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Dear Mark

Potential Significant Code Reviews

Thank you for the opportunity to provide comments on Potential Significant Code Reviews (SCRs). This response is provided on behalf of National Grid Electricity Transmission plc (NGET) and National Grid Gas plc (NGG). NGET owns the electricity transmission system in England and Wales and is the National Electricity Transmission System Operator. NGG owns and operates the Gas Transmission System and also owns and operates four of the gas Distribution Networks.

We have considered the three candidates selected as initial priority areas as well as transmission charging arrangements.

Gas Security of Supply

It is clear that the arrangements set out in the Uniform Network Code (UNC) are capable of having an impact on security of supply. It is also true that if security of supply problems could only be addressed through the gas emergency cashout arrangements then any such issues could be solved wholly or mainly through a modification of the UNC. However, given the recent extensive industry debate in this area, which led to UNC Modification 0260 "Revision of the Post-emergency Claims Arrangements", NGG believes that any review of this area of the regime should not restrict itself to changes to the UNC and should extend to consideration of broader obligations relating to preparedness and information provision.

We agree that short term price signals at the time of system stress may not, of themselves, provide sufficient incentive to ensure that additional supplies and or peaking capacity are made available in 1 in 50 year conditions. As such, we agree that there is a need to investigate how such investments in supply and capacity can be encouraged.

Whilst short-term exposure to high "cashout" incentives will encourage available responses to crisis conditions NGG believes such schemes will have limited affect on the long term contingent planning of market participants. If the perceived need is to encourage investment to deliver 1 in 50 type security standards beyond those already in place for domestic consumers, then we believe that consideration should be given to whether the issues which might be addressed by any SCR in this area might better be dealt with by new licence obligations on shippers and/or suppliers.

Modification Proposal 0260 was developed in association with shippers, end consumers and Ofgem during 2009. This proposal further enhanced the ability of larger “Daily Metered” end consumers to achieve “VoLL” type compensation when disconnected and also provided further incentives on shippers to ensure sufficient supplies were made available in order to avoid a Gas Supply Emergency. This is achieved by targeting the costs of settling the post emergency claims to those shippers who held a “short” imbalance during the emergency.

Along with the above and other changes to the emergency arrangements, National Grid has previously brought forward UNC changes which have sought to strengthen incentives to avoid the onset of a gas supply emergency and improve the provision of supply security to end consumers. Such examples are UNC proposals 0052, 0061 and 0071. We consider incentives aimed at rewarding the industry for planning for peak conditions are just as important, if not more so, than targeting of the costs of such an emergency event. As such, we feel that any consideration of an SCR in this area should also consider the wider roles and regulatory obligations on all parties to avoid entering a gas supply emergency.

We agree that any changes in this area have the capability to have a significant impact on gas security of supply and agree that it is appropriate to review and build upon previous work in this area and we would therefore support a review starting later this year and extending into the spring/summer of 2011.

Electricity Cash out

We would welcome a holistic review of the electricity cash out arrangements and clearly there is a significant impact from cash-out arrangements on each of:

- maintaining the security of energy supplies;
- on industry parties, including the System Operator; and
- on competition.

Since the balancing and settlement arrangements became effective in 2001, attempts have been made to reshape the cash out arrangements and considerable time and effort have been expended in processing changes to the electricity cash out regime resulting in what could be seen as complex arrangements. The most recent of these changes has been BSC Modification P217A “Revised Tagging Process and Calculation of Cash Out Prices” and, as highlighted in your letter, will shortly be reviewed to understand the impact this modification has had and to establish whether further change is necessary.

With a changing generation mix and an increase in intermittent generation, we also feel it important to include within the scope of any review both the ability and importance of a party to respond to a short term price signal. Furthermore, we feel the impact on market illiquidity should be taken into account in any review, as in the absence of liquidity; competition could be frustrated with the improved targeting of costs.

In terms of timing we believe it would be beneficial to launch an SCR in this area once it is clear on the way forward following DECC’s Electricity Market Reform project due to the implications this may have on cash-out arrangements.

Smart Metering

We agree that Smart Metering fulfils the SCR criteria given the scale of the change on gas and electricity consumers, the System Operator (dependent on scope), the codes and on achieving a low carbon economy.

It is our view that the strategic overview should also look beyond smart metering itself, and ensure that arrangements are fit for purpose in a smart grid environment. In our role as electricity System Operator, a key area is the potential to invoke demand side balancing services and for this to be integrated into the settlement process accordingly. At present, such demand side balancing services are effectively ignored in the retail settlement process.

Given the number of regulated and non-regulated organisations impacted by smart implementation, we believe that centralised governance of the development and implementation of smart metering is essential. Specifically, it should be clearly outlined how this will relate to, and be co-ordinated with, the rest of the Smart Metering Implementation Programme (particularly the Regulatory and Commercial Frameworks workstream) to ensure the process is co-ordinated and aligned and to prevent unnecessary duplication.

Coupled to the essential remodelling of the Regulatory landscape, there is a growing desire from gas shippers to review UNC registration, energy allocation and settlement processes. As gas transporters, we believe all such changes should be considered as part of the implementation of smart metering, and that all new regulated systems expenditure should be considered as part of any implementation programme. Obviously, the question of systems funding goes wider than just transporter systems and all new centralised systems will be need to be considered as part of the Review.

An additional complexity for gas transporters is the emerging requirement to replace information systems to meet the requirements of early movers in the Automated Meter Reading (AMR) market and at the same time meet the longer term aspirations of the smart metered market. It is becoming increasingly likely through discussions in the Project NEXUS Workstream that there will be a requirement to operate parallel processes and systems for many years while the smart metering rolls out but early AMR metering arrangements remains. As previously stated, these parallel operating arrangements could affect the operating cost of the gas transporters agency and affect investment programmes for many years. Again, we believe it is sensible for these costs to be factored into a coordinated regulatory change.

With respect to scale and timescale, we agree a review of at least 12 months will be required and feel it is appropriate to start this work towards the end of this year.

Transmission charging arrangements

Whilst your open letter has not asked for responses in this area we would like to confirm that we would support an SCR on this area for both electricity and gas transmission charging arrangements. Specifically we feel an SCR would be the most appropriate vehicle with which to conduct and deliver any recommendations relating to the Codes from Project TransmiT.

If you wish to discuss this further, or have any queries regarding this response, please contact me, Mark Ripley on 01926 654928 (mark.g.ripley@uk.ngrid.com) or Richard Court on 01926 656146 (Richard.court@uk.ngrid.com).

Yours sincerely

[By e-mail]

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