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Mr David Hunt
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Office of Gas and Electricity Markets
9 Millbank
London
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Mr Paul Whittaker
Director, UK Regulation

23 April 2010

Dear David,

Reference – Transmission Price Control 4 – Scope of the 'adapted roll over' (2012-13) consultation

National Grid own and operate the high voltage electricity transmission system in England and Wales and as National Electricity Transmission System Operator (NETSO) operate the Scottish high voltage transmission system. National Grid also own and operate the gas transmission system throughout Great Britain and through our gas distribution business distribute gas in the heart of England to approximately 11 million offices, schools and homes. The issues addressed in this consultation directly affect National Grid.

The response is in two parts, this covering letter sets out National Grid's high level view of Ofgem's proposals and an appendix covers the detailed questions set out in Ofgem's consultation document.

National Grid welcome the principles outlined by Ofgem (section 2.1) and in particular the commitments to proportionality and not to delay critical investment. National Grid are broadly in support of most of the high level proposals with the exception of the proposed approach to the review of the cost of capital and pensions.

There is a need to lock down a detailed process in order that the networks can plan the effective delivery of the review. Good process should be a matter of course in these reviews and something that all parties are able to agree to collaboratively and rapidly with an aim of minimising the burden of the process. National Grid therefore welcome the steps Ofgem have made to progress the process discussion through the process meeting on the 23rd April 2010.

Protecting current and future consumers is a key element of Ofgem's remit and is used by Ofgem as one of the criteria to assess the options proposed within the consultation document. National Grid recognise that there are limitations to a one year review and suggest that the negatives which arise through the proportionality constraint can be mitigated by acknowledging that adjustments for 2012/13 are effectively 'on account' pending a detailed review within the TPCR5 review. There is precedence for this approach as within the 2007/08 revenue allowance for NGET a 'mini review reconciliation' term was incorporated which effectively amended the 2006/07 revenue allowance. This precedent is a useful protection mechanism for consumers and licensees.

Ofgem's proposal to review and potentially amend one element of the regulatory agreement, the cost of capital, would appear to be at odds with the desire for proportionality. The cost of capital is just one of the elements in a package deal which was 'accepted in the round' by the networks at the end of the TPCR4 negotiations. To open up one element selectively and not the others (such as incentives and policy) undermines the 'package'.

Ofgem have been clear in their belief that a review of cost of capital for this one year review is in consumers' interests. An overt prioritisation of this element of Ofgem's obligations could result in a more detailed review than seen in previous roll-overs with deeper scrutiny of historic costs however this should be balanced against the requirement for proportionality, also supported by Ofgem. National Grid remain of the opinion that it is not appropriate to open up discrete elements of a packaged deal without reviewing the other elements as well, which would not be a proportionate approach to a one year review.

National Grid's view is supported by the clear precedent set in the one year price reviews set for National Grid electricity transmission in 2006/07 and gas distribution in 2007/08. In each of these cases Ofgem considered whether a review of cost of capital would be proportionate to a one year review and concluded that: -

> "*Ofgem considers that it would not be appropriate to undertake a detailed review of the cost of capital*".[1]

and

> "*We do not consider that rolling forward the cost of capital, but calculating a specific tax allowance, is inconsistent with the spirit of the one year control*" [2]

Ofgem have stated a desire to not delay critical investment to facilitate the achievement of the government's carbon targets. Implicit in this is the research and development which networks will carry out to develop and explore innovative and new ideas. This work has been supported by the 'Innovation Funding Initiative' (IFI) which has been a real success story for TPCR4 and has been built on by Ofgem within DPCR5 through the introduction of the Low Carbon Network Fund within DPCR5. The IFI scheme was capped at 0.5% of revenue and National Grid would welcome a review of the level of funding within the scope of the 'adapted roll-over' with a request for Ofgem to consider increasing the level of funding to allow National Grid to invest in valuable schemes which will support innovation and the ambition to decarbonise the industry in conjunction with other industry participants.

National Grid look forward to working proactively with Ofgem to conclude the scope of the 'adapted roll-over' and would welcome further discussion on any of the points raised in this response if required.

