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23<sup>rd</sup> September 2008

## **National Grid Electricity Transmission and National Grid Gas License Amendment to include an Income Adjustment Term**

Dear Duncan,

RWE npower welcomes the opportunity to comment on the above proposal and does so on behalf of all its licensed gas and electricity businesses.

Whilst we accept that the consultation is not about the merits of the security expenditure, which is provided for in the Counter Terrorism Bill (although this has yet to gain Royal Assent), it would be useful if more information could be provided about the break down and timing of actual and forecast expenditure between gas and electricity transmission networks, the extent of any opex expenditure resulting from these measures and the extent, breakdown and timing of the actual and forecast expenditure across the transmission network owners. This would enable market participants to gain a better understanding of how these costs are likely to influence the setting of actual transmission charges rather than just having to rely on the high level percentage view stated in the consultation (approximately 2%).

Whichever methodology is agreed for National Grid to recover these costs from network users, and ultimately customers, we would expect them to provide full transparency to network users of the independently audited costs incurred. Bearing in mind the sensitivity surrounding the details of what security measures have been taken however, we would not expect this transparency to extend to details of the work.

Of the four options under consideration for treating these costs we favour continuing with the current logging up mechanism. This is on the basis that National Grid would have been aware of the potential risk of incurring significant security expenditure which could not be fully recovered until the next price control and accepted this as part of the overall current price control settlement.

However, to the extent that a term (OPTC<sub>1</sub>) already exists in National Grid Gas's Licence, which provides for security expenditure to be treated as an annual cost pass through item within the period of the current price control, and as the Scottish electricity transmission licences included a term which could be used (along with other events) to recover costs in the same period, National Grid may have had

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legitimate grounds for assuming that the logging up mechanism would ultimately be replaced by a more immediate cost recovery mechanism.

If a more immediate cost recovery mechanism is felt to be appropriate then bearing in mind the indicative scale of the costs, our preference would be for them to be recovered by way of a common income adjusting event term applicable to all licensees. This should avoid short term material increases in transmission costs that would arise from using a pass through term and instead spread the costs more evenly over the life of the assets.

Whilst we have some sympathy with the principle of applying a lower rate of return to any security expenditure incurred by transmission network owners, in our opinion this would not be appropriate at this time. Had the extent of the expenditure been known earlier then provision for it would have been made in the allowed revenue at the negotiated rate of return applicable to the overall price control settlement. Applying a separate rate of return, or only the cost of debt, to this expenditure would be inconsistent with the current regulatory regime, although we expect Ofgem to remain vigilant in assessing the ex post efficiency of any security expenditure at the next price control review.

Should you wish to discuss our response in more detail please do not hesitate to contact me.

Yours sincerely,

Steve Rose  
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