

To all interested stakeholders

Date: 13 June 2017

Open letter: National Grid Electricity Transmission's deferral of £480m of RIIO-T1 allowances

Our electricity transmission price control (RIIO-T1) provides National Grid Electricity Transmission (NGET) with allowances to invest in its electricity transmission infrastructure. These allowances are ultimately paid for by energy consumers through their electricity bills.

On 28 March 2017, National Grid plc announced¹ that it would voluntarily return £480m² of its RIIO-T1 allowances due to deferred investment. The reason being that some of the activity that it thought would be needed as part of its business plan in 2012, are no longer necessary over the remainder of RIIO-T1, which runs until 2021. The deferral relates to:

- £130m of load related investment, and
- £350m of asset refurbishment and replacement investment.

We welcome this voluntary step by NGET and think it is a positive step that is in the interests of consumers.

As a consequence, we plan to reduce NGET's RIIO-T1 allowances by £480m. The effect of this will be a relative reduction in network charges from 2019/20 onwards. This will help to reduce energy bills relative to what they otherwise would have been.

The reduction of price control allowances will not change any of NGET's agreed RIIO-T1 targets or outputs as they are unaffected by NGET's deferral decision. It may be the case that some of the deferred investments are needed in the RIIO T2 period – we'll assess NGET's RIIO T2 business plan and provide funding where there is a well-justified need that it is in the consumers' interest.

How we propose to reduce NGET's price control allowance

We intend for NGET's £480m reduction in allowances to be spread evenly over the regulatory years 2019/20 and 2020/21. Initially, over these two years it will reduce NGET's base revenue (and consequently reduce consumers' network charges) by around £100m in total. Consumers will receive the remaining benefit from reduced allowances beyond 2021 as they are recovered over a 45 year depreciation period – this means that allowed revenues in the future will be lower relative to what they otherwise would have been. This approach is consistent with our standard profiling of expenditure under the RIIO-T1 price control and will minimise volatility in network charges.

To reduce NGET's price control allowances we'll follow the standard statutory licence modification process³ to change the relevant rows within the RIIO-ET1 Price Control

¹ http://otp.investis.com/clients/uk/national_grid/rns/regulatory-story.aspx?cid=374&newsid=858383

² All numbers in this letter are stated in 2009/10 prices.

³ Statutory consultation on the proposed licence change is 28 days. The licence changes come into effect 56 days after the publication of our decision on the licence changes.

Financial Model (PCFM) - a spreadsheet that forms part of NGET's licence and which calculates its base revenues⁴. The licence changes will be consulted on this July.


Next steps

Our timetable for implementing NGET's deferral is set out below.

Milestone	Date
Publish statutory consultation on proposed RIIO-ET1 PCFM licence changes to reduce NGET's price control allowance.	Early July 2017
Publish decision on RIIO-ET1 PCFM licence changes.	Aug 2017
RIIO-ET1 PCFM licence changes come into effect.	Oct 2017
Ofgem publish Annual Iteration Process 2017, setting revenue for 2018/19; no impact from deferral at this stage.	30 Nov 2017
Ofgem publish Annual Iteration Process 2018, setting revenue for 2019/20; the first year the deferral has an impact on revenue.	30 Nov 2018
Deferral affects network charges from 1 April 2019	

If you have any questions regarding the contents of this letter please contact Steven.Steer@ofgem.gov.uk by 26 June 2017, so we can consider them before we consult on the licence changes required to implement the deferral.

Yours sincerely



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⁴ We propose to modify Non-variant Allowed Load-related Capex (NGET TO tab, row 84) and Non-variant Allowed Asset Replacement Capex (NGET TO tab, row 85). The latest PCFM is available at <https://www.ofgem.gov.uk/network-regulation-riio-model/price-controls-financial-model-pcfm/riio-t1-financial-model-electric>