Yours sincerely

Paul Whittaker
Director, UK regulation
By email

[1] Final proposals for the roll-over of NGET licence for one year in 2006/07
[2] Gas distribution price control review – one year control final proposals, December 2006 (reference 205/06)

These points should be read in conjunction with the general points raised in the covering letter.

Chapter 1	
	No questions
Chapter 2	
1.	**Do you agree with the objective for the one-year 'adapted roll-over' set out in this chapter? Are there additional objectives that should be included?**
	National Grid agrees in principle with the objectives and supports the concept of proportionality and the commitment not to delay critical investments. In terms of additional objectives Ofgem could include an accelerated conclusion of the review to allow an earlier focus on the TPCR5 review. Potentially contained within the 'not to delay critical investment' objective already, the concept that the future challenges faced by the networks do not just relate to capital programmes should be foremost in Ofgem's mind as aspects such as manpower and resource planning (the challenge to attract, retain and train a sufficient volume of appropriately skilled personnel) and developing the transmission systems to meet the needs of a future-proof 'smart' transmission network will need to be taken into consideration with the 'adapted roll-over' discussions. The concept of proportionality can be applied to the proposed process. The process will remain uncertain until Ofgem determine the scope of the review (estimated to be July 2010) and therefore the volume of data and narrative the licensees will be required to submit will remain unknown until this time. With a number of regulatory processes running in parallel, the process and timetable should be considered within the wider context of the parallel workstreams (such as the Regulatory Reporting Pack (RRP), ENSG/anticipatory investment, RPI-X@20 and Project Discovery) to ensure the principles of proportionality and avoidance of unnecessary duplication are maintained.
Chapter 3	

1.	**Do you agree with our intention to include TO and SO components in the one year 'adapted roll-over'?**
	Whilst recognising that TO allowances have a greater significance in terms of their impact on the end consumer and thus merit greater consideration in the 'adapted roll-over', National Grid agree that SO allowances will need to be considered. As discussed with Ofgem in the RRP workshops there are some key challenges that the System Operator is facing with respect to resourcing and recruitment, IS system, changes and the increasing impact of market reform and Europe during TPCR4. These challenges and related necessary investments will continue into 2012/13 and will be added to by further incremental challenges as outlined in National Grid's response to question two below. There is a requirement to reassess the funding for the expansion of the electricity SO's role offshore in the 'adapted roll-over' as this expires at the end of 2012. Therefore we welcome both TO and SO components being included in the one year 'adapted roll-over'.
2.	**Do you agree with the three options we have identified regarding the treatment of capex? Do you agree with our 'minded to' position, i.e. option 2?**
	Within the three options provided, it is unclear whether the Regulatory Asset Value (RAV) will be updated for 2012/13. This therefore leaves the question of whether the assets which have been classified as 'logged up' and 'regulatory work in progress' will be addressed as part of the 'adapted roll-over'. It was the intention within the TPCR4 final proposals for these matters to be: - "*included within the RAV from 1 April 2012 including an allowance for financing costs and depreciation incurred during the period of logging-up*" subject to an efficiency assessment. In the same way, consideration should be made for other necessary and efficient capital overspends which would normally be assessed for inclusion from 1 April 2012.

National Grid's proposal for these assets would be to include the assets in the RAV from 1 April 2012 with an allowance for financing costs and depreciation incurred during the period of logging-up (as applicable). The efficiency of this spend can be fully assessed within the TPCR5 efficiency review of all TPCR4 capex spend, with an adjustment made (if required) at 1 April 2013.

Capex option 2, being Ofgem's 'minded to' position, includes a partial review of historical capex to support the evaluation of forecast capex based on the principle that an assessment of historical capex is valuable in informing judgements about the validity of companies' forecast capex. The potential for an overlap with the TPCR5 review is a potential risk here and the risk of inefficiency must be high.

There is scope for a fourth option to be considered: - option 4 - focus on forecast capex, using the existing RRP information as a review of the historic capex to support evaluation of future capex. This option would reduce the burden on Ofgem and the networks and would make use of the RRP submissions in line with the original intent for these submissions. Use of an adjustment (if required) within the first year of TPCR5 would ensure that consumer interests were protected in the event that any inefficiencies were determined once a full review is carried out within the TPCR5 review.

