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To generators, shippers,  
suppliers, network companies,  
consumers and their  
representatives, the sustainable  
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investors and other interested  
parties.

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Dear colleague

### **RIIO-T1: Publication of the revised business plans of National Grid Electricity Transmission plc and National Grid Gas plc**

The next transmission price control (RIIO-T1) is the first price control to be conducted under our new RIIO model (Revenue = Incentives + Innovation + Outputs). Under RIIO each network company is required to develop and publish a detailed business plan which demonstrates how they will deliver in the interests of both existing and future consumers.

On 2 March 2012 National Grid Electricity Transmission plc (NGET) and National Grid Gas plc (NGG) submitted their revised business plans for RIIO-T1. NGET and NGG have now published these plans at the following link: <http://www.talkingnetworkstx.com/our-business-plans.aspx>.

Effective stakeholder engagement is an important element of RIIO. To improve transparency and assist our analysis, we are encouraging stakeholders to review these revised business plans and provide us with feedback. This is the same process we followed when all of the transmission companies published their original plans<sup>1</sup>.

Please submit any written comments to [RIIO-T1@ofgem.gov.uk](mailto:RIIO-T1@ofgem.gov.uk), by **Friday 13 April 2012**. Unless clearly marked as confidential, responses will be published on our web forum.

Please contact [grant.mceachran@ofgem.gov.uk](mailto:grant.mceachran@ofgem.gov.uk) if you would like to discuss any of the issues in this letter.

### **Background and context**

The price control process under RIIO is different to previous controls. The objective of RIIO is to encourage network companies to play a full role in the delivery of a sustainable energy sector, and to do so in a way that delivers value for money for existing and future consumers.

A core component of the new process is the requirement on network companies to take into account the needs and views of their stakeholders in order to develop well-justified business plans. Each network company is required to develop and publish a detailed plan which demonstrates how they will deliver in the interests of both existing and future consumers.

<sup>1</sup> RIIO-T1: Transmission companies' business plans - publication and next steps – July 2011  
<http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/RIIO-T1busplans.pdf>

Under RIIO we are taking a proportionate approach to our scrutiny of companies' plans, ie that the level of our regulatory scrutiny will vary according to the quality of their plans. Companies that submit very high quality plans would also be offered the potential for agreeing price controls early – fast-tracking. Proportionate treatment and fast-tracking provide strong incentives for companies to submit well-justified plans.

In October 2011 we published our initial assessment<sup>2</sup> of the RIIO-T1 business plans. This set out our assessment of the quality of the plans and indicated those areas that may be suitable for proportionate treatment. On the basis of our assessment we concluded that SP Transmission Ltd (SPTL) and Scottish Hydro Electric Transmission Ltd (SHETL) may be able to resolve outstanding issues in their business plans in a timeframe consistent with fast-tracking. On this basis we retained SPTL and SHETL in the fast-tracking process. We have since published Initial Proposals<sup>3</sup> for those companies.

In the case of NGET and NGG we concluded that the scale of the work required to address the outstanding issues in their plans was too great to enable these to be resolved in a timetable consistent with fast-tracking. However, we did identify a number of areas of those plans that were suitable for proportionate treatment.

In line with the RIIO-T1 process, both companies were required to submitted revised business plans by 5 March 2012. Both NGET and NGG submitted their plans on 2 March 2012.

### **Specific areas where we seek views**

While we welcome views on any aspect of the companies' plans, there are a number of specific points on which we would particularly welcome feedback. These are set out below.

#### *Overall quality of the plans*

The companies are required to develop well-justified business plans.

- Do you consider that the plans are comprehensive and well-justified? Do they provide a clear understanding of what the company will deliver over the price control period?
- Do the plans include all relevant information necessary for you to understand the impact of those plans on your interests?

#### *Reflecting what customers value/ stakeholder engagement*

Under RIIO stakeholders have a greater opportunity to inform our, and network companies' decisions during the price control review process.

- Have the views you provided to the network companies been reflected in their plans?
- Do you consider that the plans reflect the interests of both existing and future consumers?

#### *Investment plans*

There is significant investment required in the transmission networks over the next price control period and beyond.

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<sup>2</sup> Initial assessment of RIIO-T1 business plans and proportionate treatment – October 2011  
<http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/busplanletter.pdf>

<sup>3</sup> RIIO-T1: Initial Proposals for SP Transmission Ltd and Scottish Hydro Electric Transmission Ltd  
[http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/SPT\\_SHETL\\_IP.pdf](http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/SPT_SHETL_IP.pdf)

- Do you consider that the companies have clearly identified and justified revenue allowances in their business plans to cover their network investment requirements?

#### *Financial proposals*

We put forward proposals in our RIIO Strategy Decision<sup>4</sup> to ensure efficient companies would be able to raise timely finance and to ensure they would be remunerated appropriately.

- Do you have any views on the package of finance measures proposed by the companies?

#### *Focus on sustainability*

RIIO is designed to provide network companies with strong incentives to step up and meet the challenges of delivering a low carbon, sustainable energy sector.

- Do you consider that the companies' plans set out an appropriate strategy that they will employ to play a full role in delivering a sustainable energy sector?

#### *Uncertainty and risk*

Companies are required to demonstrate that their proposals take account of the various risks and uncertainties they face and in light of these provide a strategy to deal with them efficiently.

- Do you consider that the plans present a comprehensive consideration of the sources of uncertainty they face, their potential impact on output delivery and a clear strategy for seeking to address uncertainty in the long term?

#### **Views welcome and next steps**

We welcome views on these issues or any other aspects of the business plans to inform our thinking in developing those proposals. We will consider views as part of our wider assessment of the companies' plans.

We intend to publish our Initial Proposals for both NGET and NGG in July 2012.

Yours sincerely



**Hannah Nixon**  
**Acting Senior Partner, Smarter Grids and Governance**

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<sup>4</sup> Decision on strategy for the next transmission price control: RIIO-T1  
<http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/T1decision.pdf>