



*taking care of the essentials*

Kryan Hanks  
Director, Wholesale Markets  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Centrica Energy  
2nd Floor Millstream East  
Maidenhead Road  
Windsor  
Berkshire SL4 5GD  
Tel. (01753) 431052  
Fax (01753) 431150  
[www.centrica.com](http://www.centrica.com)

Our Ref. IAE 2004  
Your Ref.  
18th June 2004

Dear Kryan,

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

Centrica welcomes the opportunity to comment to Ofgem on the above consultation.

We support Ofgem in the changes that have been made to the IAE procedure and are pleased that this has resulted in a more transparent and open process following that experienced with the IAE raised last year.

We are still concerned that although the IAE provisions allow for an IAE to be raised by either NGC or any other BSC Party, the reality is that there is insufficient information for a party other than NGC to raise an IAE. In addition, there is unlikely to be a set "event" arising that results in cost savings. We suggest that significant savings are more likely to arise as a consequence of on-going factors, this would include under spending by NGC against allowances currently included within the SO incentive target due to external factors. For example, due to weather or power costs, the allowances under the current scheme may be significantly higher than actually used by NGC and may bridge the £2m barrier for any one set reason. This includes the stated £18m allowance in the current target to account for increase in market prices. If this increase doesn't materialise to the extent assumed, then this would, under the current circumstances, result in a windfall payment to NGC.

This whole area, we suggest, is exacerbated by the historically high forecast of out-turn forecasts produced by NGC which, we believe, result in a higher than necessary SO incentive target. We believe it is pointless having symmetrical sharing factors, when history has shown that the target is not being set at a "challenging" enough level and there is little realistic probability of NGC overspending against the target. This all results in an inequity between NGC and customers, in a situation where Ofgem states there should

**A *centrica* business**

Centrica plc - The group includes British Gas Trading, British Gas Services and Accord Energy  
Registered in England No.3033654. Registered Office: Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD

be an appropriate balance between risk and reward between the interests of the two parties.

We urge Ofgem to consider these points and further update the IAE provisions and increase the information made available by NGC to allow other BSC parties the opportunity of raising IAEs when the target has been affected by external factors that result in a net saving for NGC.

In regard to the IAE raised, we can see no reason to object to it, although the current one-sided nature of the process is obviously inequitable.

We support the amendments detailed in chapter 4 of the consultation, and especially applaud the publication of notice of a forthcoming IAE within the public domain. We also support a similar change being introduced to Transco's licence

Please contact me if you have any queries regarding these comments.

Yours sincerely,

Sarah Owen  
Commercial Manager  
Centrica Energy

**A *centrica* business**

Centrica plc - The group includes British Gas Trading, British Gas Services and Accord Energy  
Registered in England No.3033654. Registered Office: Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD