

Sonia Brown
Director, Wholesale markets
Ofgem
9 Millbank
London
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1st September 2006

Dear Sonia,

**BRITISH ENERGY RESPONSE TO CONSULTATION ON POTENTIAL INCOME
ADJUSTING EVENT UNDER NGET's 2005/06 SYSTEM OPERATOR INCENTIVE
SCHEME**

Thank you for the opportunity to respond to this important consultation. British Energy has the following comments:

Key Points:

- **British Energy strongly supports the need for a system operator incentive scheme which allows SO performance to be assessed and provides the necessary transparency of system operator actions. Most importantly the schemes have also been successful in delivering real cost savings to consumers and are the most appropriate means through which to ensure that National Grid are incentivised to operate the transmission system in an efficient and economic manner.**
- **Income adjusting events are intended to accommodate unexpected or unforeseen events which would otherwise have a significant impact on the scheme costs. From the information provided we do not consider that either of the proposed IAEs satisfies this criterion.**
- **This is the third system operator incentive IAE in as many years which raises concerns and questions in relation to the process followed by Ofgem and National Grid in setting and agreeing the scheme targets.**
- **Since the introduction of NETA the system operator incentive scheme has been based on a single target which it has been argued allows National Grid to optimise its performance across the full range of SO services and activities. Thus while the outturn costs associated with the two proposed IAE may have exceeded allowances included within the scheme they were in fact part of an overall package of incentives which National Grid accepted. How National Grid then**

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chose to manage the balancing of the system is largely a matter of operational strategy.

I trust these comments are helpful and clear but please don't hesitate to contact me should you wish to discuss any aspect of our response I can be contacted in the office on 01452 654182 or via my mobile on 07774 767722.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Capener', with a horizontal line underneath.

John Capener
Head of Transmission and Trading Arrangements
British Energy Power and Energy Trading