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Dear Kyran,

Income adjusting event under National Grid Company's 2003/04 system operator incentive scheme

Thank you for the opportunity to comment on the above consultation which raises a number of important issues.

It is a matter of fact that NGC raised concerns in relation to generation capacity margins ahead of winter 2003/04 and initiated a supplemental standing reserve tender (SSRT) round following clarification by Ofgem of their licence obligations and how these related to the procurement of short-term reserve. This took place after the system operator incentive scheme and targets had been agreed for 2003/04. British Energy therefore agrees with Ofgem and NGC that certain of the associated additional costs do indeed constitute a valid Income Adjusting Event (IAE) under the terms of the licence.

We note that this is the second IAE in as many years which is a worrying trend given the general lack of transparency which surrounds the assessment of these claims. It also brings into question the process adopted by Ofgem in setting the incentive targets and allowances. We acknowledge and welcome moves by Ofgem set out in this consultation to increase the level of transparency but do not consider these go far enough.

Because of the noted lack of transparency British Energy is not able to comment on the precise level of the claim, as no details of the trades etc. are available to participants. In these circumstances we have to rely on Ofgem doing a thorough job of carefully scrutinising in detail all elements of the claim and its interactions with other balancing service allowances, a process we understand is still ongoing. Confirmation of the valid amount of the claim should await the conclusion of this process, and the details of the scrutiny process made public.

Ofgem should, as a matter of priority, address the issue of creating a liquid transparent market in reserve to which all participants have access. But in the absence of this NGC procurement of reserve to secure the system in its role as residual system balancer is necessary. However, more detail on the way NGC makes the trade-off between Approach 1 and Approach 2 is important together with information on the levels of short-term reserve considered adequate and why. These requirements should be added to the transparency amendment proposals.

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With the inclusion of the additions noted above we support the changes to the provisions of the IAE arrangements to improve transparency. Ofgem must keep these arrangements under constant review to ensure participants have confidence in the process and are able to meaningfully participate in any future IAE consultation, and must themselves apply rigorous scrutiny to all claims for IAE.

Yours sincerely



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