While the document outlines that SO components will be considered in the 'adapted roll-over' and that the assessment of SO opex will follow the same broad approach as for the TO, it is not clear from the document how SO capex will be assessed for the 'adapted roll-over'. While National Grid recognises that TO allowances have a greater significance in terms of their impact on the end consumer, it has been assumed that the same approach to reviewing TO capex will apply to the SO elements. National Grid believes that this is the right approach given the challenges faced and the key nature of 2012/13 for the industry and the SO. To illustrate: the challenges anticipated in 2012/13 for the SO include the hardware and software refreshes of critical IS systems and development of IS systems capable of allowing efficient operation of the more

	complex electricity system following the connection of new renewable/low carbon sources of generation.
3.	**Do you agree with the four options we have identified regarding the treatment of opex, do you agree with our 'minded to' position, i.e. option 3?**
	In outlining four options in determining the opex allowance for the 'adapted roll-over' National Grid believe that Ofgem have identified a robust set of options. National Grid agree that that option 1 would be the least burdensome but Ofgem are correct to dismiss this as 2012/13 is a pivotal year in achieving 2020 carbon reduction targets[3]. As such, allowed opex expenditure will need to be reflective of the volume of work that is required. At the other end of the spectrum National Grid agree that a full top down and bottom up assessment of opex, as outlined in option 4, is not appropriate for the "adapted roll-over". Left with option 2 and 3, National Grid agrees that a considered approach will need to be adopted in determining the opex allowances however further clarity is required on the specifics of these options. The 'minded to' option for allowances consists of: *"Opex rolled forward based on average of costs in up to the first three years of the control with a consideration of forecast opex."* National Grid have interpreted this and the objective of the adapted roll-over to not delay critical investment as meaning that opex costs in 2012/13 for activities that did not exist in the first three years of TPCR4 will be considered in determining the allowances. National Grid believe that such activities include

[3] Reference Project Discovery – options for delivering secure and sustainable energy supplies (reference 16/10) page 8:

> *"…the period around 2012 and 2013 could be important for investment decisions. Although our scenarios do not indicate concerns over supply security until beyond the middle of the current decade, the timescales required to secure finance, mobilise supply chains and deliver the infrastructure needed suggests that the period around 2012 and 2013 could be important for investment decisions critical to future secure and sustainable energy supplies. Hence, there is a window of opportunity between now and then to implement any policy measures that may be necessary to make sure that investment takes place in a timely fashion."*

	the costs for critical skill resource recruitment / training and research costs for the SO's operation of the more complex system in the future. Without allowances further risk is added to the ability of the industry to transition to a low carbon energy sector in an optimal manner. In an attempt to lessen this risk National Grid is already spending unfunded opex in these areas during TPCR4 but with 2012/13 being closer to 2020, the immediacy will increase (as articulated within Project Discovery[3/4]). National Grid's historic opex profile does not fully reflect the maturing asset management philosophy which has been developed and applied within TPCR4. As asset replacement volumes increased over recent year, this has facilitated an improved knowledge and understanding of asset families and their conditions. This maturing knowledge and improved understanding of the whole-life cost of assets has allowed National Grid to increase the asset lives of some asset families in certain circumstances, reducing the whole life cost however increasing opex in the short term. An opex profile will need to cater for this evolving asset management strategy. Finally, option 3 includes the application of a company specific efficiency factor. National Grid would welcome clarity from Ofgem on how this will be determined.
4.	**Do you support our intention not to pursue new policy issues as part of the one year 'adapted roll-over'?** **In particular, do you agree with our position not to assess in the 'adapted roll-over' those projects that were nominated under the Enhanced TO Incentives project?**
	With regards to new policy issues, National Grid agree in principle that new policy development would not meet the proportionality restriction within a one year negotiation. However a review of certain existing policies would be welcomed. For example, the Innovation Funding Incentive (IFI) which was

[4] Reference Project Discovery – options for delivering secure and sustainable energy supplies (reference 16/10) page 6:

