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09th May 2005

115/05: Recovering the costs of compensation for temporary physical disconnection (CAP048)

Dear Patrick,

In our response to the NGC SO Incentives scheme – initial consultation document dated 27th October 2004, we noted that the issue of CAP048 remained outstanding. We also stated that we were not convinced that reimbursement of CAP048 costs should be considered within the SO incentive scheme.

We believe that the allowed revenues under NGC's TO price control are structured on the basis of providing firm access and therefore contain an implicit allowance for the cost of generation compensation, certainly in relation to planned outages. The proposals in this document therefore introduce an element of 'double counting'.

There may be an argument for a temporal differentiation in that unplanned outages may be SO related but planned outages should always be considered as part of the ongoing business of a transmission owner. Such a split between planned and unplanned outages may introduce additional complexity particularly in Scotland where NGC are not also the TO. Modifications to the STC will be required to address this.

We recognise that these issues are unlikely to be resolved for the current financial year, therefore we support the pragmatic approach to address them through the SO incentive in the short term. However we believe it is neither appropriate to make an allowance for England and Wales costs nor allow automatic pass through of Scottish costs. We noted in our response to the GB SO incentive scheme initial proposals dated 21st January 2005 that there is already a risk premium of at least £50m within the existing scheme.

If you wish to discuss any aspect of our response, please do not hesitate to contact me.

Yours Sincerely

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