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Dear Hannah

Open Letter consultation on the way forward for the next electricity distribution price control - RIIO-ED1

Thank you for the opportunity to comment on Ofgem's open letter regarding RIIO-ED1 - way forward. National Grid Gas, through our Gas Distribution business, distributes 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 in this response affect National Grid Gas Distribution and our response is not confidential and can be published on the Ofgem website.

Our response to this open letter consultation reflects the experience we have being amongst the first companies to follow the new RIIO regulatory framework.

Low carbon technologies and smart grids

We agree that ensuring DNOs are able to accommodate low carbon technologies in a timely and cost effective way is a key objective of RIIO-GD1. Our studies and analysis suggest, however, that whilst the future path for decarbonisation is uncertain, gas resources can play a critical role in balancing the policy objectives of sustainability, security of supply and affordability of the energy sector. Substituting gas for an alternative electrical form of heat could mean significant additional electricity generation and electricity distribution investment. The role gas can play in providing a cost effective and secure provision of peak heat to homes and industries should therefore be debated. This will likely require more integration between the gas and electricity markets and development of dual fired heating solutions.

The decarbonisation of heat has not had such high profile as decarbonisation of electricity. Our analysis shows that injection of renewable gas resources into the networks can play an important role in supporting delivery of the 2020 renewable targets. There is currently no direct financial incentive to connect renewable gas to the gas distribution system.

For these reasons it would therefore be timely under the new RIIO framework, to encourage closer working between the electricity and gas distribution networks.

Review of DPCR5 mechanisms

We agree that continuing mechanisms that are currently working well in DPCR5 is appropriate, as is considering any evolution of equivalent mechanisms within RIIO-GD1 - notably the Customer incentive.

Assessing efficient costs

We assume the RIIO-ED1 approach will be similar to RIIO-GD1 (and not RIIO-T1 as per the letter). We are very supportive of the principles of developing totex analysis and early debate around cost drivers and regional factors.

Our experience in RIIO-GD1 would suggest that a common agreement up front on data tables and cost treatment would be beneficial and make comparison of plans easier. An early discussion on benchmarking approaches and possible outcomes would also be beneficial such that it can allow networks to review and challenge their own view of efficient costs, informed by the comparative assessment tools. It would be preferable to have this analysis prior to business plan submission.

Smart meters

Early agreement between Ofgem and DECC on common industry protocols would assist the DNOs in building plans by providing clear assumptions on roles / responsibilities as well as clarity on who is funding what.

Timetable and outputs

We are supportive of increasing the overall time for the review. Our experience has been that common industry agreement through the Working Group meetings on outputs has been mixed - with some areas relatively straightforward to agree, and others where either the issue is complex or there is difficulty in balancing the needs of all stakeholders.

In addition, recognising the RIIO-GD1 timetable has been delayed by the HSE review of the Iron Mains Replacement Programme, our experience is that the time between first business plan submission and second has been extremely tight and impacted the level of debate on our business plan.

Business plans and proportionate treatment

We believe that the March 2011 Strategy guidelines on well-justified business plans were clearly signposted, however our experience has been that there has been a degree of latitude in applying these guidelines. For example there was a significant variance between companies in levels of disclosure - a key requirement in the guidelines, which did not appear to translate to any scoring of the company plans.

For companies with more than one DNO, a discussion up front as to how initial assessment and decisions on fast track / proportionate treatment will reflect network differences would be useful.

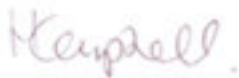
Enhanced stakeholder engagement

NGGD benefited from consulting with stakeholders early in the process to understand their aspirations and understand how they wanted to be involved with us - this enabled us to use a wide range of methods (workshops, forums, 1-2-1s, surveys, focus groups etc.) to suit our stakeholders needs and encourage participation. We were mindful of the finite time and resources of stakeholders given the number of GDN's consulting simultaneously, as well as stakeholders being involved in other industry workshops and developments. It is worth considering this in the electricity reviews given the larger number of networks consulting.

Direct Working Group attendance enabled stakeholders to be involved and assist in the shaping of specific outputs, while Ofgem's Price Control Review Forum enabled stakeholders to take a holistic view of all the networks activities across all aspects of the RIIO package. In terms of the Consumer Challenge Group, we would have found it beneficial to meet part way through the process given the wide range of expertise and knowledge of the group.

We would be happy to discuss any aspect of this letter with you should you require.

Yours Sincerely

A handwritten signature in purple ink that reads "H Campbell".

Helen Campbell