

Arrangements for Responding in the Event that an Energy Network Company Experiences Deteriorating Financial Health

National Grid plc Response to Consultation Document dated 11th May 2009

National Grid owns and operates the high voltage electricity transmission system in England and Wales, and as Great Britain System Operator (GBSO), we operate the Scottish high voltage transmission system. National Grid also owns and operates the gas transmission system throughout Great Britain and through our low pressure gas distribution business; we distribute gas in the heart of England, to approximately 11 million offices, schools and homes.

Through our subsidiaries, National Grid also owns and maintains around 20 million domestic and commercial meters, the electricity Interconnector between England and France, and a Liquid Natural Gas importation terminal at the Isle of Grain.

This short note sets out our views on some of the questions set out in the above consultation document. This submission is not confidential and may be published.

CHAPTER: Four

Question 1: Do respondents consider the guidance document accurately reflects the individual stages in the pre-administration process as set out Chapter 3? Are there any other stages that should be reflected?

The individual stages in the pre-administration process are adequately covered.

Question 2: Do respondents have any views on Ofgem's existing arrangements for monitoring financial health set out in Chapter 3 and Appendix 5 of the guidance document? Do respondents consider these should be augmented and, if so, in what ways?

Question 3: Do respondents have any comments on the existing financial ring-fencing provisions as summarised in Chapter 3 and Appendix 5 of the guidance document? Do respondents consider these are effective? Do respondents consider these arrangements should be augmented and, if so, in what ways?

As Ofgem note, the existing monitoring and ring-fencing arrangements would not necessarily provide forewarning of a very sudden unexpected increase in cash requirement for a PEC as for example when:

- i it needs to refinance some of its debt unexpectedly (e.g. because of a breach of covenant that has been triggered by market conditions)
- ii it needs to fund a material increase in pensions deficit triggered by an actuarial review.
- iii an expected source of cash becomes unavailable (e.g. through a bank defaulting on a deposit or committed borrowing line).

However, given the nature of such requirements, it is not clear what additional monitoring could give effective warning of such circumstances.

Question 4: Do respondents have any views on the proposed process and triggers for reopening/disapplying price control as set out in Chapter 4 of the guidance document? Do respondents have any views on potential improvements to these arrangements?

Ofgem have limited the ability of network companies to use the reopening of a price control as a tool to address issues they may have, because the provisions allowing them to disapply their

revenue restrictions generally operate in such a manner that the price control will continue in place for at least 18 months after the disapplication is sought. In essence, the rules mean that the price control cannot be disappplied by the licensee in the "second half" of the five-year period it applies to. As such, any reopening of the price control remains solely in Ofgem's gift (especially in the context and timescales of financial difficulties arising). It would be appropriate to consider licence amendments to accelerate these timescales and remove the 18 month limit where a company can demonstrate that continuing with the current price control is more likely than not to lead to financial distress.

In the case of very sudden cash requirements (as set out above) it would rarely be appropriate, or sufficiently quick, to deal with such circumstances via a price control reopener. The alternative, forcing a PEC into energy administration and then providing funding from DECC, would be likely to trigger repayment clauses in all of its debt and require full restructuring of the PEC's finances. Providing an alternative facility to avoid such drastic measures for an otherwise financially sound PEC would be far preferable.

Following the example of the UK Government making funds available to critical institutions, Ofgem (with government) might consider whether it would be possible to establish a facility on a similar basis. Any PEC would be able to apply to Ofgem for the use of this facility and the facility should be available at short notice (i.e. less than 5 days from application to distribution). Use of the facility could trigger similar provisions to the cash lock up provisions in the licences.

CHAPTER: Six

Question 1: Are there any other aspects of the legal framework which should be covered in Appendix 1 of the guidance document?

No comment.

Question 2: Do respondents have any views on the accuracy of the list of PECs and other network operators set out in Appendix 2 of the guidance document to whom it is proposed that document would apply?

The relevant organisations for National Grid are National Grid Gas plc (which holds both gas distribution and gas transmission licences) and National Grid Electricity Transmission plc.

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