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Dear Duncan/Mark,

**Re: National Grid Gas and Electricity System Operator Incentives  
Initial Proposals Consultation**

Scottish and Southern Energy plc (SSE) welcomes the opportunity to input into National Grid's 2008/09 system operator (SO) incentive review.

We retain an open mind with regards to Ofgem's decision to experiment with the process for setting the 2008/09 SO incentives. This should result in a more direct and transparent consultation process and as a result we are supportive of this new and novel approach.

However, at the time of putting in place the 2007/08 incentives, it was Ofgem's intention to carry out a full and extensive review of the external SO incentives before 1 April 2008 and to adopt a five-year incentive scheme. We are firm proponents of the certainty, stability and longer-term vision offered by longer-term arrangements. We are therefore disappointed by Ofgem's latest proposal that "*the schemes to apply in terms of both gas and electricity incentives from 1 April 2008 will be for one year only*". By restricting National Grid's incentive scheme to a year, National Grid's performance horizon is constrained. Under a one-year regime, with no certainty over how these decisions will be rewarded (or penalised) under future arrangements, there is no incentive on National Grid to take the longer-term investment decisions that may serve the market and industry best in the longer-term.

That said, despite dismissing a longer-term incentive regime from 2008/09, National Grid has used its initial proposals consultation to take promising steps with regards to indexation. We believe indexation, particularly with reference to the wholesale electricity price, is a key part to ensuring the relevance and effectiveness of the incentive regime over the longer-term. However, it is key that the market has confidence in the accuracy and relevance of the index. We do not believe National Grid's initial proposal demonstrates sufficient correlation to warrant deployment and we would urge National Grid to carry out further analysis to strengthen its indexation proposal ahead of 1 April 2008. In doing this work, National Grid should not necessarily confine its analysis to wholesale price. We believe there is merit in assessing a number of correlations including, for example, NIV.

Similarly, we do not believe National Grid's proposed indexation to account for changes in the duration of the planned boundary outages is particularly robust. However, we welcome the direction National Grid is taking its incentive and, having implemented indexation in 2008/09, we believe an enduring scheme should be a matter of course from 2009/10.

Besides taking steps to accommodate changes in the timing of the outage schedule, we believe National Grid should be actively seeking ways to mitigate its cost exposure. As a minimum, we believe National Grid should explore forward constraint contracts or option contracts to limit costs

should such an event happen. We already support National Grid's efforts to put in place a more routine constraint management service and we believe this approach should be extended to cover high cost, low probability events.

In addition to all of the above, National Grid must ensure that its balance of incentives is correct. In earlier communications with Ofgem, and more recently with National Grid, we highlighted our concern that the SO incentive mechanism focuses excessively on constraints. We believe a certain volume of constraints is evidence that the transmission system is being efficiently built and operated and a sign that investment is needed. Our concern is that an approach that exclusively discourages constraint costs discourages National Grid from allowing new and renewable generation on to the system and makes investment decisions more difficult. We believe this will inhibit the Government's ambition with regards to renewable generation and carbon emissions.

In our submission to Ofgem's Transmission Access Review, we underlined the importance of ensuring that both the existing (and future) capability of the transmission system is used to the fullest extent possible. In an effort to address the one-sided nature of the incentive mechanism, we believe there is merit in introducing a quality of service incentive similar to that already in place in distribution. This incentive, which looks at a number of areas including the frequency of customer interruptions and standards of performance following such interruption, is tailored to what matters to distribution system users. By changing National Grid's emphasis and incentivising appropriate steps across a basket of areas (including constraint costs) that are important to transmission system users, for example, the connection of renewable generation and the full utilisation of the existing network capacity, we believe the incentive regime would be made more effective. We would urge both Ofgem and National Grid to make the development of such a long-term incentive a priority for delivery by 1 April 2009.

