

Rachel Fletcher
Director, Distribution
Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

www.nationalgrid.com

30 May 2008

Dear Rachel,

GDPCR – Review of process

We welcome the opportunity to comment on the Gas Distribution Price Control Review (GDPCR) process: we do so as the owner of four of the gas distribution networks which were subject to the review and as the owner of the regulated gas and electricity transmission networks which were reviewed one year earlier through TPCR4.

In keeping with the open letter, we will restrict our comments to the process itself and will not extend our comments to the policies adopted.

Overall, we would judge that the process followed for GDPCR was good – representing a considerable improvement over the process followed for TPCR4 and earlier reviews. In particular, as one of the reviewed companies, we would highlight the following.

- A practical timetable was set out at the start of the process which both Ofgem and GDNs were then able (largely) to stick to.
- We were given relatively early access to, and opportunity to comment on, the work undertaken by Ofgem's consultants.
- The consultation papers were well considered and clearly set out.
- We had adequate opportunity to present our case in writing and in person at both working level and Authority level.

The attachment picks up the more detailed points which arise from the questions in Attachment 2 of the open letter.

If you would like to explore any of the points made in more detail, please do not hesitate to contact me.

Yours sincerely

By e-mail

Paul Whittaker
UK Director of Regulation

Attachment – Detailed Comments from National Grid

- *General principles and objectives*
 - *Were the objectives of GDPCR appropriate?*
 - *Did our process conform to the principles of better regulation?*

Given the need to extend the price control by one year and then conduct a full five year review the objectives seemed appropriate and, from our perspective, the process seemed to meet the key principles of better regulation.

- *Preparatory work*
 - *Was our consultation on the process during the early stages of GDPCR useful?*
 - *Was there anything else that should have been done at the planning stage?*

The early consultation on process was useful – it contributed to establishing clear expectations on the timing and volume of workload for us and this helped the subsequent smooth running of the GDPCR.

- *Communication*
 - *How effective were the channels and methods of communication?*
 - *Would it have been possible to make more use of electronic communication compared to face to face meetings?*
 - *Were the appropriate individuals with responsibility for work areas within Ofgem clearly identified to interested parties?*
 - *Were we open and receptive to comment and criticism?*
 - *Did stakeholders have access to the appropriate levels of seniority within Ofgem to resolve issues as they arose?*

There was a pragmatic and flexible approach to communication throughout the review. Generally the most appropriate method was chosen on a case by case basis.

On the whole, we understood who the key contact points were within Ofgem for particular issues and those contacts were happy to engage in process and policy discussions in an open and straightforward way. There are always going to be practical and policy tensions in a process of this sort but they were largely dealt with in a professional manner.

We thought the access afforded to us through the process was appropriate and sufficient.

- *Meetings and working groups*
 - *Did participants find our meetings and working groups useful?*
 - *Were the right people invited?*
 - *Were there too many/too few meetings?*
 - *Were meetings focused on the right issues?*
 - *Were they held at appropriate stages of the process?*
 - *Were the discussions in meetings sufficiently transparent?*

Wider stakeholder engagement in an area with so many technical and detailed issues is always going to be a challenge. We thought the mechanisms which Ofgem deployed through GDPCR were a step forward from previous reviews and seemed to cover the relevant issues – it is probably for others to say whether they found them satisfying.

- *Balance between one year control/main control*
- *Did we spend too much time, too little time or about the right amount of time focussing on the one year control?*
- *Did any problems arise during the period when the two controls overlapped?*
- *Did our strategy of dealing with certain issues as part of the one year control work well?*
- *Did our strategy of explicitly rolling over the previous control in some areas work well?*

The approach to the two stage review seemed to work well and the careful planning of the overall programme ensured that overlap problems were minimised.

We thought the division of the issues between the two stages was sensible and appropriate given the particular circumstances.

- *Use of consultants*
- *Did we use consultants in an appropriate manner?*
- *Were consultants employed at the right time?*
- *Was the output from our consultants fair and unbiased?*
- *Should we be doing more or less of the work in-house?*

We consider that consultants were largely deployed appropriately – in terms of both the issues they covered and the point in the process at which they were deployed. Timely access to the efficiency consultants' work was a welcome feature of this review and contributed to confidence in the review process.

With the build up of regulatory reporting experience over the next three years it may well be possible for Ofgem to attempt more of the work in-house at the next review. However, Ofgem will still need to have access to specialist judgement in a number of areas and we think they should continue to plan to make extensive use of consultants at future reviews.

On the "fair and unbiased" point, and at the risk of veering into policy matters, we were not completely convinced by the efficiency reasoning which was presented by the various efficiency consultants; we considered much of it flimsy and/or opportunist. It is quite likely that the existence of more extensive and specific comparator data will present a more robust challenge at the next review but participants will still have to wrestle with the statistical limitations of such a small number of comparator data points.

