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Dear Rachel

Re: Open letter consultation on equalising the efficiency incentive rate for electricity distribution network companies under common ownership following PPL's purchase of E.ON's Central Networks business.

Thank you for the opportunity to comment on your consultation on equalising the efficiency incentive rate following PPL's purchase of E.ON's Central Networks business. National Grid Gas Distribution distribute gas in the heart of England to approximately 11 million offices, schools and homes through ownership of four of the eight regional gas distribution networks in Great Britain. The issues addressed in this consultation directly affect National Grid Gas Distribution, and our response is not confidential.

Ofgem's consultation lays out three options for equalisation of incentive rates and presents an initial view that recalculation of the IQI rate as if the four networks were under common ownership is preferable. This is to preserve consumers' exposure to under or overspend and maintain overall strength of incentives for management to deliver efficiency savings.

National Grid believes these are sensible principles however would like Ofgem to consider one issue with averaging incentive rates. Because networks which rank better on Ofgem's benchmarking have a higher incentive rate than other networks, it may well be that the company as a whole could be disadvantaged, for example where two networks with equal and opposite out / under performance are combined. The materiality of this will depend on the relative positions vs frontier for each of the individual networks and the power of incentive applied, as well as the impact of the calibration of the additional income in the matrix.

Modelling scenarios around performance improvement by network against the old, and new averaged IQI ratio may be a useful additional step to quantify whether the impact of this is likely to be material. In addition Ofgem should shortly receive RRP submissions for 2010/11 for the networks involved, which may help quantify any effect.

We would be happy to discuss this issue with you in more detail should you require.

Kind regards

Helen Campbell
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