> *"The earlier action is taken, the more options there are available and the more cos effective that investment is likely to be."*

	introduced in TPCR4 has been exceptionally helpful in encouraging networks to invest in research and development schemes which encourage innovation. The scheme was capped at 0.5% of revenue. National Grid would value an opportunity to discuss expanding the scope of this existing policy in order to further encourage industry investment in this valuable research and to support the efforts being made by the distribution networks through the Low Carbon Network Fund. This would provide a proportionate transition from the current IFI scheme to the Specific Innovation Stimulus proposed within RPI-X@20. With regards to the proposal to keep separate the projects nominated as 'enhanced TO incentive projects' it is noted, that as time progresses, many of the projects originally considered as 'anticipatory' will form part of load related schemes. There will therefore be a natural progression for these two separate investment streams to be combined and treated under a unified approach or at least considered together in order to preserve the principle that investment to support the government 2020 decarbonisation targets will not be undermined. National Grid look forward to working with Ofgem to reach a mutually agreeable solution which minimises the burden of process and submissions on all parties.
5.	**Regarding revenue drivers, do you agree that no new regulatory incentives should be introduced and that the existing targets should be simply rolled forward with the exception of any adjustment to address areas where there has been significant misalignment between TPCR4 baseline and outturn values?**
	We agree in principle that for revenue drivers, no new regulatory incentives should be introduced and that existing targets should be rolled forward where possible, with adjustments to deal with significant alignment. Within paragraph 3.19, we note the intention to: – Update the electricity Unit Cost Allowances (UCAs) to set them for an additional year. – Update other electricity parameters to reflect major changes. Firstly, given that the current electricity revenue driver adjustment is hard coded in the licence with all constants based on making the adjustment in 2012/13, our

	assumption is that this adjustment will occur. Whilst these constants could be recalculated, there do not appear to be any advantages associated with this approach. In terms of electricity revenue drivers for the 2012/13 year, attention should be focused on the base capital expenditure for 2012/13 as this will include the consideration of, for example, the impact of the application of a Connect and Manage access regime in electricity. We are concerned that the full recalculation of the local driver UCAs could involve a very significant piece of analysis which may not be proportionate with a one-year control. The main purpose of the UCAs is to compensate for uncertainty in changing patterns of demand for network capacity over time. Given that discussions will be held in 2011 for 2012/13 projects (most of which have significant lead-times and will have existing contractual commitments, therefore certainty, by 2011), the uncertainty and scope for change will be considerably lower than for a full Price Control period. Given this, we propose that local driver UCAs should only be recalculated where the work on the base capital expenditure for 2012/13 reveals a material misalignment with the UCAs developed for TPCR4. For gas, National Grid agree in principle with paragraph 3.19: - *"We do not intend to reset any of the gas revenue drivers that were set at or after TPCR4"* however should National Grid receive market signals requiring incremental deep reinforcement, National Grid would seek to engage with Ofgem on a case by case basis to agree appropriate UCAs as part of the normal course of business.

	In addition, it is noted that the deferral of the RAV adjustment in 3.19 equates to a short term value (or at least cash flow) loss if the RAV needs to be revised upwards.
6.	**Do you agree with our 'minded to' position to extend the application of the existing network output measures methodology for the one year 'adapted roll-over'?**
	Yes
7.	**Do you agree with our 'minded to' position to restrict licence amendments to those required to facilitate execution of the 'adapted roll-over' and for any rationalisation process to take place as part of TPCR5?**
	The 'adapted roll-over' would appear to be a good opportunity to make some progression on the housekeeping matters which have been neglected in previous licence drafting exercises. There are a number of clauses which would not impact revenues and require updating such as reference to repealed legislation and clauses which are no longer required. This proactive work would help to support the ambition shared by all parties to simplify and clarify the licences. This work could commence imminently.
8.	**Do you agree with our proposals regarding the engagement of stakeholders? Do you have any suggestions for additional ways which we should pursue to improve stakeholder engagement?**
	National Grid welcome the focus on stakeholder engagement. National Grid already carry out a number of regular engagement activities with customers and the wider stakeholder base. The 'enhanced' engagement work stream oriented around price reviews is an appreciated development to this existing activity. Ofgem have confirmed that stakeholder engagement should be proportional, effective and should not be a burden to networks and stakeholders. The stakeholder engagement activities for the 'adapted roll-over' need to be considered within the context of the TPCR5 activities as the two processes should be interlinked and one a precursor to the other. Care will be required to ensure that the two processes (roll-over and the TPCR5 review) are kept separate in stakeholders' mind in order to avoid confusion, of particular

	importance with GDPCR2 running concurrently as well. With policy matters not being considered within Ofgem's 'minded to' position the formation of a consumer challenge group could be questioned. Against this however, when taken in the context of the longer timeframe and the TPCR5 activities it would seem sensible to form the group again in order to engage the members early in the process. This would allow group members to develop their understanding of the transmission businesses and its impact on key consumer matters. Stakeholder engagement forums are also supported by National Grid as useful opportunities to test stakeholder views on developing positions at key milestones in the process. A learning point within National Grid from previous price control reviews was that bilateral meetings can leave non-invited parties feeling excluded so, in the interests of transparency and clarity, the use of groups and workshops would be preferred. It is acknowledged that plans for these activities are far from set in stone and National Grid would value the opportunity to be actively involved in shaping this critical workstream with Ofgem, the other network companies and the wider stakeholder groups to ensure an effective and robust process is developed. National Grid has a degree of concern regarding 'stakeholder fatigue' as a result of the number of regulatory processes and consultations which will continue over the next couple of years, including GDPCR2 which will commence imminently. Quality stakeholder engagement is key to an informed process and thus all parties must ensure that the planning and delivery of this critical workstream is highly integrated across the workstreams in order to minimise the burden on the stakeholder base.
9.	**Do you have any further comments on the general scope of the one year 'adapted roll-over'?**
	No
Chapter 4	

1.	**Do you agree with our intention to use an enhanced version of the TPCR4 financial model following developments embodied in the GDPCR and DPCR5 models for the 'adapted roll-over'?**
	Yes. This would seem proportionate and National Grid agree that changes to the model to reflect RPI-X@20 may be required for TPCR5 (as opposed to the 'adapted roll-over').
2.	**Do you agree with our intention to use RORE analysis for the 'adapted roll-over' to ensure the package as a whole is appropriate?**
	National Grid recognise and support Ofgem's aspiration to assess company performance objectively against a range of criteria that collectively reflect consumer (or customer) interests, and then to structure price controls such that well performing companies are rewarded more highly. Ofgem's use of RORE is potentially one way of doing this, although it is an imperfect measure which gives an approximation of the returns that may be earned. It is therefore directionally useful but contains technical flaws in the calculation. Care should be taken in using actual RORE calculations as a basis for further analysis. National Grid would be happy to work with Ofgem to develop this is this would be beneficial.
3.	**Do you agree with the three options we have identified regarding the treatment of the cost of capital and our 'minded to' position i.e. option2?**
	In addition to comments made in the covering letter, National Grid note the three options proposed by Ofgem but do not agree with the 'minded to' position and would recommend option one for the following reasons: - – The rate of return should not be seen as a one-year variable. Given the significant funding required for the capex programme, investors need stability. Setting a cost of capital for one year and then potentially changing it could be detrimental to investment. Investors are investing in long term assets and will not appreciate unnecessary short-term movements. – In DPCR5 final proposals, Ofgem set the cost of capital on the basis of judgment, taking a wide range of factors into account including the overall risk/reward balance of the package, cross-checks to RORE analysis and financeability tests, and as part of the final proposals settlement as a whole

