

Clothilde Cantegreil  
(Clothilde.Cantegreil@ofgem.gov.uk)  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Chris Bennett  
Head of UK RIIO Delivery  
[chris.bennett@nationalgrid.com](mailto:chris.bennett@nationalgrid.com)  
Direct tel +44 (0)1926 65 4060  
[www.nationalgrid.com](http://www.nationalgrid.com)

19<sup>th</sup> January 2015

Dear Clothilde,

## **Statutory consultation on proposed modifications to special conditions of the electricity distribution licences held by the slow-track licensees**

This consultation response is on behalf of National Grid Electricity Transmission plc and is not confidential.

National Grid welcomes the opportunity to respond to the above consultation. Our experience to date is that the RIIO framework is an effective regulatory regime that strongly aligns the interests of all our stakeholders. We anticipate RIIO driven benefits will now be extended to a further group of energy stakeholders through the application of the RIIO approach to Electricity Distribution. Therefore in general we support the licence changes proposed in this consultation.

We work closely with Distribution Network Licensees in many respects from solving operational issues in real time through to the planning of the development of electricity networks. Increasingly the operation and development of Transmission and Distribution networks will require greater co-ordination as the networks deliver capability for decarbonisation of the energy mix.

Our primary driver for responding to this consultation is the North West Coast Connection project which is a large transmission system development project. This project is an example of a significant co-ordination interaction in line with our normal practice between electricity Distribution and Transmission networks. Information about the North West Coast project can be found here <http://www.northwestcoastconnections.com/>. The project is in the Electricity North West (ENW) DNO area and involves potential significant investment in the Transmission network that will have associated impacts on the local Distribution network. In particular the project is expected to have impacts on existing DNO assets through the need to move some DNO assets to make way for new Transmission assets or to replace DNO assets with Transmission network assets. This is particularly

the case where options being considered may involve some element of using existing DNO overhead line route corridors.

We expect this project to be funded largely by Transmission (rather than distribution) customers through our Strategic Wider Works (SWW) funding mechanism. We are already working closely with ENW to develop the most efficient and economical solution, taking account of the interests of electricity consumers generally. We are also considering approaches to ensure that the risks and costs associated with connecting Moorside are shared appropriately between all parties.

We have had an ongoing productive dialogue with your Transmission and Distribution teams concerning this project and our shared aim to deliver these projects at best value for all stakeholders. We therefore support the inclusion of a specific ENW licence condition.

As you will be aware our SWW funding mechanism envisages setting strong TOTEX management incentives on us as the Transmission company to deliver SWW projects in a timely way within a broadly fixed ex-ante funding level - subject normally to some limited and specific reopeners.

At present the RIIO-ED1 licence arrangements in Condition 5C, Directly Remunerated Services, are framed such that potentially material DNO elements of work<sup>1</sup> may be carried out under “pass through” arrangements. This creates a potential misalignment with our incentives on a SWW project under our TOTEX incentive sharing factor (i.e. ENW costs are based on pass through while we are funded with a fixed allowance). In principle we believe that the incentives for network licensees working on a common project should be broadly aligned. In addition they should be aligned with the interests of consumers. There are several ways to consider this regime alignment issue between our SWW project funding (ex-ante regime) and work undertaken by a DNO on its network which may be subject to cost pass through to us. We are exploring ways of achieving this, to enable both efficient cost recovery and appropriate risk sharing for all parties.

The specific ENW Moorside Licence Condition 3L, Arrangements for the recovery of Moorside Costs, for Electricity North West could usefully be expanded to enable us to develop arrangements with ENW that are cognisant of the structure of our respective funding mechanisms. We note (and welcome) that under Condition 5C, Directly Remunerated Services, Ofgem can issue a direction that any service treated by the licensee as a Directly Remunerated Service should not be so treated. We also welcome the requirement to appropriately allocate risk in Condition 3L. Even so the ENW Moorside Licence Condition 3L could be developed further to more specifically support ENW and National Grid working together to develop an appropriate risk sharing approach for this potential SWW project, as appears to be envisaged by the draft Condition 3L at Paragraphs 3L.8(c) and 3L.10(c).

We therefore propose an addition is made to the Moorside License Condition 3L. This clause will help facilitate the development of appropriate risk sharing arrangements between National Grid and ENWL for the potential North West Coast project in the interest of consumers. Our proposed text for an additional element in condition 3L is:

**ENW and National Grid may develop and agree to enter into specific arrangements in connection with the Moorside project that may include appropriate risk sharing to reflect the incentive regime for National Grid’s SWW project to the extent that the parties bilaterally agree.**

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<sup>1</sup> Work may include physical network construction, dismantlement or other network alteration and may include in the case of context of SWW other consequential costs incurred by the DNO in delivering the work, such as compensation arrangements under any impacted incentives.

**A copy of any such agreement is to be provided by ENW to Ofgem on request and before ENW construction work commences under that agreement.**

Including explicit reference to the potential to develop an approach for an alternative treatment to Condition 5C for work completed by ENW on its network for our proposed SWW project will support the development of options, as we seek the most efficient project execution arrangement between us which of course will ultimately feed into benefits for consumers.

Ensuring designing into the regime full alignment between regulatory regimes is in our view key for any future projects with impacts on several types of network licensee. If you would like to discuss this response further, in the first instance please contact Paul Auckland ([paul.auckland@nationalgrid.com](mailto:paul.auckland@nationalgrid.com) or 07824 476359).

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Chris Bennett', with a long horizontal flourish extending to the right.

Chris Bennett  
Head of UK RIIO Delivery