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Dear Paul,

## **Open letter on the proposed changes to the Ofgem Licence fee principles document**

National Grid owns and operates the high voltage electricity transmission system in England and Wales and, and as National Electricity Transmission System Operator (NETSO), operates the Scottish high voltage and offshore transmission systems. National Grid also owns and operates the gas transmission system throughout Great Britain and through our low pressure gas distribution businesses we distribute gas in the heart of England to approximately eleven million offices, schools and homes.

We welcome the opportunity to respond to this consultation; our response is not confidential.

We appreciate and understand the challenges ahead in preparing licence fees and putting them in place and in doing so reflecting the key principal of protecting the interest of gas and electricity consumers.

The Spending Budget Review 2015 indicates that regulatory bodies (including Ofgem) have been asked to reduce their costs, with any efficiency savings being passed directly onto customers and businesses through lower charges. However, the references to unexpected high projects costs cause some concern over transparency and the timing of passing these through to end consumers.

The potential upward adjustment (subject to approval of HM Treasury) to the settlement as described in section 2.1 of the Licence fee cost recovery principles being funded through licence fee supports a small element of the recovered amount. However, any variant should be communicated as soon as possible so as changes can be incorporated into charges. It should be recognised that over/under recovery for this would be outside of our control.

In light of the above, the removal of references to RPI-X and the National Measurement Office are supported. It is important that Ofgem remain transparent with all their costs associated with licence fees. As changes to the industry occur any additional costs (e.g. unexpected high project costs) that are relevant to the licensee to support Ofgem's workload must be transparent and with a clear audible basis for any licence fee change.

If you wish to discuss any of the issues discussed in this response please contact Kiran Jassal on 01926 655624, or at [kiran.jassal@nationalgrid.com](mailto:kiran.jassal@nationalgrid.com) in the first instance.

Yours sincerely,

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