	package. In the context of the 1-year roll-over, such an approach will be unlikely to support a change to the cost of capital set as part of the TPCR4 final proposals package that, as noted earlier, was ‘agreed in the round’. – Any change in the rate is likely to prejudice TPCR5 despite the fact that TPCR5 will be looking at the cost of capital in light of other changes introduced following RPI-X@20. There is no efficiency benefit in reviewing cost of capital for the ‘adapted roll-over’ given the changes that RPI-X@20 may prompt. – It is unclear whether Ofgem intend to review the gearing assumption as part of the ‘minded to’ approach. Gearing has an impact on financeability and, as Ofgem previously noted in the GDPCR one-year roll-over: - *“Financeability is most appropriately considered over the medium term and against the background of future capex requirements”.* As a consequence, Ofgem should not assume a different gearing in the 1-year ‘adapted roll-over’ than that used in TPCR4, in advance of the medium term financeability assessments carried out in the main TPCR5 review. – In Ofgem’s most recent review (DPCR5), even after a full assessment of cost of capital including consultants studies, there a remained a wide range for the cost of capital value. Given this, a partial review will be unlikely to give a figure that has sufficient credibility to justify a change from the existing (TPCR4) cost of capital. – Ofgem’s proportionate objective includes a consideration of the requirement for consultancy support. Cost of capital is an area where both Ofgem and licensees have typically engaged consultants for support.
4.	**Do you agree with the two options we have identified regarding the treatment of capitalisation and depreciation and our ‘minded to’ position for option 1?**
	Yes, National Grid agree both to the options and the ‘minded to’ position.
5.	**Do you agree with the three options we have identified regarding the treatment of tax and our ‘minded to’ position i.e. option 2?**
	National Grid support the selection of option 2 as the ‘minded to’ position.
6.	**Do you agree with the three options we have identified regarding the**

	treatment of Pensions? Do you agree with our 'minded to' position i.e. option 2?
	National Grid have four issues of note with regards to pensions and the 'adapted roll-over'. 1. Choice of valuation date 2. Funding of TPCR4 'overs / unders' 3. Consistency of regulatory funding period between 'adapted roll-over' and TPCR5 4. Period of deficit recovery National Grid question Ofgem's assumption that changes made to the application of the pensions principles during the DPCR5 process should automatically apply to the transmission networks. While the DPCR5 proposals were accepted by DNOs as a package, it doesn't follow that the amendments made to the application of the pensions principles are appropriate on a standalone basis or should automatically be applied in transmission price controls. **Choice of valuation date** National Grid support Ofgem's proposed use of updated valuations in all three options to assess the level of funding required for each scheme. Clarity is however requested from Ofgem in relation to the valuation date to be adopted for the 'adapted roll-over'. In order to retain consistency with TPCR4, National Grid believe the latest full actuarial valuation should be maintained as the appropriate valuation method. This would be the March 2010 valuation where available. **Funding of TPCR4 'overs / unders'** National Grid see no credible reason for not including an allowance for previous over or under funding in all of the proposed options. If Ofgem intend to postpone the final true-up calculation for over / under funding until the main review, a reasonable estimate of the appropriate true-up allowance could easily be made for the 'adapted roll-over' year and would not require substantial effort. Final true-up at the main review could easily accommodate the findings of an

efficiency review undertaken at that time, if that proved necessary. However, this may not be necessary as any over / under funding of deficits is likely to be as a result of past actuarial valuations which have already been assessed by the Government Actuary's Department in early 2009 as part of Ofgem's pension consultation process. Any option which proposes to postpone true-up until the main review will disadvantage, in terms of cash flow, those transmission owners who have been under funded in the current period. Given the limited work needed to make a reasonable estimate of true-up, not to do so, would conflict with the 'adapted roll-over' objectives.

Consistency of regulatory funding period between 'adapted roll-over' and TPCR5

Recovery periods will stretch into the future over more than one price control so it is important that the period of recovery proposed for the one year 'adapted roll-over' is aligned with the recovery period that will be proposed in the main TPCR5 price control review. This is particularly important where sponsors and trustees must agree funding plans in advance of the full TPCR5 review as a result of Ofgem's decision to roll-over the TPCR4 price control for one year. Inconsistency between the 'adapted roll-over' review and the main TPCR5 review may lead to increased regulatory uncertainty, which weakens the covenant sponsors have with their trustees and lessens transmission networks' ability to fund their schemes efficiently.