- *Consultation documents*
- *Was the overall consultation process too lengthy, about right or too short?*
- *Did we produce the right amount and level of information so that all interested parties could understand the GDPCR?*
- *Were there too many/too few consultation documents? Were all relevant issues consulted on?*
- *Were the response periods for these documents sufficient? Was there any conflict in timescales with any other consultations?*
- *Did our documents give a fair and balanced account when respondents had contrary or conflicting views?*

The overall process seemed lengthy because it started, unusually, with a one year extension review. Given this structure, it is hard to imagine it being any shorter.

We considered the consultation documents to be of a high standard and, for the most part, they dealt comprehensively and reasonably fairly with the issues raised along the way.

It is difficult to judge whether the process would have been more satisfying with a smaller number of consultations but with perhaps more time for consideration. We felt that the GDPCR process – which

refined the “numbers” through Initial Proposals, Updated Proposals and Final Proposals – had sufficient room for discussion and debate to allow us to feel that our views had been understood and taken into account even if we did not agree with all of the final judgements which were then made.

The importance of “fair process” for those subject to review is very important and we will watch the DPCR5 process with some interest to see whether the high standard which we consider was achieved in GDPCR is maintained with the process changes which Ofgem is considering.

- *Use of impact assessments*
- *Were our impact assessments useful?*
- *Did we produce too many, too few or the right number of impact assessments?*

We think impact assessments, in principle at least, provide an important basis for policy development; however, as an element in the process, they are clearly still evolving. On the whole we think they provided a useful discipline in the GDPCR process.

- *Requests for and use of information*
- *Were our requests for information reasonable and proportionate?*
- *Was the consultation on draft information requests useful?*
- *Were consultants sufficiently integrated in the drafting of information requests?*
- *Did we give appropriate explanation and justification for our information requests?*
- *Did regulated companies have sufficient time to meet our information requests?*
- *Could we have avoided some of the initial information requests / follow-up information requests?*

We think it would be useful for Ofgem to review what proportion of the detailed data which we provided as part of this review was actually used in setting the price controls. The volume of data flow was very large indeed.

Having expressed these doubts, the information processes just about held together with a bit of sensible give and take on both sides.

As with the other preparations made in advance of the review, the time spent planning the data provision at the outset was invaluable. There were instances of poorly explained and poorly justified data requests – generally follow-up requests in response to issues which had arisen from an earlier request. A phone call to discuss the issue would almost always have helped.

- *Timeline*
- *Were the timelines for the various work streams appropriate?*
- *Which issues were addressed to soon/too late in the process?*

On the whole the timelines worked and, when they did not, pragmatic solutions were found. Most of the issues seemed to be dealt with in order of materiality – it is probably fair to note that the issues which were timed out were of lower materiality.

- *Regulatory consistency*
- *Were there any unexplained changes in regulatory policy during the course of GDPCR?*
- *Was the process followed during GDPCR consistent with your expectations?*

As previously stated, the policy decisions were generally clearly explained. In one or two instances, inevitably, we considered the justification weak.

- *Transparency*
- *Were the processes and analyses conducted by us and our consultants sufficiently transparent?*
- *Was the underlying data provided by GDNs sufficiently transparent?*

The consultants' processes and analysis were transparent and, on the whole, provided in a timely manner.

- *Access to Ofgem & the Authority*
- *Were interested parties satisfied with the extent that they were able to meet with Ofgem and/or the Authority during the GDPCR process?*
- *Was Ofgem properly represented at such meetings?*
- *Were Authority members willing to engage at appropriate stages of the process?*
- *Were these meetings productive?*

The access arrangements were satisfactory.

- *Process delivery*
- *Overall did the process work?*
- *Did we deploy sufficient resource, too much or too little and at the right time in the process?*
- *Were our teams comprised of the correct range of competencies to deliver an effective price control?*

Overall the process worked well with sensible adjustment of resources in the light of evolving issues.

- *Positive points*
- *What parts of the process worked well?*
- *Which elements added the most value to the process? What aspects should be retained for future reviews?*
- *Potential improvements*
- *How could the overall process be improved?*
- *What were the biggest problems with the GDPCR process?*
- *What changes should be made to the process to avoid a repetition of these problems?*
- *Other issues*
- *Are there any other observations that should be made regarding the GDPCR?*
- *Are there other issues we should be addressing in 2008 and 2009 as early preparation for GDPCR2?*

We would be surprised if the future processes between Ofgem and the reviewed companies strayed too far from the example provided by GDPCR.

The most immediate issue in preparing for GDPCR2 is establishing a stable regulatory reporting process.