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## OFGEM INTRODUCES NEW INCENTIVE SCHEME ON NGC TO IMPROVE PERFORMANCE

- **Major powercuts could cost NGC up to £12 million per year**
- **Improving existing high standards of performance could yield NGC an extra £8 million**
- **Exemptions for exceptional events, such as very severe weather**

Major powercuts could cost the National Grid Company (NGC) up to a maximum of £12 million a year under a new incentive scheme announced today (Monday) by energy regulator Ofgem.

As well as penalties for powercuts, the incentive scheme allows NGC to earn up to a maximum of £8 million a year for improving performance on the National Grid.

Ofgem announced its decision to introduce an incentive scheme for NGC last year, after its investigation into power cuts in London and Birmingham in 2003. This will provide NGC with incentives to improve on its already high standards of overall network reliability.

Ofgem Chief Executive, Alistair Buchanan, said: "It was clear from our investigation into the London and Birmingham powercuts that strengthening the incentives on NGC to maintain and improve the performance of the National Grid would help to better protect customers' interests. Under the new incentive scheme NGC could face penalties of over £10 million if we were ever to see a repeat of the blackouts in London and Birmingham in 2003.

"Ofgem's objective in designing this new incentive scheme is to strengthen the incentives on NGC to minimise interruptions to customers' electricity supply. The scheme offers NGC an incentive to improve on the grid's high standards of performance and complements its existing duties to operate the high voltage network in an efficient, co-ordinated and economical manner.

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## Notes to editors

1. The scheme is based around rewarding or penalising NGC in accordance with its annual performance in running a reliable network. NGC will be rewarded on a sliding scale up to 1.0 per cent (around £8m) of its national grid revenue (around £800 million) in the event that all demands for energy are met, or penalised on a sliding scale up to 1.5 per cent (around £12m) in the event that approximately 650MWh or more is unsupplied in a given year. The incentive scheme came into force this month.
2. In the event of a major powercut, NGC could still be subject to an investigation by Ofgem to see if it has breached its legal obligations. If NGC were found to be in breach of its legal requirements an additional financial penalty could be imposed on top of any payment under the incentive scheme.
3. London/Birmingham Powercuts. The London powercut lasted 37 minutes and occurred on the evening of 28 August 2003 causing widespread disruption to commuters travelling home in the evening rush hour. It resulted in a powercut for 476,000 customers. The Birmingham powercut occurred on 5 September and lasted 42 minutes and saw 200,000 people lose their electricity supply.

Ofgem investigated the both powercuts and found that they were caused by a series of unrelated events, some of which were the result of mistakes by NGC. However, the mistakes made by NGC were not material enough for Ofgem's governing Authority to find NGC in breach of its legal obligations.

4. Copies of *Electricity transmission network reliability incentive schemes, Final Proposals*, (271/04) can be obtained from the Ofgem website on [www.ofgem.gov.uk](http://www.ofgem.gov.uk). Hard copies can be ordered from the Ofgem Distribution Centre on 020 7901 7116 or by email from [distribution@ofgem.gov.uk](mailto:distribution@ofgem.gov.uk).
5. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. Ofgem's aim is to bring choice and value to all gas and electricity customers by promoting competition and regulating monopolies. The Authority's powers are provided for under the Gas Act 1986, the Electricity Act 1989 and the Utilities Act 2000.

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