Sonia Brown Director, Transportation Office of Gas and Electricity Markets 9 Millbank London SW1P 3GE

Our Reference: Your Reference: Head Office Inveralmond House 200 Dunkeld Road Perth PH1 3AQ

Telephone: 01738 456400 Facsimile: 01738 456415 email:

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Dear Sonia

Potential Sale of Gas Distribution Networks - Initial Thoughts on Enduring Incentive Schemes Supporting the Offtake Arrangements

We very much welcome the opportunity to respond to the above initial thoughts document and hope that you will find the comments we have made in this letter useful.

We believe that there are number of key considerations that should be taken into account when designing the enduring offtake arrangements incentive schemes:

- 1. The schemes should aim to be as simple as possible;
- 2. As far as possible, the NTS incentive scheme should be consistent with the regime that has been set in respect of the NTS entry. However, it should be recognised that the exit regime is different to the entry regime in that it involves a monopoly, price controlled DN purchasing exit capacity from the NTS and therefore, unlike shippers competing in the same exit capacity market, the DNs are limited to the amount of revenue they are allowed to recover within the price control period. It is vital that the arrangements recognise this, for example by full pass through of the costs incurred by the DN subject to the incentive mechanism; and
- 3. The new DN incentive scheme should not expose the new management teams to unacceptable levels of risk.
- 4. In particular, given the inherent uncertainties about how the new offtake regime will develop, we believe that the incentive mechanism should be for one year with relatively limited value at risk for the DNs. This would not, of course, preclude the extension of the scheme parameters in subsequent years as the arrangements develop.

We have provided our comments on the various issues that have been raised in the consultation paper in the two appendices attached to this letter. We hope that you will find these comments useful. If you would like to discuss any of the points we have made in more detail, please give me a call.

Yours sincerely

Rob McDonald **Director of Regulation**

Appendix 1.

THE PROPOSED ENDURING NTS INCENTIVE REGIME

1. Definition of baselines

In our view, there are two main issues to be addressed in the definition of NTS baseline exit capacity: the methodology that will be used to establish the baseline; and the allocation of initial baseline capacity at existing interruptible sites.

Baseline methodology.

For the reasons set out in the consultation paper, we support Ofgem's view that NTS exit capacity and flow flexibility baselines should be set for each NTS exit node. Furthermore, for consistency, we believe that it would be most appropriate to use the same methodology to define the NTS exit capacity baselines as currently used to determine the NTS entry baseline capacities (i.e. theoretical maximum physical). The incentive arrangements at the offtakes are designed to encourage efficient investment. It is therefore vital that the amount of baseline capacity is based on the quantity that the existing assets are physically capable of delivering. Any other approach could result in the risk of Transco recovering revenue twice for the same assets and could lead to Transco receiving sub-optimal investment signals.

We understand that the potential baseline quantities included in the consultation paper are purely for capacity. That is they are not a "bundled" product of exit capacity and flow flexibility. We therefore look forward to seeing proposed baseline quantities for this second product.

Baselines at existing interruptible sites

We note that Transco has proposed a zero baseline quantity for existing interruptible sites under the theoretical and practical maximum physical methodologies. We consider this to be unacceptable for the following reasons.

- (i) Capacity already exists at these offtakes: Interruptible exit points currently exist on the system and have associated with them NTS exit capacity and infrastructure to enable gas to be taken off at those points of the network. We therefore fail to see how the exit capacity at these locations can be totally discounted going forward particularly since they are explicitly allowed for in NGT's existing NTS price control. Therefore, consistent with the maximum theoretical physical methodology, we believe that the baseline capacity at each of these locations should reflect at the very least the maximum possible exit capacity currently associated with those sites.
- (ii) **A zero baseline at existing interruptible sites will result in a double recovery:** To set a baseline capacity of zero would, under the proposed incentive scheme,

result in NGT receiving incremental revenue for the release of any capacity at that location. Since interruptible sites demonstrably have capacity associated with them already, it would be wholly inappropriate for NGT to gain in this way. Indeed, it would, in our view, represent an inappropriate double recovery of revenue, since the assets at those sites are already reflected in the RAV and hence in the allowed revenue.

- (iii) **Reduced choice for customers:** If our understanding of Transco's proposed business rules is correct, a zero baseline at the interruptible sites would mean that no interruptible capacity would be available at these locations unless/until incremental capacity had been released via the long term auction regime since:
- NGT's definition of interruptible capacity is purely unused firm exit capacity (use it or lose it). Therefore, since there is no baseline capacity to be sold in the first instance there is none to be "lost and used" at these locations.
- A shipper at these locations could not seek to trade exit capacity into that location from another exit point through the exchange rate mechanism since NGT's rules stipulate that capacity cannot be traded into a node if the resulting capacity holding would be greater than the baseline.

We believe that this would be inconsistent with Ofgem's conclusion that a shipper at these locations would have a choice of whether it wanted to be buy firm capacity in the long and/or short/medium term or to wait until the day ahead stage to buy interruptible capacity.

- (iv) There is no guarantee that Transco would release "incremental" capacity at these sites: We are also unsure whether the shipper at an existing interruptible site would have a choice to purchase capacity in anything other than the long term auction since the baseline would be zero and therefore NGT would not be obliged to offer any for sale. It is not clear that a mechanism for releasing capacity greater than a zero baseline in short term auctions has been envisaged to date.
- (v) The zero baseline allocation would reduce the use of gas storage and hence security of supply: It is important to note that existing storage sites are currently interruptible sites and therefore a zero baseline at these locations combined with the points we have raised in (iii) and (iv) above raise significant security of supply implications.
- (vi) Transco's proposals would treat exit and entry inconsistently at bidirectional sites: We are also unsure how incremental capacity at combined NTS entry/exit storage connection points would be treated under the dual incentive schemes. That is, there would appear to be no connection between the release of incremental entry capacity at a storage site and the amount of exit capacity that would be released at the same site. Clearly, at such sites the same assets are involved in determining the physical entry and exit capacity and, therefore, there needs to be a consistent approach to both products. In addition, if the baseline at

exit does not reflect the baseline at entry, there is a risk that any such incremental allocation could result in Transco recovering the revenue for these assets twice. This is a particular issue at Garton but would apply equally to any combined NTS entry/exit site where incremental capacity is released through either the entry or exit regime.

Conclusion on baseline quantities.

To conclude on this issue, we believe that the calculation of baseline exit capacity should be consistent with that used at entry and should be a maximum theoretical physical quantity. However, we believe that consistent with the physical assets already present on the system, these baseline numbers should include an allocation of capacity at the existing interruptible sites that if Transco is unable to meet it would be required to buy back and/or enter into turn down contracts. This would also be consistent with Ofgem's view that shippers should have a choice of whether to buy firm capacity in the long term and/or medium term auctions or alternatively, they could run the risk of buying that capacity in the short term as an interruptible product to the extent that it is available. Finally, we firmly believe that an allocation of a zero baseline at existing interruptible sites could adversely affect security of supply.

2. Allocation of NTS offtake rights in the long term regime

Paragraph 3.56 describes that following the long term auctions, at the year ahead stage, Transco would also hold a "constrained" allocation process at which any baseline NTS exit capacity or flow flexibility left unsold would be offered for auction again. While we support this, we would also support the suggestion that there should also be constrained auctions at the two year ahead stage. This would give greater choice to users and reduce the reliance on the year ahead auctions. Other things being equal, this would be likely to give better investment signals to Transco than relying on the long term allocations and a year ahead auction.

Consistent with our view of the entry regime, we strongly support the release of unsold baseline capacity at the day ahead stage. However, we also believe that any remaining unsold capacity should be offered for sale on the day. Failure to do so would clearly mean that Transco has not brought all the capacity to market and could result in an artificially constrained system on the day. Similarly, we are concerned that there is no suggestion that Transco should offer for sale interruptible capacity on the day – to the extent that it is available. Again, we believe that this omission could be construed as inefficient operation of the system.

We strongly believe, therefore, that Transco should be required to auction all of the baseline capacity in auctions up to and including on the day in question. Furthermore, the incentive should be designed to encourage Transco to offer not only incremental capacity/flow flexibility on the day but also any interruptible capacity/flow flexibility it is able to release at that stage. We believe that this would be consistent with Ofgem's stated objective that the NTS should be incentivised to deliver the full physical capability of the network.

