

Conocophillips

National Grid Electricity System Operator Incentive Scheme 2006/07
Ofgem invites views in its information note of 29 March on the impasse reached with National Grid (NG) over the external element of its system operator (SO) incentive scheme.

We believe the interests of grid users and ultimately consumers are best served by a tight target. Available evidence from earlier years suggests NG over-eggs its forecasts, and Ofgem is, we believe, right to be sceptical about the higher cost forecast made available by NG on 6 January. Either of the two options set out by Ofgem in its final proposals seem to be "in the right ball-park".

In terms of the developments since the proposals were published and set out in the information note:

- * we see no reason why the events at the tail-end of the current scheme year need have a bearing. In some ways the events had similarities to those experienced the previous February/March, which had already been allowed for in NG's original projections, and it would be scarcely credible to contemplate a further major unforeseen outage at Rough;

- * the implementation of P194 should introduce a factor that could reduce NG's balancing costs all other things being equal; and

- * it is always open to NG to seek income adjusting event treatment for low risk, high probability events should they occur again. It certainly is not appropriate to embed such events into baseline forecasts and targets.

More generally we have previously commented on the closed nature of the negotiations each year on the SO incentive arrangements and the limited transparency in this important area of market operations. We believe the electricity market would benefit over the longer term if NG's projections were subject to a greater degree of scrutiny either through more hands-on regulation for a period or referral to the Competition Commission.

Please let me know if I can provide anything further.

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