National Grid already has an incentive, the Transmission Network Reliability Incentive Scheme, that adjusts its revenue based on its performance in relation to a loss of supply volume target. At the moment, this incentive lacks clarity due to having effect over both transmission owner (TO) and SO activities. We believe it may be more appropriate and more effective to separate National Grid's reliability incentive into a clear TO incentive in E&W (based on events, as is the case for the other two transmission owners, SPT and SHETL) and a separate SO incentive. This separate SO incentive could be based on, for example, the overall availability of the GB transmission system.

In addition to the points made above, we have included responses to the specific questions asked. We hope both clearly set out our concerns, but should you wish to discuss anything in our response further, please do not hesitate to contact me.

Yours sincerely,

Robert Hackland,  
Regulation Manager.

## Electricity

1. **Do you agree with the assumptions (described in detail in the appendix) used to forecast the various elements that make up underlying balancing costs?**

Yes. We believe the assumptions are broadly reasonable.

2. **In particular, do you have any comments or views on National Grid's forecast assumptions for cost drivers:**

**(i) The behaviour of NIV during 2008/09 can be expected to be broadly in line with that seen during the current year, 2007/08.**

At £162 M, National Grid's NIA is becoming a significant component of its incentive. We recognise that this is in part driven by higher wholesale prices.

Given the recent trend towards a less long market, and the lack of any single or clear driver for this change, we believe National Grid's proposal to weight its forecast of NIV between the less long level seen in 2007/08 and that of 2006/07 is reasonable. If anything, we believe the level of NIV could become less long with the introduction of the LCPD.

**(ii) That the forward price is the most appropriate figure to represent the likely outturn wholesale price during 2008/09.**

Providing the basis of the forward price is transparent (i.e. known to market participants) and based upon a robust data set, we believe this is the most appropriate figure to use at this stage. Furthermore, we support the introduction of indexation for the purposes of tracking the wholesale price. This is the most effective way of ensuring a reflective incentive scheme and is consistent with moving towards a more enduring incentive regime going forward.

**(iii) That wholesale power price either directly drives or act as an appropriate proxy to index certain balancing costs.**

Whilst the costs incurred in providing reactive power are clearly correlated to wholesale power prices, the correlation between other balancing costs and the wholesale market price is less clear. We do not believe that National Grid should be (fully) exposed to changes in wholesale price. However, before removing this exposure through indexation, we believe it is key that the market has confidence in the accuracy and relevance of the index. We would therefore encourage National Grid to carry out further analysis and to share any positive correlations with the market at the earliest opportunity. In doing this work, we would also encourage National Grid to explore a variety of correlations, i.e. not only with wholesale price, but including, and not necessarily limited to, NIV.

3. **Do you agree with the assumptions used to forecast Cheviot and Scottish constraint costs, and the costs associated with the forecast rise in Wind output in 2008/09?**

### **Constraint costs**

We recognise that 2008/09 marks the start of a series of years of considerable outage in order to construct or rebuild major new sections of the transmission system in Scotland and the North of England. In line with this, we recognise that these outages will have an impact on National Grid's constraint costs. The extent of these costs, however, is highly uncertain.

Part of this uncertainty comes from the duration of the works. In an effort to address this, National Grid has proposed an index linked to the number of weeks of outage. We are not opposed to an index *per se*. Indeed, given the programme of outages planned for future years, we believe National Grid will need to implement an index in order to manage this exposure under a longer-term incentive arrangement. However, we are not convinced that the proposed structure is the most appropriate.

In an effort to calculate the step-change in costs caused by the additional outages, National Grid has modelled its forecast 2008/09 Cheviot costs against (i) its historic programme of outages (i.e. 8 weeks) and (ii) its forecast for 2008/09 (i.e. 30 weeks). This analysis suggests a £34.6 M step-change in constraint costs against a 22-week increase in outage duration. On the basis of this analysis, National Grid has concluded that work extending beyond its 8 week baseline should be reflected through a weekly £1.57 M increase in its constraint cost target (and vice versa). We do not believe this approach is particularly robust. Moreover, it is not clear that the costs on which National Grid has based its index are correct.