In general, changes to the regulatory framework increase regulatory uncertainty and are likely to translate into increased regulatory risk, and so, where possible should be avoided unless they bring clear benefits. In relation to pension funding, given the need for trustees and sponsors to agree funding plans which will generally run over more than one price control, and the review by the Pensions Regulator of certain deficit recovery plans including those which exceed the 10 year "trigger", it is particularly important that changes in approach between the "adapted roll-over" and TPCR5 should be kept to a minimum.

To be efficient and minimise regulatory risk, scheme sponsors must endeavour to align scheme funding periods to regulatory funding frameworks. A funding agreement which commits to fund the deficit over a shorter period than that agreed with the regulator will bring disproportionate risk to the sponsor.

Period of deficit recovery

Ofgem will be aware that the Pensions Regulator's trigger for reviewing deficit funding plans is 10 years and consequently if transmission networks propose to fund schemes over 15 years, this is likely to result in lengthy consultation between sponsors and trustees and subsequent referral to the Pensions Regulator. If this led to a requirement on transmission networks to provide additional security, the additional associated costs would need to be funded by consumers, and these costs are likely to be significant and could outweigh any short term cashflow benefits of a longer funding period. Consequently, National Grid does not support a deficit funding period greater than 10 years. For completeness, the funding of these additional costs should be considered when reviewing the two options that propose funding deficits costs over a period longer than10 years.

Ofgem's options

The three options proposed by Ofgem provide a limited choice of approaches to rolling forward the current arrangement. There are several other reasonable approaches that could be adopted and which may be more consistent with the current price controls. For example, an option which maintained the current deficit funding period of 10 years and made allowance for any under or over funding in the current period might provide a reasonable alternative to the proposed options, though as explained above it is important that where possible a consistent approach should be adopted in the adapted roll-over and TPCR5 review.

National Grid do not support Ofgem's 'minded to' position, i.e. option 2. Option 3 would be similarly proportional to a one year control as option 2, given that a true up could be applied without undertaking a full efficiency review, and including true ups makes the option better aligned to Ofgem's wider duties. Consequently, against the stated criteria, option 3 would provide a more appropriate approach than option 2.

7.	**Do you have any further comments regarding financial issues for the one year ‘adapted roll-over’?**
	No
Chapter 5	
1.	**Do you have any comments regarding our indicative timetable?**
	Timetables and a quality process are a key component of any project. National Grid has a number of concerns around the timetable as it stands at present not least due to the lack of granularity and the interaction with other regulatory processes. With a data submission potentially due within six months there is a need for a detailed process discussion to map out a timeline which identifies the key deliverables and submission dates in order that networks can plan efficient delivery. The proposed timetable spans a period of 18 months which would not appear to be a proportionate approach to planning when taking into account the wider regulatory submissions such as the annual RRP and anticipatory investment cycles and the TPCR5 and GDPCR2 timetables. This is a significantly longer timetable that was used during the previous electricity transmission and gas distribution roll-overs. Limiting this response to the ‘adapted roll-over’ timetable, National Grid propose the following key deliverable dates:

		Deliverable / submission	
2010	April - July	Networks and Ofgem agree tables to be used for submission	Stakeholder engagement
	1/July	Ofgem announce the scope of ‘adapted roll-over’	
	31/July	Networks submit annual RRP data minus forecasts	
	1/Sept	Ofgem issue FBPQ	
	31/Dec	Networks submit FBPQ to Ofgem	
2011	Jan – March	Q&A	
	30/June	Ofgem issue initial proposals and licence drafting commences	
	31/July	Networks issue RRP as matter of course – used as data update for ‘adapted roll-over’ if required	
	30/Sept	Ofgem issue final proposals	

This has the effect of reducing the process to a 12 month period, which will allow the parties to concentrate on the TPCR5 work earlier than proposed by Ofgem; to reduce the data submissions to one (as opposed to two) and use the annual RRP process to minimise the data burden. It also spaces out the data submissions between the various processes, as a September FBPQ submission date as indicated by Ofgem would require the networks to submit three data submissions within a three-month period which can not be efficient.

National Grid propose to maintain the RRP submission in July 2010 however would like to suggest that the forecast data is removed from the 2010 submission, leaving the fuller forecast data to the ‘adapted roll-over’ FBPQ which will be submitted in December 2010 under this proposal.