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22 January 2013

Dear Ikbal

**Statutory consultation on RIIO-T1 licence changes to the electricity transmission licence held by National Grid Electricity Transmission plc.**

Please find our response to the following documents, issued for statutory consultation on 21<sup>st</sup> December 2012:

- Proposed special conditions to NGET's electricity transmission licence
- RIIO-ET1 Price Control Financial Handbook
- Electricity Network Innovation Competition Governance Document
- Electricity Network Innovation Allowance Governance Document
- Stakeholder Engagement Reward Guidance document
- Environmental Discretionary Reward Scheme Guidance Document

Our response consists of five separate documents:

- This letter
- A set of tables containing our comments on the above documents
- A marked-up copy of the special conditions for typographical changes and suggested re-drafting where appropriate
- Simplified drafting for Special Condition 3J (Transmission Investment for Renewable Generation)
- A marked up copy of the RIIO-ET1 Price Control Financial Handbook

We have and continue to correspond with Ofgem on a number of areas of concern and this formal response should be considered by you alongside that correspondence. We welcome the progress that has been made to date on the issues concerned and are expecting the resultant licence direction notice to take account of the representations made in this response.

We have a number of comments and corrections on the Special Conditions, and in particular, the volume-driver conditions for generation connections, incremental wider works and demand-related infrastructure.

We will set out our main concerns with the Price Control Financial Handbook in separate correspondence, although one concern of note relates to Chapter 3 on pension allowances, which has changed substantially since the last version and contains a large number of material errors and omissions. In arriving at EDE and SOEDE values, the current drafting applies an incorrect Time Value of Money Adjustment and adopts an incorrect treatment of corporation tax which is inconsistent with the subsequent treatment of these allowances in the Price Control Financial Model. The process for determining values by 30 November 2017 also fails to take into account the deficit true up adjustments determined by 30 November 2014 which would still have a further 9 years to run, and makes incorrect statements such as the view that if the pension scheme is in surplus there will be no EDE / SOEDE allowance. This is evidently not the case if efficiently occurred deficit payments in excess of allowances require true up adjustments to be made.

We also have a number of comments and corrections that are required to be made to the Price Control Financial Model and legacy adjustment calculation workbook. These comments will be provided in separate correspondence.

In addition to these comments, we consider that the incentive rate as referred to in paragraphs 1.58 and 1.59 of the Final Proposals will require further consideration in the context of any particular piece of litigation having regard to the nature and circumstances of the claims being raised.

NGET currently holds a number of consents pursuant to its electricity transmission licence, some of which are due to expire on 31 March 2013. We expect these to be renewed prior to the start of the RIIO-T1 period.

Yours sincerely

A handwritten signature in black ink that reads "Pauline McCracken". The signature is written in a cursive style with a large initial 'P'.

**Pauline McCracken**

By email