In one table, National Grid's forecast cost of its constraint balancing actions caused by the 30-week planned boundary outages is £67.2 M. In the following table, it would appear that the costs of boundary outages is forecast at closer to £55 M (26 weeks at £1.88 M [£49 M] + 4 weeks at £1.44 M [£5.8 M]), with the remainder (c. £12 M) accounting for 'routine' constraint costs. For National Grid to introduce an index relating to the specific planned boundary outages, the index must be based on the costs specific to the works and not the 'routine' constraint costs.

The remaining uncertainty stems from the costs that National Grid incurs in managing these constraints. In its consultation document, National Grid sets out a scenario whereby both double circuits connecting Scotland and England are lost. In this unlikely event, National Grid proposes that they will recover the resulting [constraint] costs through an income adjusting event (IAE). We do not believe that this should be National Grid's only solution. Instead, we believe National Grid should adopt a more risk averse approach and, as a minimum, explore putting in place forward constraint contracts or option contracts to limit costs should such an event happen. We already support National Grid's efforts to put in place a more routine constraint management service and we believe this approach should be extended to cover high cost, low probability events. Our preference is for upfront certainty with regards to BSUoS costs rather than unrealistic forecasts that are subject to retrospective adjustment.

On this point, we note that National Grid has not deducted anything from its 2008/09 constraint forecasts to account for this new constraint management service. By offering a tendering service, National Grid should see a reduction in its costs and this should be reflected in the derivation of its target.

#### **Wind costs**

In terms of National Grid's forecast costs for 2008/09, we do not have the information necessary to comment, but at a high level, the forecasts do not seem unreasonable.

#### **4. Do you have any comments on our initial analysis of the likely impact of the introduction of the Large Combustion Plants Directive, in particular on the likely operation of opted-out plant?**

Given that the Directive only entered into force on 1 January 2008, we anticipate that there will be limited opportunity to factor in any real experience ahead of 1 April 2008 implementation. Therefore we believe National Grid's assumptions and forecast increase in costs are entirely reasonable.

**5. Do you have any comments on the forecast range of incentivised balancing costs and BSUoS costs for 2008/09?**

We welcome the direct comparison between incentivised balancing costs and BSUoS. This is a useful addition that enables parties to quickly determine the implications of the SO incentive for their P&L account.

Our preference is for realistic costs upfront to avoid any unwelcome costs being applied retrospectively. This remains our position. We have given thought to National Grid's suggestion that a fixed arrangement could be applied to BSUoS whereby costs are fixed for the current year with subsequent adjustment the following year to reflect the net position. We believe there may be merit in discussing this further. If such an approach was adopted then there may need to be some form of 'cap' on the amount of costs that could be 'transferred' from one year to the next year to remove the risk that parties who default in one year avoid their share of BSUoS in the subsequent year (that arise from the year they went into default).

**6. Do you agree with the main areas for efficiency identified by National Grid?**

The proposed areas appear reasonable.

**7. Do you agree with the range of proposed scheme options? Are there alternative scheme structures that should be considered for 2008/09?**

National Grid has presented a broad choice of scheme options, made wider by the ability to mix-and-match the various components. As a result, we believe it is unlikely that there will be a consensus view put forward by consultees. We believe this will make it difficult for National Grid to determine the final scheme and have certainty that appropriate sharing factors, caps and collars are in place relative to the target and level of indexation.

That said, we recognise that a real benefit of involving National Grid at this stage is that, on the proviso that industry can agree with at least one of National Grid's proposals, we have certainty that National Grid is willing to accept any of the proposed schemes. In previous years, despite Ofgem going to the effort of proposing and consulting on possible schemes, we have had no certainty that any of Ofgem's proposals could (or would) actually be implemented.

