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21<sup>st</sup> November, 2011

**Initial Assessment of RIIO-T1 business plans**  
October 2011

Dear Hannah

Thank you for the opportunity to comment on Ofgem's Initial Assessment of RIIO-T1 business plans. This response is provided on behalf of the RWE group of companies, including RWE Npower plc and RWE Supply and Trading GmbH. This is a non-confidential response.

The transmission companies' business plans and associated documents have formed the basis of stakeholder engagement to date and we have submitted comments on their overall content and format<sup>1</sup>. Ofgem has considered the business plans in more detail as set out in this Initial Assessment. The grouping of the assessment criteria has provided a useful framework for scoring the business plans on a consistent basis. We recognise that this is an initial assessment and our comments are limited to the following issues:

- All transmission companies' plans are dominated by load-related expenditure. In large part, this is driven by building the baseline plans around the Gone Green scenario. We believe that there should be further debate around alternative baseline scenarios that could credibly deliver the 2020 targets. Some sensitivity of the input assumptions in the context of a Gone Green outcome would help in the justification of some of the specific transmission investment cases presented. Transparency around the actual generation used in the analysis and the resultant power flows on the planned network, to highlight the intended utilisation of the planned network and provide some justification of the intended spend, is required.
- All TO's have proposed mechanisms to manage future uncertainties and risks associated with the level and timing of investment required to meet climate change and renewable energy targets. These uncertainties arise from connection of generation and demand and the extent of any interconnection. Some of the mechanism are already established, such as for gas incremental capacity and others will flex around an ex ante allowance. Given the scale of the business plans and impact of the uncertainty mechanisms, alternatives such as the Transmission Investment Incentive framework, where funding is provided outside the main price control allowance and is based on a demonstrable needs case, should be considered. Such an approach does add more complexity into

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<sup>1</sup> National Grid Gas and National Grid Electricity Transmission Stakeholder Engagement Consultation, November 2011.

what is an already complex framework but considering the sums of new planned investments, complexity alone should not be cited as a reason not to pursue alternative approaches which can deliver a lower cost option.

- These uncertainty mechanisms, together with incentives on a range of primary outputs and secondary deliverables will make the networks' revenue more unpredictable. There is a linkage between revenue predictability and charging predictability and we strongly support Ofgem's position that all the companies need to undertake further analysis on how charging volatility might be mitigated.
- There are a number of current industry initiatives that will impact RII0-T1. Business plans may need to be adapted to reflect the outcome from Project TransmiT, should this result in changes to locational signals that affect generator siting decisions. Also, EMR may change NGET's role, notably if a capacity mechanism managed by NGET is implemented. For NGG, potential further interventions to address gas Security of Supply concerns may result in a storage obligation, either on suppliers or the system operator; or strategic storage held by the government or system operator. A view on how the plans might respond is required.
- We agree with Ofgem that further analysis is required by NGG to justify expenditure on network flexibility/resilience. The revised investment is relatively modest and will allow NGG to better utilise existing NTS assets rather than providing additional capability. As such, the key will be how to trigger the investment absent a formal, incremental signal which is used to underpin capacity release on the NTS. A suitable proxy for this signal therefore needs to be determined.
- We have no specific comments on the technical accounting or corporate financial elements of the plans, but are not surprised that there are differences between the companies and given the length of the price control period and the scale of the proposed expenditure.

We hope these views are helpful and if you wish to discuss any aspect of them in further detail, please do not hesitate to contact me.

Yours sincerely,

By email so unsigned

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