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Our Reference CB/misc

Dear Cheryl,

**Enhanced Transmission Investment Incentives – 8 September 2009 consultation
– National Grid Response**

We welcome the opportunity to respond to this consultation as we believe it is now widely recognised that there is a need to put in place a framework for progressing the network developments that will be needed if the Government's 2020 renewable targets are to be met. We remain fully committed to playing a pivotal and pro-active role in both facilitating the connection of renewable generation and appropriately integrating them to help reduce carbon emissions to tackle climate change.

Having played a central role at the ENSG in identifying the potential technical solutions to facilitate meeting the 2020 renewable targets, we have worked hard since then, with Ofgem, to develop a regulatory framework for anticipatory investment that meets the principles that Ofgem identified (i.e. that network companies would share the risk if these works prove less than ideal when eventual use is known). The framework that has been developed removes the current barriers to investment that we can see and provides a mechanism to protect consumers from inappropriate levels of risk. Given that the basic construct of an enhanced incentives regulatory framework has now been developed, it should enable Initial Proposals to be developed in November, taking into account the initial conclusions from Ofgem consultants assessing National Grid's project nominations. Publication of Initial Proposals in November should enable Final Proposals to be developed by January. We suggest that all efforts should be made to meet these timescales to ensure the regulatory arrangements do not impact on the timely delivering of these reinforcements.

We do not support the alternative options contained in the consultation as they delay the setting of a regulatory framework for these investments. If we are to meet the Government's 2020 targets then now is the time for action rather than further lengthening the consultation process and increasing regulatory uncertainty around these pivotal reinforcements.

Within the context of the above, we support Ofgem's process of seeking to prioritise the setting of the scheme specific parameters based on the spend profiles provided to Ofgem by

the Transmission Owners. It is important, however, that agreement is reached in a timely manner for all schemes with significant spend in this price control not just schemes with material spend in 2010/11.

Appendix 1 provides a summary response to the questions contained in the consultation. These responses should be read in conjunction with the bilateral correspondence and dialogue that has taken place between National Grid and Ofgem over recent months.

Finally I would like to reiterate our commitment to finalising the development of an enhanced incentives regulatory framework in line with the current default timescales (Final Proposals January 2010). We believe such an approach is crucial to ensuring the regulatory arrangements do not impact on the timely delivering of these investments.

If you have any further questions on the response please do not hesitate to contact me.

Regards

Chris Bennett

Appendix 1 – Response to the specific questions in the consultation

Chapter 2

Qu 1: Do respondents have any comments on the information provided on the projects nominated for funding consideration?

Significant information has been provided to Ofgem and more latterly their consultants on the projects nominated for funding consideration. We believe the information provided to Ofgem and their consultants to be sufficient to enable an enhanced incentives regulatory regime to be developed into Final Proposals by January 2010.

Qu 2: Do respondents agree with our proposed approach to taking forward the assessment necessary for consideration of all requests for further funding during the current price control period, including SHETL's requests in relation to Knocknagael and the Shetland connection?

We agree with the proposed approach to take forward the assessment necessary for consideration of all requests for further funding during the current price control period.

Chapter 3

Qu 1: Do respondents consider that we have appropriately summarised the views of respondents to our December consultation?

We have assumed Ofgem have captured the views on respondents appropriately.

Qu 2: Do respondents have any views on our proposed funding framework based on categorisation of projects in terms of risk profile and urgency for clarification of funding?

As detailed in our response we support Ofgem prioritisation of projects within the context of meeting the overall timescale of Final Proposals by January 2010. We believe sticking to these timescales is the best way to ensure the regulatory arrangements do not impact on the timely delivering of these investments.

Qu 3 & Qu 5: Do respondents agree that our work should focus on projects which are planned to commence construction within the current transmission price control? In terms of scope of funding, do respondents have any views on whether our funding consideration should include funding of pre-construction work in projects not due to commence construction within the current transmission price control? Do respondents have any views on the options for provision of such funding?

We agree that work should initially focus on those projects which are planned to commence construction within the current transmission price control. Pre-construction funding should also be provided if the case can be made that it is necessary to facilitate meeting the 2020 targets. The mechanism already used for pre-construction funding in 2009/10 seems a logical option.

Qu 4: Do respondents have any views on the appropriate scope and form of funding for projects with different risks?

We believe the basic construct of the enhanced incentives regulatory framework that has now been developed can be tailored to cater for the scope and form of projects with different risks. We would anticipate bilateral discussions with Ofgem on this following the initial conclusions from Ofgem's consultants.

Qu 6: Do respondents have any views on the appropriate "building blocks" for a funding mechanism and the principles which should be adopted in the development of funding mechanisms for the projects nominated for our consideration under TO incentives?

Bilateral correspondence with Ofgem articulates our views on the key "building blocks" for the anticipatory investment mechanism. Please refer to this correspondence as our response to this question.

Qu 7: Do respondents have any views on the interactions with the RPI-X@20 project or adoption of a competitive approach for the projects nominated by the TOs?

It is unclear at this time as to whether the focus and objectives of the RPI @20 project are those that are needed to address the particular barriers and issues trying to be addressed by the transmission investment incentives. While there is likely to be an overlap of policy issues, we need to ensure that the development of specific incentive improvements is not delayed by being placed in a larger review basket. We recognise one of these overlaps is potentially the concept of a competitive approach for the projects nominated by the TOs. Our work over the last year in developing these investment projects has identified both the need to act now if we are to meet the Government 2020 targets and the interaction between some of the schemes in terms of both system design and capacity delivered. Any consideration of introducing a competitive approach for these investments would need to address these issues and not impact on the timely delivery of the investments.

Chapter 4

Qu 1: Do respondents have any views on our proposed approach for taking forward our work on TO incentives further measures?

As mentioned in our main response, we remain committed to developing the appropriate regulatory framework to take forward the projects identified through the ENSG process. With continued bilateral dialogue we should proceed to Initial Proposals in November and Final Proposals in January.

Qu 2: Do respondents have any views on the potential adoption of an accelerated process for certain licence changes?

The timeline we propose results in Final Proposals in January with the licence changes taking effect by 1 April at the latest.

Qu 3: Do respondents have any views on the options for alignment with the outputs of the RPI-X@20 project?

Please refer to the answer provided to Question 7 in Chapter 3.