**8. Do you support the use of indexes for the 2008/09 incentive scheme? Do you agree with the proposed level of scheme target indexation for wholesale power price? Do you prefer wholesale power price index option (a) or (b)? Do you agree with the proposed level of scheme target indexation for Cheviot outage weeks?**

We believe it is right that the incentive scheme is targeted on areas that are within National Grid's control. We therefore believe there is merit in introducing some form of indexation to ensure that elements, such as wholesale price, do not undermine or weaken the incentive on National Grid to perform efficiently and economically. Moreover, we have been proponents of a longer-term arrangement and we believe indexation is the most appropriate way to ensure that the incentive is kept relevant year-on-year. A more enduring regime has effectively been ruled out for 2008/09. However we believe some form of indexation must be introduced in advance of the 2008/09 incentive to ensure that, on the basis of this experience, we can move to a more enduring regime ahead of 2009/10.

In terms of National Grid's proposals, we believe it is justified in proposing an incentive to limit its exposure to both wholesale price and outage weeks. However, we are less convinced that National Grid's proposed indices are sufficiently robust to stand up to industry scrutiny.

### **Wholesale price index**

For National Grid's actions in relation to reactive power, the correlation between wholesale power price and reactive power price is direct. There is therefore a considerable amount of confidence in National Grid's index that for every £1/MWh change in wholesale price, National Grid's (annual) reactive power costs move £0.8 M in the same direction. Further correlation between wholesale price and other balancing costs is, however, much less clear and as such we do not feel able to support National Grid's proposal to apply a variant of this index to the overall scheme target without further evidence of stable correlation.

We would therefore encourage National Grid to carry out further correlation analysis and to share any positive correlations with the market at the earliest opportunity. In doing this work, we would also encourage National Grid to explore a variety of correlations, not just with wholesale price, but perhaps also looking at linkages with, for example, NIV. Where this further work uncovers robust correlations, we believe National Grid should implement wholesale price indices based upon these individual balancing costs. This will help to offset overall exposure to wholesale price changes. If National Grid is married to implementing a wholesale price index at the overall target level, we believe a more conservative approach is needed to allay concerns that it may not be cost-reflective. We believe a number closer to the lower end of the range offered by National Grid, i.e. £0.8 M per £1/MWh, would be more appropriate.

Consistent with our view that National Grid should not be exposed to changes in wholesale price, we believe the power price index should be based on option (a). Our understanding of option (b) is that it is not that dissimilar to the approach that is used currently and we would encourage National Grid to take steps to make its incentive more targeted and relevant.

### **Cheviot constraint index**

Please see our response to Q3.

**9. Which is (are) your preferred scheme(s)? Please provide reasons. If your preferred scheme is scheme 3 or 4 do you consider these should have a target indexed to power price and/or Scottish outage weeks or not?**

Our preference is for Option 1, subject to the proposed changes to the indices. By indexing to wholesale price changes and the number of weeks Cheviot is on outage, we believe National Grid's incentive is more targeted towards National Grid's actions and, as a result, is less likely to be undermined by market volatility outside National Grid's control. On this basis, i.e. that it should be more within National Grid's control to drive any over- (or under-) performance relative to its target, we believe the proposed higher sharing factors and caps and collars are appropriate. However, we also believe that the weighting between these factors and caps/collars should be equal between the upside and the downside (as is the case with scheme 6).

We believe this approach, whereby National Grid is responsible for putting forward schemes that it is willing to implement, is more likely to result in an incentive scheme being agreed and implemented, and for the process to be more efficient.

