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11 May 2009

Dear Stuart

Determining Revenue Drivers for Entry and Exit Points: Canonbie and Gilwern

National Grid Gas NTS welcomes the opportunity to respond to Ofgem's consultation on Determining Revenue Drivers for Entry and Exit Points: Canonbie and Gilwern. This letter provides our response to the questions raised¹ on the unit cost assumptions and approaches that should be taken into consideration in the setting of these revenue drivers.

Question 1: Do you agree with our provisionally preferred option regarding costs assumptions i.e. Option 1a which uses the unit cost assumptions as employed at TPCR4?

As one of the principles behind setting revenue drivers is to reflect the costs which would be incurred by National Grid in investing to provide incremental capacity, it would appear appropriate to use the latest available information to update the unit cost assumptions² that feed into their calculation. Updating these assumptions would help ensure that the incentives on National Grid to invest in the network are set at the correct level, reflecting the prevailing investment costs.

We do however recognise the practical implications of reviewing the unit cost assumptions and the precedent this may set for future revenue drivers. Any review would require significant input from National Grid, Ofgem and the industry. This could lead to an increase in the time taken for new revenue drivers to be calculated and added into the licence. In the worst case this could result in a delay to a party's ability to apply for capacity through the auction and application processes.

On balance we believe it is appropriate to support Ofgem's proposed Option 1a (using the unit assumptions from TPCR4). We believe a review of the unit cost assumptions mid price control period may only be required for a large investment project where the TPCR4 assumptions were significantly misaligned from the incremental costs that the revenue driver was attempting to reflect.

¹ Questions raised in Chapter 5 (Cost estimation) of the consultation document

² The current unit cost assumptions were set as part of TPCR4.

Question 2: Do you agree with our provisionally preferred option regarding the remuneration of gas telemetry measuring equipment i.e. Option 2a to include it along with other reinforcement work when calculating the revenue driver?

The revenue drivers currently operate on an increment unit (per GWh) basis. However some of the investment that may be required to meet an incremental capacity request will be fixed cost items which are not dependent on the size of the requested increment, particularly for a new ASEP.

Gas telemetry measuring equipment is one example of a fixed cost item, but as there are other examples it does not currently appear appropriate to consider a separate approach to the remuneration of this one fixed price item. We therefore support Ofgem's preferred Option 2a to include the costs of gas telemetry measuring equipment along with the other reinforcement work in calculating the revenue drivers for Canonbie and Gilwern.

In the longer term, separating the treatment of fixed cost items and variable (per GWh) items in setting revenue drivers may be one area that merits further consideration at the next Transmission Price Control Review.

Question 3: Do you agree with our preferred approach of including a revenue driver of £1,304 per GWh/day per year for incremental capacity at Gilwern in NGG's gas transporter licence?

As the proposed revenue driver is based on the uprating solution recommended by National Grid, we support Ofgem's approach on the revenue driver for Gilwern.

Question 4: Are there any other considerations which we have not highlighted which we should have taken into account?

We do not believe there are any other considerations that should be taken into account for the calculation of revenue drivers for Canonbie and Gilwern. To ensure that any future consultations run as smoothly as possible we would fully support Ofgem's proposal to consult on a generic revenue driver methodology and would suggest that this should be commenced at the earliest opportunity.

If you require any further information then please contact either myself or Mark Brackley (01926 656024).

Yours sincerely

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