While we support the concept of at least one "clearing allocation" in the entry regime, we recognise that at exit it may not be appropriate and could lead to significant underrecovery of NTS TO revenue. Any under/over recovery of auction revenue would inevitably lead to some form of adjustment mechanism that could risk market distortion. We recognise, however, that a mechanism will inevitably be needed to deal with any under/over recovery by the NTS in respect of exit capacity revenue and careful consideration will need to be given to how this may interact with a DN operating within the confines of its price control. In our view, DNs should be excluded from any such mechanism because they cannot control such costs. While it would be possible to address this by allowing the DN to pass through its share of under recovery costs, such a mechanism could cause the DN to be in breach of other aspects of the price control framework. For example, if the under recovery was significant, pass through could push the DN outside the limits of revenue recovery or cause it to be in breach of the new requirement not to change DN transportation charges more than once a year. For these reasons, we believe that the most straightforward approach would be to exclude the DN from such adjustments in the event of under recovery of the NTS exit revenue.

3. Treatment of substitution and investment

We do not agree with the substitution proposals. In our view, substitution is incompatible with the concept of a maximum baseline being set for each location. We also believe that it would introduce considerable complexity and potentially opacity to the regime; create the potential for inefficient investment to be undertaken by Transco and could potentially impact on a DN's investment decisions by "forcing" it to purchase capacity in the long term due to the risk of it being "removed" from the short term markets. We also believe that substitution would have an adverse impact on competition. We consider the issue of substitution in more detail below.

(i) <u>Impact of substitution on stability of the regime</u>.

As at entry, the creation of baseline quantities of capacity and flow flexibility are central to the stability of the proposed exit regime. The baselines at each node are inextricably linked to the assets and supporting infrastructure at those locations that in turn have a direct link to the UCAs. It is upon these combined factors that the shipper will assess their economic willingness to commit, or otherwise, to procuring capacity in the longer term and whether they signal for any incremental capacity. Therefore, if a baseline at a location is revised after a shipper has participated in a long term auction, the whole framework upon which the shipper has based its economic assessment would alter. However, the effect is not just limited to one location. It affects the "donor location" and the "receiving location", and given the dynamics of the system, we also suggest it would affect other locations within those vicinities too.

If Transco were to substitute instead of undertaking physical investment as suggested, each substitution would necessarily trigger the recalculation and publication of baselines, UCAs, exchange rates and reserve prices. This would also mean the intrinsic "value" shippers had assigned to capacity and flow flexibility at each node would become very unstable. In other words, for shippers and DNs alike NTS exit capacity charges would become a fluctuating financial risk rather than a predictable and stable element of its total economic considerations.

(ii) <u>Potential for inefficient investment</u>.

We also believe that substitution could lead to inefficient investment by Transco. The rationale of the long term regime is for shippers and DNs to signal their requirement for capacity at each location. The reason Transco, Ofgem and the industry concluded that a nodal approach at exit was required, rather than zonal, was because Transco demonstrated that in only a very few circumstances were there two or more exit points capable of one-to-one substitution. It was on this proviso that exchange rates were proposed to enable exit and flexibility products to be traded between locations. Based on this rationale therefore, if substitution were to be exercised in the long-term allocation of capacity as suggested, it would also need to be subject to the same exchange rate mechanism as the trading regime. We therefore believe that the necessity to use an exchange rate in determining the long-term substation that can physically take place introduces inefficiencies into the investment chain.

We also believe that long-term substitution will introduce potential "games" to the market as shippers arbitrage between seeking incremental investment and different locations according to UCAs and baselines. While this may be considered "efficient" we are concerned that ultimately it could lead to distorted physical investment patterns.

(iii) <u>Impact on competition</u>.

We are concerned that the introduction of substitution in the long-term capacity allocation regime would have an adverse impact on competition. In effect, substitution introduces a risk to the end customer that it would no longer have access to the gas it has historically depended upon. This risk has nothing to do with what is actually available at the location, but would arise due to a change in the commercial regime. Therefore, to avoid the risk of the capacity being "removed" by substitution, the customer would be most likely to want to enter into long term arrangements with the shipper/supplier that has booked the capacity. In other words, we believe that the substitution proposals will force customers to enter into long term gas supply contracts and competition in the market will be significantly reduced.

Notwithstanding the above, we do recognise that in the short term, substitution does have a role. Indeed, the current interruption regime is a form of substitution as is the proposal for secondary trading of exit capacity. However, these short-term forms of substitution do not have the adverse impacts we have described above and, in our view, lead to the efficient use of the system.

