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Dear Sonia,

## **NGC System Operator Incentive Scheme April 2003 - March 2004**

We welcome Ofgem's proposal to extend NGC's System Operator Incentive Scheme for a further year from 1<sup>st</sup> April 2003, rather than for a six-month period. The level of the cap and the symmetrical sharing factors appear reasonable given NGC's performance to date and the increasing maturity of the NETA arrangements.

We also welcome Ofgem's decision not to impose a "reasonable endeavours" licence condition on NGC to implement transmission access reform. We believe that imposing such a licence condition would have been an abuse of the CUSC governance process.

However, we strongly disagree with Ofgem's view that, in the longer term, a deep SO transmission capacity release incentive scheme and associated arrangements for tradable access rights should be introduced as soon as possible.

In our view, Ofgem have not demonstrated that this scheme is economically justified or workable in practice. It is also inconsistent with the split of SO and TO functions proposed by Ofgem under BETTA, as we detailed in our response to Ofgem's December consultation on NGC SO incentives.

Putting this aside, we also believe that the timetable for the implementation of this scheme is inconsistent with the BETTA timetable. Given that BETTA is now targeted for implementation in October 2004, we do not believe that Ofgem can credibly commit to undertaking meaningful consultation on access arrangements to apply across the GB market under BETTA. We would therefore welcome clarification from Ofgem about how the respective timetables for BETTA and transmission access reform are to be brought together.

Yours Sincerely

Rob McDonald  
Group Regulation Manager