**10. Do you agree that longer term development of systems that will reduce the cost and carbon impact of operating the system should be supported? Which manner of funding do you consider to be the most appropriate?**

We believe longer-term development of systems is beneficial and we are disappointed that more effort has not been made to implement a longer-term incentive arrangement with effect from 1 April 2008. Given that this was discussed in earlier SO reviews, we believe it should have been

feasible to implement a longer-term incentive regime ahead of 1 April 2008. That said, we recognise that time has run out on implementing a regime in April this year that is sufficiently robust to be considered enduring. However, we believe the 2008/09 scheme must not be a wasted opportunity. We believe there is real merit in trialling aspects of an enduring regime, e.g. indexation, over the course of 2008/09 to ensure that we are (without fail) in a position to implement an enduring regime from 1 April 2009.

**11. Did you find the level of information within this consultation, and associated documentation and workshop, on our balancing and BSUs costs forecasts for the current year and 2008/09 informative. What additional information should National Grid provide to explain better the costs and cost drivers?**

Yes. We believe National Grid has made a real effort to inform the industry of its incentive proposals and forecasts.

**12. Do you have any further comments on the analysis and information provided within the appendices to this consultation or in the further documentation available on our website? Do you have any further comments on any aspect of this consultation in relation to the Electricity SO?**

**Do you have any further comments on any aspect of this consultation in relation to the Electricity SO?**

We are surprised by the latest forecast cost for 2007/08 transmission losses (£22 M) against a target of zero. We would welcome further analysis and clarity on this ahead of any target being set for 2008/09.

Finally, although outside the scope of this current review, we would like to raise a concern relating to NGET's internal incentive. We are concerned that the limits in place may be preventing NGET from making the necessary investment in central systems and resources. We believe it may be in the industry's interest to accommodate such expenditure under the SO incentive. Going forward, greater transparency surrounding NGET's capital and operating costs would be helpful.

## Gas

### 13. Do you agree with the approaches used in forecasting the various elements that make up NTS shrinkage?

NTS shrinkage is the single largest component of the SO commodity charge. In making our response we are mindful of National Grid's 2006/07 target (£184.4 M) relative to its outturn costs (£103.7 M) and the fact that National Grid has received the maximum incentive payment (£4 M) with regards to shrinkage every year since 2003/04.

Addressing each of the elements that make up NTS shrinkage in turn:

#### Compression energy

Last year, National Grid moved its charging methodology away from its north-south emphasis in an effort to better reflect current system flows. Having done this, the rationale for retaining a north-south index for its use of compression energy would appear to be weakened.

However, providing the St.Fergus 'index' is capable of accurately accommodating reduced flows, we believe this is still a valid approach. We therefore welcome National Grid's refinement of the 'bands', but we believe National Grid must extend the lower range to ensure that the incentive is suitably targeted. National Grid's Transporting Britain's Energy work assumes minimum flows through St.Fergus of 65 mcm/day. Given that National Grid's charges are based on this work, we believe this index should extend to average annual volumetric flows through St.Fergus terminal of less than 65 mcm/day (rather than the currently proposed 85 mcm/day). In this way, National Grid will ensure consistency of data used.

#### CV shrinkage

As we understand it, National Grid's biggest exposure comes from one of two scenarios – either large volumes of high CV gas entering the system at the Millford Haven or Teesside entry points whilst other gas within the DN is at a low CV, or small volumes of low CV gas entering the system at the Millford Haven or Teesside entry points when other gas is of a high CV. The consultation document suggests that the probability of these events is low, but the impact is high. This is apparent from the shrinkage volume forecast for 2007/08 (152 GWh) relative to National Grid's worst case scenario for 2008/09 (858 GWh). We therefore recognise that it is difficult to set an appropriate volume target for the incentive, particularly given the lack of historic data.

That said, we are concerned by the proposal to remove potentially large volumes of CV shrinkage from National Grid's incentive. By simply excluding certain offtakes and direct DN entry, we are concerned that National Grid removes its incentive to manage CV shrinkage volumes at times when it can be managed. We believe National Grid should, as a minimum, explore the possibility of putting in place innovative arrangements with LNG importers and others to mitigate this risk.

