

Simon Bradbury  
Office of Gas and Electricity Markets (Ofgem)  
9 Millbank  
London  
SW1P 3GE

21 January 2005

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Dear Simon,

**NGC System Operator incentive scheme from April 2005  
Initial proposals  
December 2004**

Thank you for the opportunity to respond to this consultation. This response is submitted on behalf of ScottishPower UK Division, which includes the UK energy businesses of ScottishPower, namely ScottishPower Energy Management Ltd, ScottishPower Generation Ltd and ScottishPower Energy Retail Ltd.

I hope that you find these comments useful. Should you have any queries on the points raised, please feel free to contact us.

Yours sincerely,

**Mike Harrison**

Commercial Manager, Trading Arrangements  
ScottishPower Energy Management Limited

## **NGC SYSTEM OPERATOR INCENTIVE SCHEME FROM APRIL 2005**

### **SCOTTISHPOWER UK DIVISION RESPONSE**

#### **1 General comments**

- 1.1 ScottishPower UK Division welcomes this consultation on Ofgem's Initial Proposals for NGC's SO incentive scheme from April 2005. In our response to the previous consultation we argued that it is important in the light of experience of NGC's SO incentive schemes to date that the scheme target is challenging to NGC and based on a robust assessment of costs. We welcome the inclusion of NGC's cost forecasts for 2005/06, and Ofgem's assessment of them, with this consultation as an improvement in transparency in this area.
- 1.2 In this consultation Ofgem have noted that NGC has consistently been able to manage the operation of its transmission system such that IBC has out-turned substantially lower than NGC's proposed target for the relevant scheme, and suggested that NGC's forecasting methodology may be biased and consistently overestimate the mean of the distribution of costs. While we believe that the probability-weighted scenario approach used by NGC may be appropriate, we note that the resulting distribution is sensitive to the combinations of assumptions underpinning the scenarios, and the respective probabilities attached to those scenarios. Further, as highlighted by Ofgem, the values chosen for some assumptions, may affect the values for others. We also agree that the assumed additional costs for GB compared to E&W seem disproportionate to the increase in market size.
- 1.3 On examination of NGC's costs forecasts for 2005/06 and Ofgem's assessment of them, we would agree with Ofgem's conclusion that there are several areas in which NGC's projections may overestimate costs. We agree that this should be taken into account in setting the parameters for the scheme.

#### **2 Detailed comments**

- 2.1 Our views on the proposed details of the SO incentive scheme generally remain as stated in our response to the Initial Consultation, and they will not be repeated here.
- 2.2 We previously argued that NGC's compensation payments to TO's in relation to outage reshuffling should not be included in the GBSO incentive scheme, and that such costs should be entirely absorbed by NGC, not recoverable from users through BSUoS. While this latest document has acknowledged our concern in this area, it remains unclear to us whether, and if so how, the TO incentives arrangements impact on the SO incentive scheme, and more particularly whether the payments to TOs for outage reshuffling are recovered from users or absorbed by NGC. We would ask Ofgem to clarify this in the final proposals consultation.
- 2.3 We agree that a net losses scheme is more appropriate than a gross losses scheme.