We therefore conclude that substitution should be limited to the short-term allocation of capacity (ie at the within day/day ahead stage allocations) by Transco and to the secondary market.

4. Unit Cost Allowances

As at entry, we agree that UCAs for each exit node and for each product at that node will need to be defined. As we have described above, once set the baselines and UCAs should remain stable. We also agree that the methodology for calculating the UCAs should be cost reflective and approved by Ofgem. To that end, it will be important to ensure that the setting of a UCA at exit for bi-directional sites (such as storage sites) does not result in a double recovery of income by Transco.

We note that UCAs and the setting of reserve prices are linked and therefore, we would urge Transco to progress these issues as a matter of urgency to allow shippers and DNs to assess the options available to them well in advance of the proposed long term capacity auctions that are scheduled to take place this summer. This is of particular importance for the flow flexibility product where there is less understanding of the proposed product. In particular, if the auctions in September are to provide a meaningful investment signal for Transco, the baseline capacity figures, including the available flexibility and reserve prices, need to be published by Transco as a matter of urgency.

5. Form, scope and duration of incentives

We believe that as far as it is possible, the form and scope of the proposed exit incentive should be along the same lines as the NTS incentive regime, accepting that there are differences in the two products. We also agree that since exit capacity and flow flexibility are two distinct products it would seem appropriate that the long and short term incentives should apply to both exit capacity and flow flexibility. However, for the reasons described above, do not agree that the scope of the long-term incentive should include an incentive for substitution.

We support the proposal for a simple and transparent IExCR methodology based on a three year demand signal and that it would seem appropriate for the duration of the deep incentive to be consistent with the entry incentive scheme.

We believe that, in principle, incentive parameters should be stable to ensure maximum effectiveness. However, there are risks of unintended consequences associated with setting an incentive for an entirely new regime. There is, therefore, a trade off between the stronger incentive properties inherent in a longer term incentive scheme and a risk that the incentive scheme may prove to be inappropriate early in the arrangements. As a consequence, we believe that the duration of the incentive should be for five years but the initial incentive targets, caps and collars and sharing factors should be set for one year to be reviewed thereafter.

For the medium and short term incentives schemes, we believe that there should be an obligation to ensure that Transco brings all of the baseline capacity and flexibility to the market, including within day. The incentive revenues should therefore only be derived from the release of additional capacity and flexibility up to an including on the day release. This should include the release of additional interruptible products.

Finally, Ofgem has asked for views on how capacity and flexibility buyback costs associated with maintenance should be treated. We believe that since shippers and DNs will be required to buy a daily product in annual strips the cost of buyback for maintenance purposes should be included in the buyback incentive scheme as per the entry capacity regime.

Appendix 2.

PROPOSED ENDURING DN INCENTIVE SCHEME

We support the proposal for a sliding scale form of incentive, with a defined incentive cost target based on expected volumes of NTS exit capacity and flow flexibility, with a cap and collar. The incentive payment (+/-) received by the DN would be determined by the difference between the target and actual costs subject to a sharing factor.

However, before determining the specific scheme parameters, we believe that it is necessary to clarify the duration of the incentive and the timing of when performance against the incentive would be judged. In particular, we had understood that Ofgem have in mind a one-year incentive scheme, which we would support given the inherent uncertainties of the new arrangements. We are nonetheless unclear what this means in practice. It would seem to us that there are two broad options and the appropriate choice of parameters (in relation to, for example, financial exposure and ex post versus ex anti target setting) will be different in each of these two options. These to broad options are discussed below.

1. A "one-off" incentive: Under this approach, the DN would be set a target for efficient exit capacity cost *commitments* for the 2008/09 financial year and beyond. This target would be fixed by Ofgem in advance of the auctions in September 2005. The DN would then bid in the September 2005 auctions and commit to long-term capacity costs in 2008/09 and beyond.

This option is an "one-off" incentive because, crucially, performance against the incentive would be judged in 2005/06, not in 2008/09. That is, in submitting the price control returns in June 2006 for the 05/06 financial year, the allowed revenue in that year would include an adjustment to reflect the DN's performance in the auctions relative to the target set by Ofgem. In this way, the DN's capacity bookings would be judged in the same year as the auctions take place, not on the outturn position in 2008/09. A separate incentive scheme would then be brought forward for 2006/07 and beyond.

