

Gaz de France ESS response to Potential Income Adjusting Events under NGET's 2005/06 System Operator Incentive Scheme Consultation 135/06

Thank you for the opportunity to respond to this consultation. Gaz de France ESS has views on both NGET's Income Adjusting Event (IAE) submissions, supporting neither. We have provided our views on NGET's request for additional costs incurred in managing transmission constraints first and procurement of frequency response separately as requested.

Proposed IAE in respect of transmission system constraints

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 would observe that as a move towards NGET managing the transmission system in Scotland has been on the agenda for many years NGET have had ample time to develop an appropriate economical and efficient approach to management of all aspects of that role. With the forecast of a difficult winter NGET should have considered seeking constraint contracts on a much wider basis and at a much earlier juncture.

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 Ofgem analysis shows that NGET had the information available to form a detailed risk management plan and therefore having willingly negotiated and agreed their share and responsibilities under the SO Incentive scheme should face up to their error of judgement regarding their preferred approach. NGET were fully appraised of the situation regarding constraints and therefore must have believed their systems and methods would provide adequate levels of risk management and return.

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

Probably, but not quickly enough.

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

It is difficult to give an opinion on whether the option pursued was the optimal solution on the basis of the information presented.

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?

Again we feel this to be a difficult question to answer without access to all of the relevant facts. NGET has the ability to apply a certain degree of judgement to how they assign energy, system and margin costs. Therefore we assume that the method used by NGET to assess their IAE values is the method they used to assess the value of constraints when they negotiated and agreed the scheme.

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

We would support an unbundled approach with a separate cap for constraint costs.

Proposed IAE in respect of CAP047 Frequency Response

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

In order to ensure that their systems and processes were in place to deal with CAP047 Frequency Response requirements NGET requested that implementation of CAP047 be delayed by approximately 12 months. This delay gave NGET the opportunity to observe the market and devise a methodology they preferred to manage any risk of additional costs arising from the implementation. Therefore we believe that for NGET the risk was, or should have been, foreseeable.

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 CAP047, and the amount of the proposed Income adjustment?

NGET made an initial proposal of a sum of £15m for the implementation of CAP047 and subsequently settled for a target that included an allowance of £7.35m, without any contract re-openers. As NGET have demonstrated in the past an ability never to fail in ensuring they receive their maximum agreed allowance we must assume that NGET had agreed this package in the light of a robust strategy to assess and manage the risk of higher costs. If the consequences are more costly than NGET anticipates, that is a risk it must have always to date been prepared to take.

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?

We would support a profiled approach however would reiterate our view that we do not see a case for allowing an IAE.

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

We believe an unbundled approach to be appropriate.