

## **Electricity transmission network reliability incentive scheme Final Proposals**

### **NGT Response**

We welcome the opportunity to respond to Ofgem's final proposals consultation. As stated throughout the development of these proposals, we support the introduction of new arrangements to incentivise NGC's performance with regard to the reliability of the transmission network in England and Wales. Our views on this issue were contained in our response to the initial proposals document. However, we would like to respond on a number of issues raised in the final proposals document.

Firstly, we welcome Ofgem's decision to review the positioning of the deadband in response to comments made on the initial proposals. We believe that it is appropriate that the deadband is symmetrical around the average level, enabling NGC to benefit from improving its performance by 5% or more, and only penalising NGC for deterioration in performance by 5% or more. However, we remain of the view that the deadband should be wider to accommodate the within year variation around the average that would not indicate any significant improvement or deterioration. We also continue to believe that the asymmetry of the potential penalties and rewards under the scheme, and the low level at which the full penalty is incurred, are harsh given NGC's status as a world leader in terms of reliability of supply.

In addition, we continue to believe that a single part scheme is vulnerable to missing the impact of certain events, and that a two-part scheme, covering both the annual level of loss and the magnitude of the single largest loss, would provide better coverage of such events. However, we note Ofgem's response that the incentive scheme from January 2005 is an interim scheme, and that potentially more sophisticated schemes can be considered in the next transmission price control review.

We welcome Ofgem's statement that it is appropriate to adjust TNUoS charges to account for any additional or reduced revenue allowance resulting from the incentives. The incentive scheme incentivises NGC on its performance as a transmission owner, for which it is remunerated via TNUoS charges, and any changes in revenue will be relatively small in comparison to total revenue, and in comparison to other year on year changes in charges. We believe it is entirely appropriate, therefore, that any additional or reduced revenue resulting from the incentive scheme will be collected through TNUoS charges.

With regard to the application of similar incentive arrangements to the transmission owners in Scotland, we believe that this would be entirely appropriate. In addition, despite the physical differences between the networks, we do not believe there is any technical reason why the arrangements in

Scotland could not be very similar to those that will be applied in England and Wales. As stated in the Initial Proposals consultation, the incentive arrangements bear direct relevance to NGC's TO activities, and so the incentive arrangements will apply to NGC's TO price control. We believe, therefore, that arrangements in Scotland should similarly apply to the Scottish transmission owners in relation to the management of their transmission networks. However, we recognise that there may be significant issues to resolve in relation to the interaction between the GBSO and the TOs, and look forward to being fully involved in these discussions in the New Year.