

The Joint Office, Relevant
Gas Transporters, Shippers and other
interested parties

Eddie Blackburn
Gas Future Planning Manager
Transmission Network Services

eddie.j.blackburn@nationalgrid.com

Direct tel. +44 (0)1926 656022

Mobile +44 (0)7896 690559

www.nationalgrid.com

29th October 2012

Dear Colleague

Re: Consultation on “The Generic Entry and Exit Revenue Driver Methodology Statement”.

Ofgem issued its Initial Proposals (IPs) for the price control settlement to apply for RIIO-T1 period on 27 July 2012. The IPs stated that Revenue Drivers should be in place in the Licence in a timely manner to ensure that anyone wishing to bid for incremental capacity can do so. As part of our business plan, we proposed using a Generic Revenue Driver Methodology (GRDM) to determine the appropriate allowances and we included a draft of the Generic Revenue Driver Methodology within Annex B to our May 2012 SO External incentives submission.

Subsequent discussions relating to IPs have clarified that Ofgem agrees in principle with NGG's proposal to use a GRDM to determine Revenue Drivers, but that a contingency should be included within the Licence if the methodology is not in place for the start of the RIIO-T1 period. We understand that Ofgem intends to consult on its approach to revenue drivers shortly.

We believe the implementation of a GRDM statement enables the process to be more efficient and less critical to the delivery timescales, but we believe Revenue Drivers should still be in the Licence for transparency purposes, recognizing this may cause concerns in regard to confidentiality. We would expect the consultation process for implementing new or updated Revenue Drivers to be timely and efficient under the assumption an approved methodology is in place.

We have updated the Generic Revenue Driver Methodology in light of IPs and have now issued a draft Generic Revenue Driver Methodology Statement for consultation with Industry parties at this time, so that it can be in place for the start of the RIIO-T1 period, i.e. 1 April 2013.

The document has been produced to comply with the anticipated Licence obligation to produce a generic entry and exit revenue driver methodology to determine any additional revenue allowances relating to the release of Funded incremental obligated entry capacity and Funded incremental obligated exit capacity.

Due to time constraints, National Grid NTS is consulting on the proposed statement prior to agreement and implementation of the changes to its Gas Transporter Licence which will be needed to implement the RIIO-T1 price control settlement. Should the specific conditions relating to Revenue Drivers be significantly at variance with National Grid NTS's expectations then this statement may be withdrawn or amended (which may require further industry consultation). Consultation on this statement should not be seen as acceptance by National Grid NTS of the proposed Licence conditions¹. Further consultation may be required as a consequence of responses received.

A copy of the proposed methodology statement accompanies this letter and we would appreciate comments on the proposed methodology statement. We would also welcome views on;

- 1) The proposed contingency arrangements if the GRDM is not in place for 1 April 2013. This could include insertion of only those Revenue Drivers that Industry parties have indicated would be needed in the first year of the RIIO-T1 period (i.e. for the July 2013 exit application window and March 2014 QSEC auction or any ad-hoc exit application or new entry point auction);
- 2) Whether there are any confidentiality issues associated with the process of including only certain Revenue Drivers within the Licence; and
- 3) Whether Revenue Drivers should only be applicable for a limited time period such that they would be removed from the Licence when they have 'timed out'.

Responses to the proposed methodology statement should arrive at National Grid by 17:00 on 29th November 2012. They should be sent to:

Eddie Blackburn
National Grid House
Transmission Network Services
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Alternatively they can be sent by e-mail to:

eddie.j.blackburn@nationalgrid.com

or

box.transmissioncapacityandcharging@nationalgrid.com.

Yours sincerely

Eddie Blackburn
Gas Future Planning Manager
National Grid

¹ We are expecting Ofgem to issue a second informal consultation on Licence drafting at the end of October