

Date  
17th April 2003

Our Ref

Your Ref

Sonia Brown,  
Director – Electricity Trading Arrangements  
Office of Gas and Electricity Markets  
9 Millbank  
London  
SW1P 3GE



Dear Sonia

### **NGC system operator incentive scheme 1 April 2003 to 31 March 2004 Final Proposals and Statutory Notice of Licence Modification**

LE Group welcomes the opportunity to respond to Ofgem's Final Proposals for the NGC System Operator incentive scheme from April 2003. Our views are summarised below.

LE Group:

- ***support the modification of NGC's transmission licence to implement the proposed SO Incentive Scheme for the period 1 April 2003 to 31 March 2004;***
- ***welcome the extension of the current shallow incentive scheme for one year;***
- ***support a balancing cost target of £416m with symmetrical 50% sharing factors and a cap/floor of +/-£40m;***
- ***believe that the proposed incentive scheme will provide an appropriate incentive on NGC to continue to improve the performance of its system balancing operations.***
- ***support the commitment made by NGC to review the contractual framework and charging methodologies for transmission and bring forward changes if appropriate.***

### **Final Proposals**

We welcome Ofgem's decision to extend the current shallow SO incentive scheme for one year, rather than six months. However, we would have preferred to see a longer duration incentive scheme which would encourage appropriate investment to reduce the long-term costs of managing the system.

We also support Ofgem's final proposals of a balancing cost target of £416m with symmetrical sharing factors of 50% and a cap/floor of +/- £40m. We believe that NGC have performed well under their previous incentive scheme, and have had adequate time to adjust to operating under the NETA environment. Therefore, it is now appropriate to strengthen the incentives on NGC, as System Operator, to reduce the costs of system operation and thus improve the economic, efficient and co-ordinated operation of the transmission system. We are satisfied that the final SO incentive proposals will deliver this objective.

### **Deep SO incentive arrangements**

We welcome Ofgem's decision not to introduce a new licence obligation on NGC to use all reasonable endeavours to put in place revised contractual and charging arrangements relating to use of the transmission system. However, we continue to have reservations about the alleged benefits of transmission access arrangements and believe that a considerable amount of work will be required to fully address this complex issue.

We believe that it is appropriate for the detailed review of the contractual framework and charging methodologies for transmission access to be progressed by the industry in conjunction with NGC and we will be actively participating in this process over the coming months.

### **BETTA**

We are concerned that transmission access proposals are being considered under an England and Wales transmission and trading environment whereas it is more likely that any major benefits of transmission access would be realised under a British transmission and trading environment. It is important therefore that the review of the contractual framework and charging methodologies recognises the implications for BETTA of any proposals that are taken forward.

I hope that you will find these comments useful. If you have any queries please contact Rupert Judson on 0208 266 0433 or myself.

Yours sincerely,

Tony Diccio,  
Head of Regulation and Market Infrastructure, Energy Branch  
LE Group.