Finally, whilst we welcome National Grid's forecast 12-21% reduction in NTS shrinkage requirements in 2008/09 relative to 2007/08, due to National Grid's proposal to remove significant volumes of CV shrinkage, we believe this comparison is misleading.

#### Unaccounted for gas

Given the volatility of UAG, we believe National Grid's forecast is reasonable.

### 14. Do you support the continued linkage of shrinkage target volumes with flows at the St.Fergus entry point, and do you support the move to an increased number of bands?

See response to Q13.

- 15. Do you agree that the SO should not be incentivised on CV shrinkage that is outside of its control? Please comment on whether you believe it is necessary for Ofgem and BERR to review the continuing appropriateness of the CV capping rules in the Gas (Calculation of Thermal Energy) Regulations.**

We are concerned by the prospect of removing a potentially large volume of CV shrinkage from the incentive mechanism and we believe efforts should be made to put in place arrangements with relevant parties, for example LNG importers, to mitigate shippers' exposure to the resulting costs.

- 16. Do you have an objection to the proposed interim Gas Cost Reference Price (GCRP) and Electricity Cost Reference Price (ECRP) methodologies for 2008/09? If so please explain why and outline your suggested alternative.**

We are disappointed that it has got to the stage of interim methodologies given Ofgem's intent to conduct a full and proper review in 2007. Moreover, we do not believe that National Grid's actions to procure shrinkage gas for 2008/09 should have been put on hold as a result of this delay. By condensing its procurement strategy, National Grid is unlikely to be acting in the most economic and efficient way.

That aside, we believe National Grid's proposal to adopt an interim methodology is broadly reasonable. We understand that by setting a 3-month 'reference period' starting from 1 January 2008, National Grid is giving itself a benchmark against which to procure its NTS shrinkage requirements now. However, it is less clear why National Grid has not extended this approach to its interim electricity cost reference price. In an effort to make this as cost-reflective as possible (and consistent), we believe it would be more appropriate to adopt a 3-month 'reference period' for National Grid's summer procurement followed by the proposed 6-month 'reference period' for the more distant winter months, as is proposed for gas.

- 17. Do you support the proposal to establish the proposed enduring GCRP and ECRP methodology arrangements into the National Grid's GT Licence for an extended period, (to avoid the need for interim arrangements in the future) regardless of the duration of any incentive scheme?**

Providing there is sufficient confidence and flexibility in the enduring arrangement, we welcome an enduring regime for GCRP and ECRP. This will help to avoid the current scenario whereby interim measures are necessary and National Grid is discouraged from procuring NTS shrinkage gas due to a lack of certainty in the price incentive.

- 18. Which of the scheme options do you believe provides the most appropriate incentive arrangements for the management of NTS shrinkage?**

Unfortunately we do not believe National Grid will be in a position to implement a multi-year scheme ahead of April 2008. Therefore, we have focused on schemes A and B. Without being able to determine National Grid's actual exposure under its proposed NTS shrinkage incentive, we believe National Grid's upside under the incentive should be capped at the lower amount, i.e. £5 M. We therefore support scheme B as proposed by National Grid. If, contrary to this view, scheme A is implemented, we believe National Grid should be asked to demonstrate the additional effort required to qualify for the additional upside.

Regardless of the scheme implemented, we believe that the weighting between the scheme factors and caps/collars should be equal between the upside and the downside. National Grid has not presented any reason why this should not be the case.

**19. Do you agree that the incentive cost target should be constructed in the way proposed in this consultation?**

National Grid's proposed approach appears reasonable.

**20. Which of the scheme options do you believe is the most appropriate way to incentivise the costs of utilising OM?**

Scheme C grants market participants upfront certainty and is therefore our preferred option. However, given that the average background utilisation cost has been calculated to be £0.27 M, we believe National Grid has added in additional (and excessive) comfort by including four-times the average background utilisation cost. We believe a doubling of the average background utilisation cost would be a more realistic and acceptable target (i.e. £23.83 M rather than £24.38 M).

