

Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

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

Telephone: 01738 456400
Facsimile: 01738 456415
E:mail: Rob.McDonald@
scottish-southern.co.uk

Our Reference:

Your Reference:

Date : 18th June 2004

Dear Kyran,

Income Adjusting Event under NGC's 2003/04 SO Incentive Scheme

Thank you for the opportunity to respond to the above consultation. In general, we believe the event should be considered as an Income Adjusting Event (IAE) under NGC's SO incentive Scheme. However, we have two concerns with the circumstances surrounding this event. Firstly, given the importance of security of supply and the scrutiny it has been given in recent years, it is disturbing that only when plant margins became tight did it become apparent that NGC were not operating as the residual balancer the market expected them to be and that their role had to be clarified by Ofgem. However, their role now clarified, it seems appropriate that the additional incremental costs should be considered an IAE

Secondly, given the lack of transparency of NGC's calculation of the incremental costs, albeit that some of this opacity is down to commercial confidentiality, it is difficult to comment on how much of the cost should be allowed. Ofgem have highlighted that they are examining whether any of the costs were offset by associated savings in relation to other balancing services. We would suggest that there would be an interaction with other balancing services and also market prices and availability of plant to contract with. Some of these interactions could be circular. However, we believe that the effects are likely to be marginal to the total cost of £18.87m and the IAE of £5.54m.

Generally, we are pleased that unlike the first IAE (with Drax), that NGC have gone out to the wider market through the running of the Supplementary Standing Reserve Tender (SSRT). We do however have concerns regarding the general lack of transparency of NGC's actions and overall costs, e.g. their use of warming contracts and GTMA Schedule 7 actions.

We have provided some more detailed comments on the re-drafting of the IAE attached. These focus on the availability of information to persons other than NGC, who may wish to raise an IAE. We consider that Ofgem's and our amendments should in addition be made to Transco's gas transporter licence.

Yours sincerely

Rob McDonald
Director of Regulation

Annex

Detailed Comments

4.4 (third bullet-point). It is unlikely that persons other than NGC would have access to the information required to meet this obligation. Therefore, there needs to be a requirement on the Licensee to provide information reasonably requested by another Party, subject to the Licensee being able to appeal to Ofgem (see suggested additions to the wording in 11 (c) below).

Appendix 2

(additional wording underlined)

11 (c) (i)

amend second line to read:

"..... person giving the notice reasonably considers this event to be an income adjusting event
...."

11 (c) (ii)

amend second line to read:

".... reasonably demonstrated by the person giving the notice"

11 (c) (iv)

amend first line to read:

"any other analysis or information reasonably available to the person submitting the notice which the person submitting the notice considers to be sufficient to enable the Authority and the relevant parties to fully assess the event to which the notice relates."

11 (c) (v)

amend sixth line to read:

"... the Authority can request that the supporting evidence be supplemented by information to be provided by the Licensee and/or the person submitting the notice and be appended with such additional information that the Authority considers appropriate."

add new clause 11 (c) (vi)

"subject to 11 (c) (vii) where, in conformance with meeting the requirements of 11 (c) (iv), the person submitting the notice reasonably believes that any other analysis or information is only available to the Licensee then he may request that the Licensee provide such other analysis or information to the person submitting the notice in a timely manner;

add new clause 11 (c) (vii)

"where, in relation to the requirements of 11 (c) (vi), the Licensee believes the request of the person submitting the notice to be unreasonable he may appeal in a timely manner to the Authority as to the reasonableness of the request for any other analysis or information

add new clause 11 (c) (viii)

"where, in relation to the requirements of 11 (c) (vi) a person submitting the notice makes a request for any other analysis or information of the Licensee the request shall be copied in a timely manner to the Authority"

add new clause 11 (c) (ix)

"where, in relation to the requirements of 11 (c) (vi) or any appeal under 11 (c) (vii) time is taken by the Licensee to conform with the request of the person submitting the notice the person submitting the notice may request that the Authority extend the three month deadline in 11 (d) by such amount as the Authority reasonably considers appropriate in the circumstances".

11 (d)

amend the first line to read:

"subject to any time extension determined by the Authority in accordance with 11 (c) (ix) a notice of an income adjusting event shall be given as is....."

amend fourth line to read

"..... relevant year in which it occurs except where any time extension has been determined by the Authority in accordance with 11 (c) (ix)."