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24 January 05

Dear Simon,

Consultation on NGC's SO incentive scheme from April 2005 – Initial Proposals

I have set our below SSE's response to Ofgem's consultation on proposals for NGC's system operator incentive scheme from April 2005.

If you need any clarification or further information on the points raised, please give me a call at the above number.

Yours sincerely,

Rob McDonald
Director of Regulation

Consultation on NGC's SO incentive scheme from April 2005 – Initial Proposals
Scottish & Southern Energy Response

Scope of GBSO incentive scheme

We agree that the scope of NGC's balancing activities will not change at BETTA go-live and that the scope of the GB incentive scheme should be consistent with the scope of the E&W incentive scheme.

Form and duration of the GBSO incentive Scheme

Given that the extension of the scheme to Scotland is relatively small proportionally, we believe that the form of the scheme should remain the same as the current arrangements in England & Wales. It should therefore comprise a sliding scale arrangement with a single target value. We continue to believe that there should be symmetrical incentives to the cap and collar levels, but note that Ofgem have now proposed two alternatives to the symmetrical model with tighter incentives but with increasing upside sharing factors and reducing downside sharing factors. Given the uncertainty of balancing costs in the GB market, it seems reasonable to provide NGC with a range of options so that they can choose one which best matches their view of the risk/reward equation.

The proposed parameters of the scheme (target values, sharing factors etc) seem to provide an adequate range, since all options provide NGC with an incentive to improve on its own forecast cost of £543m. As noted above, it is a matter for NGC to select its preferred option.

We also agree that the scheme should be for one year, to enable better information to be gathered regarding GB balancing costs before setting the parameters of future schemes.

It would appear that a net losses arrangement has some advantages in relating the incentivised balancing costs outturn and target values to the costs actually borne by customers. Since the incentive properties would be unchanged, we therefore support the introduction of a net losses scheme.

Timing of BETTA go-Live

We agree that to accommodate any slippage to BETTA go-live, a profiled version of the existing E&W scheme should be used.