**21. Do you agree that a one year scheme is appropriate pending a potentially more fundamental review of residual balancing incentive going forward?**

We are disappointed that a more fundamental review has not been carried out for the purposes of the 2008/09 incentive regime. We understood that this was Ofgem's intention. In the absence of this more thorough review being carried out, we believe a one-year scheme is the most appropriate solution with an absolute commitment to a fundamental review in advance of 2009.

**22. Which of the scheme options do you believe provides the most appropriate incentive arrangements for the residual balancing activity for 2008/09, and what are your views on the potential removal of the linepack element of the incentive?**

We are concerned that by removing the linepack element, National Grid loses all incentive to keep linepack as close to constant within day as possible. It is not clear how much of an impact this incentive has on National Grid's performance and we are concerned that without any regulation on linepack stability, the market will suffer as a result.

This view is strengthened by the information provided on demand forecasting later in National Grid's consultation document. Although the volumes being talked about with regards to demand forecasting are significantly greater than the daily limits currently imposed on linepack, we believe this demonstrates the ability that National Grid has to influence the cost to customers. Removal of this incentive would leave National Grid's behaviour on linepack unchecked and this is likely to have an adverse impact on market costs.

We therefore support retention of the linepack incentive and a simple updating of the existing residual balancing incentives, as is proposed under scheme A.

**23. Do you agree that the current Demand Forecasting incentive should roll forward to 2008/09, pending a more fundamental review of the residual balancing activity and incentives?**

Given the benefits from even marginal improvements in demand forecasting, we believe the incentive should be continued, but in order to ensure that it remains effective, we believe the scheme's target should be tightened and National Grid's ability to benefit under this incentive should be monitored.

**24. Do you think it is appropriate to widen the data items that are subject to incentivisation to include the additional data items outlined in the proposal?**

As we understand it, National Grid is proposing to bring more of the data that it already publishes under the data publication quality of information incentive. It seems reasonable that the reports included in this incentive are those that are most frequently accessed. However, we believe National Grid's financial reward for the provision of this 'service' must be more in line with recovering the costs incurred in implementing the relevant systems. We are concerned that National Grid has the potential to gain considerably under these incentives in exchange for comparatively little effort.

**25. Do you agree with the proposed scheme design in terms of timeliness and availability elements, and the provisions for planned upgrades/monthly measurement intervals?**

We agree that timeliness and availability are relevant indicators of National Grid's performance, but the most important indicator – accuracy - is currently missing from the incentive. This must be included going forward. Timely publication of data is of no value if it is not accurate.

In terms of the indicators discussed, National Grid propose a 2008/09 'unavailability' benchmark of 0.51% based upon its performance over October 2006 to September 2007. In 2006/07, 0.51% unavailability was achieved without making any special provisions for "*legitimate unavailability*" due to planned outages for maintenance and upgrades". National Grid is now proposing that "*legitimate unavailability*" be excluded from the incentive. It is not clear what share of 0.51% unavailability achieved in 2006/07 is due to "*legitimate unavailability*". By removing this from the incentive, we believe National Grid's proposed target improvement of 25% over one year or 50% over two years is lacking ambition.

**26. Which of the proposed performance improvements and associated incentive schemes do you believe is most appropriate?**

We believe the returns available to National Grid under its quality of information incentive are highly disproportionate, particularly given that National Grid's role is to operate an economic and efficient system and information provision should be considered no more than business-as-usual. Against an investment of up to £600 k, National Grid stands to recoup up to £1.8 M under scheme A and under scheme B (against an investment of up to £850 k) up to £2.5 M. We believe National Grid should present a scheme option that is more in line with its proposed investment costs. We are concerned that National Grid has the potential to gain considerably under these incentives in exchange for comparatively little effort or risk. We would encourage National Grid to conduct a full and proper cost-benefit analysis to demonstrate the benefit to customers of the proposed improvements.