2. A "rolling" incentive: Under this approach, the DN would be set a target for efficient exit capacity costs for 2008/09 and beyond in the same way as above. Similarly, it would book its capacity requirements in the September 2005 auctions. However, its performance in those auctions would not be assessed until the 2008/09 financial year, based on actual costs incurred relative to the target.

Either of these schemes could be made to work, but there are advantages and disadvantages with each. In particular, since the DN would be judged on its actual cost performance in 2008/09, the rolling scheme might be expected to produce a more efficient outcome, compared to the "one-off" incentive. However, it is clear that this approach would be more complex. It is also not clear how this scheme fits with Ofgem's policy for a one-year scheme. This arises because any arrangement which requires the DN to wait until 2008/09 before it knows how it has performed relative to the target is not

a one-year scheme, especially since by 2008/09 the DN will have made commitments in the auctions in 2006, 2007, and 2008 in respect of each of the years to 2012/13. It will also therefore presumably be subject to incentive schemes in those years.

Furthermore, it is apparent that a rolling scheme involves considerable risks to the DN, many of which are outwith its control. For example, the DN would be exposed to the demand growth risk at each offtake. We recognise that this could in principle be addressed by an ex post adjustment for the target. For example, if demand increased by x%, the target could similarly increase by x%. However, such an approach is unlikely to be cost-reflective, given the inherent "lumpiness" of network investment. In the three or four years between the setting of the incentive and the judging of performance against it there could be, for example, a large increase demand at a particular offtake (eg a new large user) which would trigger significant reinforcement cost at the offtake, while having a negligible effect on overall demand on the DN. It will not be easy to design an ex post correction formula for demand growth that accurately captures these relationships and we do not consider that an income adjusting event provision would be sufficient in this regard.

Finally, it will also be necessary for the ex post adjustment mechanism to reflect changes to exit capacity charges by Transco during the incentive period. These charges are set by a monopoly and (presumably) approved by Ofgem and hence are outwith the DN's control.

Against this background, we do not consider it acceptable to set an ex ante target so far in advance for a "rolling" incentive, but we see considerable practical difficulties in formulating a robust ex post adjustment mechanism particularly in the limited time available. On balance, therefore, we believe that the "one-off" incentive would be the optimum way forward, at least initially. This would also have the advantage of providing new DN owners with more time to carefully develop new investment plans. Indeed, it is difficult to see how new DN owners could credibly bid in the September 2005 auctions on any other basis than the existing Transco investment plans, given the limited time between deal completion and those auctions.

Such an approach would not, of course, preclude Ofgem from setting a rolling incentive in 2006/07 and indeed the interim one-year scheme would provide more time for development work on such a scheme. This would also be consistent with the previously declared Ofgem preference for a one-year scheme.

We have set out below detailed comments on the issues raised in the consultation paper in relation to the incentive parameters etc. Our comments should be read in conjunction with, and are dependent on, the options set out above. In any event, we would welcome early clarification from Ofgem about which broad approach the incentive scheme will be based upon.

1. Scope

Consistent with the objective to keep the enduring incentive regime as simple as possible, we support Ofgem's proposal to introduce a single incentive that would relate to the net cost associated with the purchase of NTS offtake rights, both capacity and flexibility, and the cost of buyback/interruption on the DNs. Consistent with the existing regime, the cost of the interruption would be limited to payments to shippers associated with exercising interruption at DN connected sites on more than fifteen days a year.

2. <u>Form</u>

We support the proposal for a sliding scale from of incentive, with a defined incentive cost target based on expected volumes on NTS exit capacity and flow flexibility, with a cap and collar. The incentive payment (+/-) received by the DN would be determined by the difference between the target and actual costs subject to a sharing factor. We firmly believe that the incentive should be based upon aggregate volumes and costs. That is, there should not be an incentive calculation for each exit point, although volumes and prices at each exit point would of course be used in setting the overall aggregate target. Otherwise, the incentive scheme would become very complex and would involve significant additional risk to the DN.

We agree that the cost performance targets should be calculated for each DN by multiplying the expected volumes of offtake rights by the expected prices, plus an expected cost of greater than fifteen day interruption payments. Clearly, the calculation of these expected costs will be key to the success of the scheme.

(i) Volume Calculation.

While we agree with Ofgem that the DN has most control over the volume parameter, it is important to recognise that it does not have absolute control and, therefore, it is not appropriate to expose the DN to this uncontrolled risk in the incentive. We are also concerned that there is a presumption that all offtake investment over existing quantities is "bad". That is, the scheme should be designed to ensure that there is no more investment on the NTS than there need be, not that there is no new investment at all.

