

National Grid Electricity Transmission Stakeholder Engagement Consultation

There are a number of areas where our stakeholders have asked us for further explanation, or we would like to discuss a topic in more depth with stakeholders in order to be able to develop our business plans. We would welcome your thoughts on the questions listed below.

We request that you provide your answers by **5pm on Friday 18th November**. Responses received by this time will be taken account of in our business plan development. When responding can you please provide us with your name, contact details, the name of the organisation you represent and whether your response is confidential.

We have scheduled a workshop for 10th and 11th November, where we will be discussing the topics surrounding the questions below. We would be pleased to welcome you at this workshop where you will have the opportunity to discuss the topics below with National Grid staff, in order to aid your responses to these questions.

If you have any queries please email talkingnetworkstransmission@uk.ngrid.com or call Graham Frankland on 01926 653667 or Claire Spedding on 01926 655915.

Responder's Details

Name: _____ **Andy Manning and Rochelle Hudson** _____

Organisation: ___ **Centrica / British Gas** _____

Contact details: _**07789 575553 and 07789 571365 respectively** _____

Is your response confidential? No

Where Centrica has not given specific answers in this response template please refer to our Ofgem response, link below:

<http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/Centrica.pdf>

Please note that this response seeks to concentrate on areas common to both Gas and Electricity Transmission (Managing risk and uncertainty, Charging, Future Engagement) and answers should be treated as general comments across both areas.

Managing risk and uncertainty

Q6. Do you agree that uncertainty mechanisms should be employed to adjust allowed revenues where the associated costs are uncertain and outside of our control? If not, what other mechanisms do you consider could be appropriate?

Yes, in general we agree that uncertainty mechanisms are justified to deal with costs that are outside of network company control. However, these mechanisms should be proportionate and designed to minimise unnecessary volatility in revenues (and hence charges to network users and customers). We consider that applying a two-year lag to revenue adjustments under the proposed uncertainty mechanisms would allow for significantly smoother revenue / charging profile without imposing undue strain on networks' financing requirements.

Q7. Do you believe that the range of the uncertainty mechanisms proposed is appropriate?

Although we support uncertainty mechanisms in general, we have some concerns regarding the proposal to allow revenue adjustments in response to real price effects (RPEs) for selected inputs. We recognise that the costs of National Grid managing the more extreme variations in input costs may not be efficient but it is also our view that it should be part of network companies' core business to manage the costs and risks around such inputs (for example, through efficient contracting), in the same way as any other commercial operator. It is therefore important that the 'dead-band' is sized to maintain incentives in most circumstances, whilst negating the risk of 'financial distress'.

Charging

Q8. Are predictability and transparency your key concerns in relation to electricity transmission charging? Why?

Predictability and transparency of network charges assist suppliers to manage risk in setting their retail prices, particularly for fixed-price or capped-price deals where we are exposed to any changes to underlying costs over the course of the contract term. While transmission charges account for a smaller proportion of the bill than do distribution charges, they are nonetheless significant.

However, while predictability and transparency of charges are important, they are not our sole concern – we also have an interest in minimising the overall level of network charges (and hence the charges to our customers), provided of course that an efficient level of investment is maintained in the network. Stability of the charging profile is also an advantage, other things equal, although it is a secondary issue to predictability / transparency.

Q9. Changes to tariffs can be caused through changes to the methodology that dictates how tariffs are calculated (e.g. through project TransmiT) and changes to the inputs to that methodology. Which of these factors are of most concern to you?

It is the overall level of the charge, and the transparency / predictability of that charge, that most concerns us. The source of the fluctuation in charges is not the main concern from the perspective of network users.

Q10. Charges are made up of a residual element (changes to which alter the charges all customers pay) and a locational element (changes to which modify the relative signals between customers). The predictability of which of these elements is most important to you and why?

Again, it is the overall level of the charge, and the transparency / predictability of that charge, that most concerns us. Therefore both the locational and residual elements are of equal importance in this context.

Q11. Can we do more to help you understand and predict transmission charges?

Yes, it would be helpful to publish regular reports of transmission network company revenues as occurs for distribution companies under the requirements of DCUSA DCP 066 or UNC Modification 186.

Q12. Do you have any suggestions as to how we can improve predictability/transparency?

In addition to lagging revenue adjustments under the uncertainty mechanisms and providing additional information through Mod 186-style reports, Centrica has previously suggested the introduction of a “top down” mechanism in the price control to mitigate charging volatility, such as a cap / collar on annual changes to allowed revenue. We continue to believe that this would be a useful approach to managing tail risk.

We also note that Scotia Gas Networks has recently put forward a proposal to require longer notice periods for larger changes to network charging / revenue. This could be an alternative to introducing a top down mechanism.

Q13. Is stability of charges an issue, providing it is forecasted and predictable?

As noted in our answer to Question 8, stability of the charging profile is an advantage (other things being equal), but it is a secondary issue to predictability / transparency.

Future Engagement

Q27. What have you liked about our Talking Networks engagement?

We appreciate the ability to gain understanding of other key stakeholders views in the forums and ask direct questions to National Grid. National Grid has demonstrated a clear commitment to the engagement process.

Q28. What could we have done better?

Although not attributable to National Grid, it should be recognised that this is currently a extremely busy period for the industry- not least with RIIO:T1 and RIIO:GD1. Consideration should be given as to how stakeholder engagement can be conducted most effectively- in particular, whether some events/activities could be combined across TOs (for example between NGG and NGET, where the approach to various issues, if not the detail, is likely to be similar).

Q30. How would your organisation like to be consulted in the future?

The more formal written consultation process, accompanied by the necessary level of supporting information, allows us to assess all areas of our business impacted by proposals and give a well rounded response. Due to the complexity of our business and the areas that National Grid impacts, or is likely to impact, we need time to discuss proposals with internal stakeholders, ideally at least 6 weeks.

In addition to this, we believe supporting the consultation process with stakeholder events has proved worthwhile. However, care must be taken to ensure that feedback from stakeholder events is considered in a proportionate manner, as attendees at such events are unlikely to form a group fully representative of the general interest. This underlines the importance of an effective formal consultation process.