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Dear Jonathan,

RIIO-2 NTS exit capacity incentive consultation

This response is from National Grid Gas Transmission. It is not confidential.

National Grid welcomes the opportunity to respond to the consultation on the Distribution Networks NTS exit capacity incentive. The following summarises our view on the content of this consultation:

The costs incurred by gas distribution networks (GDNs) in booking NTS exit capacity are ultimately passed through to end consumers. We therefore believe that it is appropriate for the regulatory framework to include a mechanism that encourages efficient booking of NTS exit capacity, by aligning the interests of GDNs with those of the gas consumers who bear the costs of the GDN's decisions. An additional consequence is it maximises the amount of NTS exit capacity that can be substituted to other users of the NTS. This allows efficient use of the existing NTS and reduces the likelihood of new investment that would ultimately be borne by gas consumers.

From the analysis provided in your consultation document, we believe that the current incentive design mechanism should be reviewed to ensure it reflects the elements that are under the direct control of GDNs and the value that they are adding for consumers through efficient booking of NTS Exit capacity.

The consultation document proposes several potential mechanisms including financial or reputational incentive schemes and the basis on which performance under such schemes could be assessed. Providing that a suitable incentive design can be achieved that has a clear up-front target, with risk/reward calibrated against value to consumers then we believe this is most appropriate option. The other options presented would rely on a subjective or ex post assessment of the GDN's booking behaviours. Subjective or ex post assessments create uncertainty which we believe would weaken the strength of the incentive on GDNs to act in the best interests of consumers

We would be pleased to discuss further the comments raised in this response and contact John Perkins on 07970673711 in the first instance.

Yours sincerely

Tony Nixon

Head of Regulation, Gas Transmission