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Dear Duncan

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

The following response from Gaz de France ESS will concentrate on key elements of your electricity System Operator proposals. Our response to your proposals for the gas System Operator approach is included within the submission commissioned by the Gas Forum.

Process

Ofgem announced that they were considering a new approach towards development of the System Operator incentive scheme for 2008/09 as late as November 2007. Whilst it is commendable that Grid have been able to develop and consult on the various elements included within the scope of the proposed 2008/09 scheme, taking into account the industry workshop and various one-to-one sessions they have conducted, we would have preferred much earlier engagement within the development of this scheme.

Many elements require considerable 'thinking' time in order to fully assess the potential variations within their theme. This includes time to consider the interactions between the various elements as well as each individual component. Should this process be repeated in future then we would hope there would be an opportunity to engage much earlier in the development cycle.

In order to facilitate this we expect Grid to ensure we are provided with ongoing updates throughout the lifetime of the scheme, at the Operational Forum and more frequently via industry meetings such as the Connection and Use of System and Balancing and Settlement Code Panels for example. The more open and transparent the information flows, then the more innovative and responsive we can collectively be as an industry to ensuring optimisation of opportunities and appropriateness of adopted methodologies.

Balancing Services Use of System Charges (BSUoS)

We appreciate the effort Grid has made in providing further clarity between forecast and likely BSUoS costs. The variability and alarming increase in this particular element of our energy bill has been of great concern, not only to our business but also to that of our Customers. Any improvement in transparency and frequency of BSUoS forecasts from Grid is most welcome, particularly updates in the forecast view of final outturn for a given year and its impact on following year forecasts.

As Suppliers we need to adequately budget and ensure we have made every effort to stabilise our pricing structures for the lifetime of our energy contracts. Any additional information that helps explain the unexpected is most welcome. Indeed we would encourage further work at the earliest opportunity which might lead to more steady cost recovery in this area. Options such as annual BSUoS charging or some form of cost hedging by Grid might, we suggest, be a good place to start if combined with better and more frequent BSUoS forecasting covering current year and giving views for the subsequent two years ahead.

We note your questions around the shortening of Net Imbalance Volumes and believe that this trend will continue as many market players become more confident in their predictions of market and System behaviour.

Constraints

During September and October 2007 it became apparent that there were particular 'problems' around weekend generation flows of energy into and out of Scotland. Grid updated the Balancing and Settlement Code Panel at their meeting of 11th October 2007 with regard to generator activity across the Cheviot Constraint. We were warned that due to long term work to upgrade the capacity of the transmission circuits crossing the Cheviot boundary Grid forecast increasing costs incurred in managing this constraint. We would expect that this area has already been intensely scrutinised by Ofgem and would support a full review into the whole issue of enduring constraint management.

To address the unknown elements of risk within this forecast Grid suggest that it may seek to adjust eventual values using Income Adjusting Event provisions. The uncertainty in the eventual costs we will face will introduce significant risk to our business and our customers. Income Adjusting Events to date have been difficult to manage and budget for from our business perspective. Combined with the likelihood of significantly increased forecast energy costs in the forward curve this would be our least preferred route. Our preference would be greater transparency around the daily actions of those creating the cost to the industry and significant efforts now to negotiate a more appropriate and manageable level of return. We would also expect Ofgem to closely

monitor and regularly update all Participants on activities they have become aware of that result in significantly increased costs beyond those that can be deemed to be within an appropriate economically justified level.

Large Combustion Plants Directive (LCPD)

With the introduction of the LCPD 1st January 2008 the industry faces additional uncertainty around the behaviour and availability of opted out plant. To date we have already seen instances where opted out plant has caused significant cost to the System in order to relieve System constraints. A clearer understanding and improved transparency around the mitigating action Grid will need to take would be a basic requirement during the life of this Directive, therefore we would expect Grid to have some clear proposals regarding improvements to the monitoring and reporting procedures to be adopted in order to ensure all market players understand progress against forecast outturn levels.

The way forward

Grid has suggested a one year scheme be adopted for 2008/09. We would support this approach, but believe more timely and inclusive dialogue around the formulation and length of future schemes is essential. The earlier this debate is started the better.

Should you require any clarification regarding the content of this submission please feel free to contact Andy Scott, Business Transformation Manager on 0113 306 2082.

Yours sincerely

Andy Cooper
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