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BY E-MAIL

Dear Paul

**Re: Changes to the licence fee cost recovery principles following the Consumers, Estate Agents and Redress Act 2007**

We welcome the opportunity to comment on the proposed revised licence fee cost recovery principles set out in Annex A to the letter referred to above dated 1 September 2008. This response is written on behalf of National Grid Electricity Transmission plc and National Grid Gas plc.

Our brief comments on the draft licence fee cost recovery principles are as follows:-

- the references in lines 6 and 9 of paragraph 1.2 to “gas distribution” should be replaced with references to “electricity distribution”;
- paragraph 2.2 confirms that the principles will apply “for the year 2008–09”. It could perhaps be clarified that this refers to the financial year;
- paragraph 2.3 includes the words “once the Secretary of State has made the necessary licence changes”. Whilst this form of wording appears within the current principles at paragraph 2.3, the necessary licence changes referred to were in fact directed on 31 January 2006. This point is later acknowledged at paragraph 2.17 of the proposed principles. Accordingly, the wording that appears within brackets in lines 3 and 4 of paragraph 2.3 can now be removed;
- bullet points 2, 3 and 7 of paragraph 2.5 refer to the “appropriate proportion” of various expenses. Given that the principles are intended to provide clarity and certainty for the purposes of the definition of “relevant proportion” within the licence fee payment condition in various licences, this “appropriate proportion” formulation is somewhat circular. It is suggested that, at the very least, further clarification is added within these items to make it clear that the expenses in question are only those that relate to the gas and electricity industries;

- it is suggested that in the fourth bullet point of paragraph 2.5 the reference to “CEAR Act” is replaced with a fuller reference to the “Consumers, Estate Agents and Redress Act 2007”;
- paragraph 2.10 needs to be expanded to clarify the description of the NTS as per paragraph 2.10 of the existing principles. The existing widely used definition of the NTS is described by reference to National Grid Gas plc’s Ten Year Statement. Accordingly, the words “as such and described in National Grid Gas plc’s Ten Year Statement” need to be added at the end of paragraph 2.10;
- in paragraph 2.13 the “the” after “only” in line 4 should be deleted; and
- in Appendix 2, after the definition of “electricity customer”, the text within the “source” section needs to be updated in order to reflect the modifications made to the electricity distribution licences on 30 May 2008. The Regulatory Instructions and Guidance now appear within SLC48.

If you wish to discuss any of the points raised within this letter, please do not hesitate to contact me.

Yours sincerely

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