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Proposed IAEs submitted by NGET for 2005/06

Thank you for the opportunity to comment on the National Grid notices.

As a general remark, we share Ofgem's view that National Grid "could have done better", especially on the constraint issues which were foreseeable to a degree, and could have been dealt with much more directly. We also agree that in both cases National Grid seems to be proposing a baseline that overstates the extent of the shortfall and therefore the value of the adjustment being sought.

Answers to the specific consultation questions are attached.

Please let me know if you would like any further comment or clarification.

Kirsten Elliott-Smith

**Proposed IAEs submitted by NGET for 2005/06
ConocoPhillips/Immingham CHP response**

Chapter 3

Question 1: Do you consider that, prior to the start of the 2005/06 SO incentive period and based on available information at the time, NGET acted economically and efficiently in deciding to manage internal to Scotland and Cheviot constraints in the BM?

We believe the high energy price background, especially the inversion of gas and coal prices relative to each other and the prospects of a tight system over winter, should have led National Grid to seek constraint contracts on a much wider basis or pursue alternatives at a much earlier juncture. Indeed the premise that it would be most efficient to deal with a recognised constraint problem through the BM strikes us as surprising.

The analysis presented by Ofgem also suggests that National Grid's assumptions with regard to self-despatch, especially the likely availability of pre-1995 CCGT plant and Peterhead, were erroneous. Moreover, the consultation document contains no information to validate the relative benefits of applying for a derogation. Likewise the document is silent on which investment alternatives were considered. Overall National Grid's perspective comes across as very short-term and rose-tinted.

Question 2: Do you have any comments on whether the analysis we present in relation to forecasting the level of self-despatch of generation is appropriate in addressing this issue?

The analysis is appropriate. It points to the conclusion, that Ofgem notes, that even under peak conditions, expensive pre-1995 CCGT plant would probably choose not to self-despatch over winter 2005/06.

Question 3: Do you consider that, in November 2005, NGET acted economically and efficiently in managing internal to Scotland constraints through a commercial contract?

Yes, but belatedly.

Question 4: Do you consider that NGET acted economically and efficiently in negotiating this contract?

On the basis of the information provided, we can see no reason to conclude that it did not. It is not clear, however, whether the option pursued was the *most* efficient or *most* economic available to it, or whether it might have gone down this route sooner.

Question 5: Do you have any comments on the methodology used by NGET in estimating the total cost of managing internal to Scotland and Cheviot constraints following the start of BETTA, and the amount of the proposed income adjustment?

We would have thought local prices would provide a more appropriate benchmark, and they should certainly be included within the calculation. We would question why National Grid would opt not to do so.

Question 6: Do you have a view on the appropriateness of having separate cost allowances within the overall SO incentive scheme cost target?

As we indicated in our submission to the 2007/08 incentive arrangements, we believe an unbundled approach would have merit with a separate cap for constraint costs.

The fact that even at this stage Ofgem finds it difficult to unwind National Grid's decisions against a background of evident concentration in the generation market in Scotland and local market power should be a matter of some concern to Ofgem.

Chapter 4

Question 1: Do you agree that NGET has acted economically and efficiently in procuring frequency response to minimise costs?

Yes.

Question 2: Do you have any comments on the methodology used by NGET in estimating the total cost of procuring frequency response following the implementation of CAPO47, and the amount of the proposed income adjustment?

On the basis of the information presented, we agree that the costing methodology has probably over-stated the increase in frequency response costs, and in particular understates holding payment prices between November and March.

Question 3: Do you have any comments on our proposed alternative methodology, and the amount of the income adjustment that may result should we determine that the events or circumstances surrounding the increase in frequency response costs incurred by NGET is an IAE?

The profiled approach proposed by Ofgem seems the most appropriate.

Question 4: Do you have a view on the appropriateness of having separate cost allowances within the overall SO incentive scheme cost target?

As noted above, a bundled approach would have considerable merit.