In terms of the discussion of ex ante versus ex post arrangements, we noted above that we would regard the risks inherent in a rolling scheme based on an ex ante cost target is unacceptable. As a consequence, if Ofgem propose such a rolling incentive scheme, it will need to include an ex post adjustment mechanism, despite the difficulties in doing so. Such a mechanism would need to provide protection to the DN from price rises by the monopoly NTS and recognise that demand growth and investment at the offtake is non-linear.

However, if Ofgem adopt a "one-off", one- year incentive for 2005/06, judged in 2005/06, it should be possible to set the scheme parameters on an ex ante basis, given the

limited time-lag between setting the target, bidding in the auctions and the assessment of the resultant cost commitment against the target.

Just to be clear, this could only work for the one-off scheme; an ex ante target set now with performance judged against outturn costs incurred in 2008/09 would expose the DN to excessive risk, mostly outwith its control, which would be unlikely to be acceptable.

(ii) Price

We believe that the price term used in the DN incentive mechanism should be set at the time the incentive is introduced. This would also be consistent with our understanding that the UCAs associated with each NTS exit point will be set and that the reserve prices and cost of incremental capacity are based upon these numbers. The UCAs will be approved by Ofgem and, we understand, will be based on the long run marginal cost of incremental capacity/flexibility at those locations. It would therefore seem appropriate to base the price incentive on these stable, "regulated" cost reflective prices.

However, as noted above, if the incentive scheme is set on a rolling basis and/or includes an ex post adjustment mechanism, it is clear that such a mechanism will need to fully reflect any changes to the monopoly prices charged by Transco (i.e. the UCAs and reserve prices).

(iii) Caps and Collars and Sharing Factors.

We agree that the DN's exposure/reward under the incentive scheme should be based upon a fixed percentage of the cost performance target and that a symmetrical cap/collar should be applied. We also believe that a symmetrical sharing factor should be applied. However, we believe that it is important to establish an absolute ceiling of risk that is appropriate for a regulated, price controlled monopoly in respect to its exposure to the total incentive regime.

In setting such a ceiling on exposure, it is vital that Ofgem recognise the inherent uncertainties of the new regime at offtake. As with any major reform, there is a risk of unintended consequences, particularly given the short timescale for implementation. It is also clear that new DN owners will have only a very short period of time between acquiring the assets and bidding in the first set of auctions in September 2005. For these reasons, there is a compelling case for limiting the potential exposure of the DNs and we would suggest that a figure of no more than +/-2% of exit capacity revenue/cost would be appropriate in the first instance.

In terms of sharing factors, the exact parameters will be determined by the size of the caps and collars, but as a starting point a symmetrical sharing factor of 50% up to the cap/collar would seem appropriate.

(iv) Treatment of NTS investment avoidance by DN.

We do not favour either of the approaches that Ofgem has presented in respect of the treatment of investment that has been made by the DN on its own network to avoid NTS offtake investment on the grounds that they are too complicated. We therefore propose that NTS "avoidance" investment made by the DN should go into the RAV in the normal way, subject to of course the usual test of efficiency at the next price control. In our view, any other approach would involve detailed scheme-by-scheme oversight and scrutiny by Ofgem either within the incentive period or at the next price control review to assess their eligibility towards the offtake incentive regime. We believe that this would be far too complex. It would also undermine the rationale for the incentive scheme and the associated reform of the exit arrangements which, we recall, was proposed because Ofgem did not want to bear the burden of being involved in potential planning disputes between the NTS and DNs (or assessing individual investments).

(v) Interruption.

Ofgem suggest that the level of this payment should be calculated on the basis of the current DN allowance for the cost of interrupting DN connected sites for more than fifteen days. However, our understanding is that the DN has not been allowed any such costs in the current control since all of the costs have been assigned to the NTS SO incentive. We therefore assume what is meant is that the DN cost target in this respect will be based on experience/forecast.

3. Duration

We discussed the duration of the incentive scheme above. To reiterate, we firmly support a one-year incentive and believe that this would be best achieved by a "one-off" incentive for 2005/06, which would be judged in 2005/06. If Ofgem nonetheless opt for a rolling incentive, there would clearly need to be a review of the scheme parameters after the first year of operation.