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Dear Gary

ELECTRICITY DISTRIBUTION REBATES TO SUPPLIERS CONSULTATION RESPONSE

National Grid Transco (NGT) welcomes the opportunity to respond to Ofgem's consultation "**Electricity distribution rebates to suppliers**".

We agree that DNO incomes may materially deviate from target where there is a regulatory requirement to give substantial notice of changes to charges. The necessity to give a long notice period does lead to charging stability but also means that any revenue deviation is strongly linked to the accuracy of demand estimations made before charges are set. In situations where this deviation is substantial it is appropriate that a company is able to rectify the situation quickly to avoid either a large over or under recovery.

We agree that a five-month notice period for changing charges is onerous and that reducing this would allow companies to react more quickly to unanticipated changes in revenue flows. It is clear that precise demand forecasting is problematic in most industries and the ability to respond quickly to unforeseen demand fluctuations is a standard in most businesses. We support reducing the notice period to 60 days to allow more frequent changes in charges, and presume that Ofgem would propose a similar change to the Gas Transporter Licence.

We believe that there should be incentives on DNOs to accurately forecast demand and avoid substantial under or over recovery relative to their allowed revenue. However, it would appear that the penal nature of these incentives is encouraging DNOs to pay rebates rather than to lower their charges in the following year. We believe that this could be addressed by softening the asymmetry of interest penalties such that upside and downside adjustments are more closely aligned. In addition, we do not believe it appropriate to penalise DNOs who make accurate forecasts such that over or under recovery is small. We suggest that a deadband is introduced around the allowed revenue such that no interest is paid or payable until this is breached. Finally, we support a change to the applicable interest rate regime being introduced at the same time as a change to the notice period.

If you have any further questions please contact either Peter Bingham on 01926 65 5582 or myself.

Yours sincerely

By email

Tim Tutton