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Your Ref: Ofgem doc 43/07

Dear Sonia

National Grid Gas System Operator Incentives from 1 April 2007: final proposals and statutory licence consultation

energywatch welcomes the opportunity to respond to the issues raised by this document. This response is non-confidential and we are happy for it to be published on the Ofgem website.

Consumers expect the delivery of safe, secure and reliable supplies of gas in the most efficient and economic manner. The test of any System Operator (SO) incentive scheme is how effectively it meets consumers' expectations. SO costs need to be kept low while maintaining and improving the efficient operation of the network. Additional financial incentives ought not to be required for activities which National Grid Gas (NGG) should undertake as a matter of course in its SO role.

We have no specific comments on the final proposals. However, we do have the following general comments which we hope Ofgem will find helpful.

In our view, there is no need for a quality of information incentive as part of the SO incentive scheme. NGG should provide adequate and timely data flows without the need for additional financial incentives to either improve its website availability or the accuracy of its demand forecasting on which all market participants rely. Good quality information is the lifeblood of open and effective competitive markets which should ultimately benefit consumers. Given the pivotal position of NGG as the SO, the provision of good quality information is something that it should be well placed to manage in any case. We are concerned that Ofgem's intention to extend the incentive provided over winter 2006/07 across 2007-08 merely rewards NGG for tasks which it should undertake effectively regardless of an additional incentive.

We welcome Ofgem's intention to undertake an extensive review of the external SO incentive schemes applicable to National Grid for both gas and electricity markets during this year. We strongly believe that a more holistic examination of the scope, nature and duration of these schemes may bring out areas for improving them within the context of each individual market and where a degree of harmonisation exists between the markets. A number of significant developments are occurring in

the gas market, not least a revised set of gas offtake arrangements, which could impact on whether the current SO scheme remains appropriate. We will provide positive input from a consumer perspective to the review. However, we underline that meeting the expectations of consumers which we outline above is the litmus test for any effective reform of the gas SO incentive scheme going forward.

We believe that the proposed changes to the licence highlighted in the document are fit for the purpose reflected in Ofgem's final proposals.

Going forward, we will continue to keep these issues under review as and when they are raised, always considering the possible impact on consumers.

We would appreciate being kept informed of the progress of the consultation and any related issues to enable us to comment as the need arises.

If you do wish to discuss our response further please do not hesitate to contact me on 0191 2212072.

Yours sincerely

Carole Pitkeathley
Head of Regulatory Affairs