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Your Ref: Ofgem doc 16/07

Dear Robert

Transmission price control review: Draft licence conditions (gas) - second informal consultation

energywatch has had the opportunity to consider the proposed changes to the various transmission licences highlighted in this consultation. This response is non-confidential and we are happy for it to be published on the Ofgem website.

We have no specific comments on the proposed changes. It would be helpful when the formal consultation is published if a change marked version of the licence is issued as this is a lengthy document which takes time to read and understand.

We note that further restructuring of the special licence conditions is required to ensure that appropriate wording is developed to establish the price control formula, revenue restrictions, incentives, etc. We will await the publication of these conditions before we comment on whether these are 'fit for purpose'.

We note Ofgem's intention to separate the special licence conditions which relate to National Grid Gas (NGG)'s system operator (SO) role from those relating to its transmission owner (TO) role. We agree that it is neater to structure the licence in this way to make the incentives under each heading clearer and simpler to understand. However, the SO incentives scheme and TO price control must clearly delineate the recoverable revenue under each heading. If the split is clarified, it must be maintained and Ofgem must ensure as part of its regulatory remit that NGG is not able to recover revenue twice for activities which could fall under either scheme.

Consumers are best served by ensuring that costs are being efficiently and economically incurred in the operation of safe, secure and reliable networks. Improvements to the availability and transparency of actual data on costs and revenue will ensure that appropriate comparisons of NGG's performance can be benchmarked to establish best practice and prevent the potential for 'gaming' of the price control over the five-year period through managed over- and under-recovery.

We note that Special Licence Condition C13 will introduce the basis for the development of network output measures. We agree with the proposed wording, although the effectiveness of this licence condition will only be gauged once the

methodology which is required to fulfil the licence condition is produced and seen to be 'fit for purpose'. We agree with Ofgem's intention to increase the amount of information provided by NGG during a price control period which would streamline and inform the process for gathering data for future price control reviews.

We would support the development of licence conditions for more transparent and effective reporting of NGG's costs and revenue during the price control period to ensure that there is no inefficiency in the expenditure of the significant amounts of additional revenue which NGG has been allocated through the price control. The development of a Transmission Planning Code, as proposed by Special Licence Condition 11 should assist in understanding whether NGG uses an effective, economic and efficient approach when considering competing demands on the network from actual and potential connectees. Similarly, we believe that a transparent network model which can be developed with the involvement of industry will produce more optimal outcomes for efficiency and economic operation.

We note that the special licence conditions relating to the enduring gas offtake arrangements may be shaped further by the regime developed under the UNC. As there is currently an Ofgem impact assessment of the relevant NGG UNC proposal and its alternatives, we will await the outcome of the impact assessment and Ofgem's decision on the enduring regime, and how this may affect the licence conditions, before providing further comment.

Going forward, we will consider the final proposed licence changes when these are issued, always considering the possible impact on consumers. If you do wish to discuss our response further please do not hesitate to contact me on 0191 2212072.

Yours sincerely

Carole Pitkeathley
Head of Regulatory Affairs