

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: Helen Inwood

Organisation: RWE npower

Contact details: Helen.Inwood@npower.com

Is your response confidential? No

Business Plans

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, we do believe that uncertainty mechanisms should be employed to deal with costs that are outside of National Grid's control. We would like more clarity on how it is envisaged that these uncertainty mechanisms will be applied. Predictability and transparency of information is a key issue for us. Once the adjusted revenues are known, we would like to see at least a 1 year delay before they are implemented into tariffs. This lead time improves predictability of tariffs, thereby allowing suppliers to accurately price these changes into consumer contracts and tariffs. We would be keen to work with Ofgem and National Grid to improve the outputs from the uncertainty mechanism process. The improved predictability from such an approach would result in more cost reflective tariffs for customers and reduce the risk of windfall gains or losses for suppliers.

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

We would like to understand more around how this will work and, in particular, gain a view on the range of costs that could outturn given the uncertainties at this stage.

Charging

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

Yes. npower sign contracts with customers typically lasting up to 3 years. Suppliers will generally offer either consolidated contracts / tariffs (where the TNUoS charge is incorporated into the overall rate that the customer sees) or pass through contracts (where the customer is charged exactly the TNUoS tariff paid by the supplier to the

TO). *Price predictability and transparency is a key issue for suppliers since at the time of pricing a customer they will only know up to 12 months of the first year's TNUoS charge. When pricing a customer contract where the TNUoS rate is consolidated into the overall rate, the supplier must therefore forecast what they believe the TNUoS charges will be for the time of the contract where a published TNUoS rate is unavailable. Predictability of future TNUoS tariffs through transparency of information is therefore key to suppliers in order to accurately reflect TNUoS tariffs in the customers' contracts / tariffs. Without this, there is a risk of windfall gain or loss by suppliers through over or under charging of TNUoS within the customers' contracts. Predictability and transparency is also of benefit to consumers on pass through TNUoS charges since it assists in their longer term budgeting process.*

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?

Both are of a concern to us if we do not have enough advance notice of what the changes will look like since, for the reasons given in Q8, it results in charges being unpredictable. Ideally we would like >12 month notice of what these changes will look like so we can build them into our forecasting process. This will result in more cost reflective charges for customers on consolidated contracts, and provides the ability for consumers on pass through contracts to budget more easily for these changes.

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?

Both are of equal importance to us as suppliers for the reasons given above.

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

Yes. We would be keen to work with you on an approach. Ideally we are looking for:

- *Transparency of methodology and inputs (at least 1 year ahead of implementation)*
- *Regular reporting of latest revenue position, over / under-recovery and other factors which impact tariffs*
- *Delays (>1 year) of k factor (over/under recovery) application, and other revenue adjusting events (e.g. uncertainty mechanisms and incentive schemes).*

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

As above, we would be very keen to work with you on the approach. A lot of good work has been progressed in the area of electricity distribution to improve predictability and transparency. We believe this could be extended to RIIO.

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

Predictability is more important to us as suppliers.