



Hannah Nixon  
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21<sup>st</sup> November 2011

Dear Hannah,

**Re: Initial assessment of RIIO**

We refer to your recent consultation and would note that we are limiting our response to treatment of National Grid Gas, not the electricity company transmission operators. We have attended several "Talking Networks" events as well as National Grid's latest Stakeholder engagement consultation (8<sup>th</sup>/9<sup>th</sup> November 2011) and the discussion there has informed the points we make in this response.

**Force Majeure**

Following discussion with National Grid Gas, we note that this is an area that is missing from the current Business Plan submission. Given the very unsatisfactory circumstances around Milford Haven pipeline construction (notably the 4+ year delay for a functioning Pressure Reduction Installation currently being constructed at Tirley, but originally sited at Corse), we believe that it is essential that the Business Plan and NGG Licence treatment addresses the issue of FM and introduces within the UNC, normal commercial terms for NGG's customers. Whilst Modification 349 has addressed the immediate issue from a prospective basis from October 2011 for capacity that doesn't physically exist, it is not considered to be sufficient for new investments. Without addressing this matter, NGG will be putting disproportionate risk on new investors in gas infrastructure.

We would welcome National Grid Gas putting forward proposals in the next iteration of the 2013-2021 business plan to address Force Majeure. Given the very risk averse approach that NGG are adopting in the lead time for new projects (in particular the time to get planning consents), we'd suggest that the terms would go beyond just the basic capacity costs. At the very least we would expect:

- Shippers do not pay for capacity that does not exist
- Where incremental capacity is expected to take NGG longer to deliver than an "agreed" national "standard", NGG should have detailed progress report obligations on a monthly or suitably periodic basis to both Ofgem and the booking shippers.
- Where NGG claim FM similar but potentially even more detailed reporting obligations on progress are expected with plans to completion required.

We would then be happy to provide further scrutiny on the proposals include in the next iteration of the RIIO business plan.



## Transportation Charges

It is clear that NGG are facing very significant uncertainty on transportation charges going forward, depending on how the network is used and in this context we support their need for an uncertainty mechanism, even as large as £0.5bn to support a dynamic network.

However, we would request that a more fundamental consideration of charging methodology is given under RIIO. Whilst there was sense for transportation charges to be split equally between entry and exit when the UK was self sufficient in gas supply, the current mechanism becomes discriminatory as the UK market moves further to import dependency and creates significant cross subsidies that prevent transparency of charges to the consumer. We would therefore advocate that there is active debate within the RIIO timeframe around levying the charges predominantly at the exit points rather than the current entry / exit split. This would permit improved transparency of charges, increased price stability and predictability and more cost reflective charging to end users.

The justification of this is as follows:

- a) The level, variability and uncertainty of entry charges has now put the UK at a disadvantage in attracting LNG imports compared with neighbouring markets where costs are more stable and modest on entry and there isn't a variable commodity charge.
- b) The "smearing" charge for entry elements (notably TO Commodity charge) is significant in absolute terms and is not transparently reflected in the price of gas. That is to say that the NBP price does not automatically price in the changes to TO Commodity prices.
- c) The consequence of the above is that it makes the price to the end user less transparent than would be ideally the case. We are certainly not opposing the Entry / Exit concept but would suggest a 10/90 split in TO costs rather than the current 50/50 approach given the reasons highlighted above (predominantly caused by the UK becoming a net importer).

## Incentives

We believe that particular attention should be focussed on Demand Forecasting incentive (where NGG have some control, rather than elements where they don't have control such as short term storage / Interconnector flows which are much more price driven). We also think that NGG should have a significant allowance for providing an improvement on MIPI2 Data Publication, so that they can provide a centralised reporting capability to support the industry's activity under REMIT.

We trust that these points can be reflected in the revised Business Plan to be submitted during Q1 2012, but if you want to discuss these points in further detail, please don't hesitate to contact me.

Regards,



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