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Dear Hannah

RIIO-T1/GD1: Office of National Statistics (ONS) review of Retail Prices Index (RPI) methodology

I am writing in response to the above consultation on behalf of Northern Powergrid Holdings Company and its subsidiaries Northern Powergrid (Northeast) Ltd and Northern Powergrid (Yorkshire) plc.

Firstly, Northern Powergrid agrees with Ofgem that 'it is appropriate to consider the impact on network companies of any change to the methodology to calculate the RPI arising from the current ONS review'.

Under the RIIO framework, it is important that business plans, the price controls that result, and the on-going measurement of RPI within the price control period should all be based on the same methodological assumptions with regard to how RPI is calculated. Given that the ONS is consulting on potential changes to the methodology by which RPI is calculated, there is a risk that there will be a divergence in methodological assumptions from day one of the transmission and gas distribution price control periods.

Therefore, in our view, a targeted reopener is warranted, to address the effects of the ONS consultation once the outcome is known. We also agree with Ofgem that this should give the impacted network companies the right to request that Ofgem reconsiders their allowed revenues in light of any change to the ONS's methodology for calculating RPI.

We agree with Ofgem that it would be appropriate to include a requirement within the reopener for companies to make applications within a certain window, for example within a set number of months of any change to the ONS methodology as a result of the current review being implemented, with a set timeframe over which any adjustments to allowed revenues are made. This will help minimise the regulatory costs of the process, and also help energy suppliers understand the timing and potential magnitude of resulting changes to network tariffs as a result of the reopener. The standard materiality threshold of an impact over the

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duration of the price control in excess of 1% of base demand revenues (defined using base demand revenues in the first year of the price control period) would also be appropriate.

We would expect the reopener to consider only the impact of the change to the ONS methodology for calculating the RPI. This will be important to ensure, as the change would affect significant parameters (such as the real cost of capital, and real price effects). It is usual in the case of reopeners for Ofgem to enjoy a measure of discretion over the outcome of the reopener application. The case here is rather different because the indexation mechanism is central to the settlement and the price control review is being concluded with the knowledge that a change to this central component is probable but where the impact is still unknown. The licensee should therefore be given the same protection with respect to this particular reopener as it would have if it were a complete price control modification. In other words, there should be an option for companies to appeal the outcome on both substantive and process issues in all circumstances. Without this protection there will be a perception that the price control review has left an undue discretion with Ofgem and this will reduce the confidence with which providers of finance will assess the settlement. That would be bad for customers.

We have some ideas about how such enhanced protections could be embedded in the price control settlement, and will provide a note on these if you think that would be helpful.

We note that any decision on changes by the ONS should be made well in advance of the implementation of RIIO-ED1. Therefore, we do not at this stage expect that the specific reopener required for RIIO-T1 and RIIO-GD1 will be necessary for RIIO-ED1, provided there is time to make whatever adjustments are necessary. In order to achieve that, we think that early guidance from Ofgem will be necessary in order to ensure that all electricity distribution network operators (DNOs) account for any change in methodology in their business plans in the same way. This could be achieved through at least two routes.

- One option would be to require DNOs to submit their business plans on a 'pre-ONS methodology change' basis, and then applying the Ofgem findings from the RIIO-T1 and RIIO-GD1 reopener review to the allowed RIIO-ED1 costs.
- Alternatively, companies could take into account the results of the ONS consultation on its RPI methodology directly in their business plan submissions. The main parameters affected would be the real cost of capital, and real price effects.

Such guidance would need to be provided at the time of the strategy decision for the RIIO-ED1 consultation, and we are of course prepared to work with Ofgem on developing the process practicalities further.

I hope that you find the comments above helpful. I would be happy to discuss the issue further if you would like to do so.

Yours sincerely

A handwritten signature in blue ink that reads "John France". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

John France
Regulation Director