securing the right mechanisms for the risks will be a critical element in determining the acceptability of Ofgem's proposals in summer and autumn 2012 it is observed that it is essential that these mechanisms appropriately consider the allocation of risk between consumers and shareholders.

Enhanced engagement

- 8. National Grid fully support giving stakeholders a greater opportunity to influence the network's business plans and shape the regulatory frameworks. In line with this we have initiated our first round of stakeholder engagement in relation to TPCR5 and have sought views on:
 - i) how stakeholders wish to be consulted
 - ii) preliminary views of the outputs
 - iii) the proposed timeline for consultation
- 9. The response from this initial round of engagement has been very positive and the results will be published shortly at www.nationalgrid.com/tpcr5views.

10. This is the first stage of our engagement activities and we look forward to understanding the scope of Ofgem's activities in this area in order that stakeholders are not unduly burdened by the process in order to maximise the benefit which will be brought from this valuable work. In addition to seeking to understand how Ofgem will work in this area, we will also work with the other networks to understand whether any joint activities may be possible.

Business plans

11. National Grid welcomes the guidance set out in annex C of Ofgem's letter and will work to deliver a plan which meets Ofgem's expectations. Any further guidance on what Ofgem need in order to facilitate an efficient review of the plan will be gladly received.

Key milestones

12. National Grid note the milestones laid out for the review in annex D of the Ofgem letter. In particular National Grid note the short period of time available to develop the principles around outputs and uncertainty mechanisms ahead of the December 2010 strategy document. It can be surmised that this compressed window is present to facilitate a fast track process. It is questionable whether networks will be in a position to avail themselves of this process in the inaugural price review under the new regulatory principles outlined under the RPI-X@20 review.
13. Premised against the backdrop of high future uncertainty in the industry and a fledgling regulatory regime it could be questioned whether it may be appropriate to stand down the fast track process for this initial review in order to preserve the quality of process and to allow networks sufficient opportunity to develop and implement their stakeholder engagement activities through a number of iterations before plans are submitted to Ofgem for review. This extra time would allow customers and the broader stakeholder community time to acquaint themselves with the concept of outputs and to consider fully how the shift in focus and the impact of outputs may affect them, thus allowing greater consideration of customers current and future requirements from the networks.
14. In addition to the above observation, National Grid note that in July 2011, networks will be required to submit a 'well justified plan' as well as the annual Regulatory Reporting Pack and for the transmission networks an 'anticipatory investment / ENSG' submission on the 1st August 2011. This is an onerous undertaking on the networks (who will be developing the concept of a 'well justified plan' for the first time in 2011) and Ofgem to process this information (on receipt) in one go.

15. Aside from these comments, National Grid acknowledge the proposed milestones and look forward to working proactively with Ofgem to ensure that this price review process, the first under the new regulatory principles will be deemed by all interested parties to be a success.

Yours sincerely

A handwritten signature in blue ink that reads "Pauline McCracken". The signature is written in a cursive, flowing style.

Pauline McCracken

Transmission Price Review Manager