

Dear Colleague,

Ahead of tomorrow's workgroup meeting, please see an 'industry update' from Ofgem:

- *RIIO-T1: Initial Proposals for National Grid Electricity Transmission and National Grid Gas – 27 July.* Following publication of our initial proposals headline document on 16 July, this document (and its associated documents) sets out in full, our Initial Proposals for the transmission price controls for NGET and NGGT from 1 April 2013 to 31 March 2021. Alongside these documents, we published a first informal draft licence conditions consultation. The consultations close on 21 September 2012. Full information is available at the following location on Ofgem's website:
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?file=RIIO%20T1%20Initial%20Proposals%20for%20NGGT%20and%20NGET%20Overview%202707212.pdf&refer=Networks/Trans/PriceControls/RIIO-T1/ConRes>
- *Gas Security of Supply Significant Code Review - Proposed Final Decision and Impact Assessment – 31 July.* The proposed final decision responds to representations received in response to our draft policy decision, sets out our proposed final decision on policy for cash-out reform under the Gas SCR and seeks views on implementation. The proposed decision outlines our intention to sharpen the incentive on gas shippers to enhance security of supply in GB by reforming the gas cash-out mechanism. Under our proposals cash-out would be set at £20 per therm (an estimate of domestic customers' Value of Lost Load' or VoLL) in a GDE once gas supplies to firm customers are curtailed. The impact assessment sets our assessment of the key factors taken into account in reaching the proposed final decision on the Gas SCR. The consultation on both documents closes on 24 October 2012.

Further work on the Gas SCR will now focus on the business rules, code and licence changes required to implement this proposed final decision. A series of stakeholder events are scheduled to facilitate this process. Our draft policy decision also recommended investigating further measures to enhance gas security of supply. The government supported this view and requested that Ofgem undertake a review of medium to long term security of supply and explore the range of potential further measures which could be undertaken in addition to cash-out reform. We have agreed with government that we will submit the report on gas security of supply this autumn.

- *Retail Market Review: GB wholesale market liquidity update* – 16 July. The letter updates stakeholders on Ofgem's liquidity project following the February 2012 consultation and sets out the next steps for the project. Our overall message is that we have seen positive industry-led developments which could signify progress towards our objectives. However, further progress is needed, so we will continue to develop the detailed design of the Mandatory Auction at this stage. We will also continue to monitor market developments – and seek market participants' views on these developments – and our final decision on intervention will reflect these. We intend to reach a decision ahead of winter 2012.

lastly

- *Uniform Network Code (UNC) 419: Redefining the capacity of the Specified Exit Point used in the calculation of the National Transmission System (NTS) Optional Commodity tariff* – 20 July. The letter approves UNC 419 which redefines the capacity of the Specified Exit Point used in the calculation of the NTS Optional Commodity tariff. We considered that the proposal better facilitated relevant objectives (c) and (d) and that it would have a minimal impact on the level of charges faced by those currently access the

NTS Optional Commodity tariff.