

R/17

29 March 2006

NATIONAL GRID ELECTRICITY SYSTEM OPERATOR INCENTIVE

National Grid Electricity Transmission Ltd (NGET) has notified energy regulator Ofgem that it has rejected its proposed System Operator external costs incentive. It has accepted the proposed internal cost scheme.

NGET operates the high voltage network and balances the electricity system to ensure that supply meets demand. Ofgem sets an incentive scheme to encourage NGET to carry out its balancing more efficiently.

Ofgem's governing Authority will make a decision in April to either refer the matter to the Competition Commission or to regulate NGET's costs in line with its existing powers for the next year. In the intervening period, from 1 April to the Authority meeting later that month, Ofgem will regulate NGET's external costs.

On 1 February Ofgem set out two external targets for NGET's costs for consultation. However, there have been some potentially significant developments since its proposals were published that that may need to be taken into account when deciding whether or not to refer this matter:

- NGET has incurred some very high costs in operating its transmission system during a cold-spell when conditions were very tight in both the gas and electricity markets; and
- the Authority decided to approve a modification proposal (P194) to introduce a significant change to the industry rules. This rule change will provide incentives on generators and suppliers to balance themselves, which will reduce the need for the system operator to take as many actions.

Ofgem is therefore inviting views from interested parties ahead of the Authority's decision whether or not to refer to the Competition Commission and in respect of the recent market developments.

- ends -

Notes to Editors:

1. Views invited from interested parties

Responses should be received by **7 April 2006** and should be sent to:
wholesale.markets@ofgem.gov.uk

2. Because of NGET's response there will be no direct incentive scheme in place for its external costs for 2006/07. Pending the Authority's decision, Ofgem will use its existing powers to regulate NGET's external system operator costs.

Ofgem had put forward two options for cost external targets of either £390 million or £410 million but NGET wants a higher target. Ofgem is disappointed that NGET could not agree to either of these options as it believes they provide a fair balance of risk and reward between customers and NGET.

3. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. Ofgem's aim is to bring choice and value to all gas and electricity customers by promoting competition and regulating monopolies. The Authority's powers are provided for under the Gas Act 1986, the Electricity Act 1989 and the Utilities Act 2000.

For further press information contact:

Mark Wiltsher: 020 7901 7006 Out of hours: 07774 728971

Julia Collings: 020 7901 7217