



**Legal, Regulation and
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Duncan Innes
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[By E-mail: Duncan.innes@ofgem.gov.uk](mailto:Duncan.innes@ofgem.gov.uk)

Dear Duncan,

Re: National Grid Electricity Transmission and National Grid Gas Licence amendment to include an Income Adjustment Term.

Thank you for the opportunity to comment on the consultation document detailed above. This non-confidential response is on behalf of the Centrica group of companies excluding Centrica Storage Ltd and may be placed on the Ofgem website and in the Ofgem library.

Centrica has a number of concerns about the consultation, we have found that the very limited information in the document has made it difficult to assess and respond to effectively.

Whilst we appreciate that some aspects of the proposed expenditure may need to remain confidential for security reasons, we believe that additional information could have been provided. In addition, it is our understanding that security on NTS sites (whether gas or electricity) has always been high and it would be helpful to understand the general type of additional measures which have been deemed necessary.

The consultation notes expenditure of around £250m which is a significant sum. This appears to be an increase of c. £150m over what was previously forecast which is expected to increase transmission charges by c.2%. It is not clear if this is the total amount; whether this is potentially an amount per price control period and whether an ongoing annual "maintenance" sum is also required; over what period the additional amounts will be collected and when the change would be implemented. In addition, the consultation does not indicate the proportions of the costs allocated to each of gas and electricity.

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Given the scale of the extra revenue, if the change is to be implemented at short notice, we propose that consideration is given to a phased implementation, which might suggest that the most appropriate approach would be a logging up mechanism. In terms of the capex to be spent, it would be useful to provide examples of the type of expenditure required and any necessary ongoing opex.

In addition, we believe it would be appropriate to advise as soon as possible information on the equivalent amounts expected for the Scottish Transmission Licensees, and whether any additional sums are to be expected for the Distribution Licensees, again split by gas and electricity. This, together with the information items requested above, will help respondents better understand the overall impact on customers and respond effectively with their view of the appropriate way forward, which may vary according to whether expenditure is one off or ongoing.

In the consultation, reference is made to the previously expected cost being £100m and the intention to employ a logging up mechanism into the next price control period. In our view, NGET and NGG should have made provision for these costs during the price control discussions. A clear explanation is also due to stakeholders such as customers, shippers and suppliers as to how such a large under-forecast could have arisen.

Specific questions raised in the Consultation:

Chapter One

Question 1: Do you consider the request by National Grid for an equivalent license term to the two Scottish transmission license holders to be reasonable?

In terms of the specific proposals, whilst Centrica has serious reservations on the principle of such a large adjustment in the absence of a full consultation process, we would agree that it is reasonable for the network companies to be treated consistently.

However, in view of the scale of the adjustment, and the potential impacts, we strongly believe that this adjustment should be the subject of a phased approach.

Question 2: Do you consider that licensees should have to wait for up to five years before receiving recompense on expenditure incurred at the behest of government?

Subject to the comments already noted, we consider that it is reasonable to treat the companies consistently.

Chapter Two

Question 1: Which of the "alternative treatments" do you consider the most appropriate?

Leaving our reservations aside, as a principle we would support an approach based on actual rather than forecast costs, especially in view of the poor forecasting to date in this area. This approach must be subject to robust challenge and reporting of the expenditure based on strict value for money audits.

In the absence of information setting out the relative impacts on gas/electricity and the period over which the £250m is to be spent, we have been unable to model the impacts of the various options to assess whether all options impact GB consumers equally.

As we are not able to carry out such modelling, we request Ofgem to provide indicative calculations for the impact on price control revenues and customer prices (and the phasing of any expected impacts) of each option.

Without the information or calculations described above, we are unable to give any more definitive answer to this question.

Question 2: Which of the "alternative rates of return" do you consider the most appropriate?

We have experienced the same difficulties with this question as the one above, namely in the absence of either sufficient information to model, or illustrative calculations, we are not able to give a definitive answer.

However, again reverting to general principles, (and in the absence of detailed information on what the expenditure covers) it does not seem likely that this general type of expenditure would be viewed as a capital investment on which maximum returns should be earned. If that were the case, presumably NGET and NGG would have sought capex to support such investment during the price control process and hence would not be seeking this adjustment.

On this basis, it is probably appropriate that the companies only cover their costs and should not be permitted to make additional returns on such expenditure. This would indicate that if a rate of return is required, it should be only the cost of debt, not the WACC.

In conclusion, Centrica is concerned that the consultation has not provided sufficient information; for example on the gas/electricity split, the reasons for the "over-spend" and how NGET and NGG have met the objectives in a cost effective way; for us to be able to support the proposals or form a definitive view on the most appropriate way forward.

We trust these comments have been useful, but if you would like to discuss any of these points in more detail, I should be happy to help.

Kind regards,

Yours sincerely,

By e-mail

Alison Russell
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