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Your Ref: Ofgem letter 120/07

Dear Philip

National Grid Electricity Transmission and National Grid Gas System Operator Review

energywatch welcomes the opportunity to respond to the issues raised in this letter. Our comments are non-confidential and we are happy for it to be published on the Ofgem website.

We will make a full contribution to the SO review as it progresses. National Grid must fully take into account consumers' expectations that it will deliver effective network operation for gas and electricity grids in an efficient and economic manner. For this to happen, we believe that National Grid must provide greater transparency about how it reaches its balancing decisions and must be incentivised accordingly. There should be no additional incentives for actions which National Grid should deliver as a matter of course through effective network operation. We consider that long-term incentives may well assist National Grid to effectively operate each of the networks but also the interactions between them. If a more harmonised approach can be developed which creates savings in the costs of operation, these should be sought and passed back to consumers.

We expect Ofgem to undertake the review in a flexible manner, taking into account the outcomes from developments in Europe, the impact of the Energy White Paper consultations and the BSC cashout modifications currently in the process. We agree that 'quick wins' ought to be implemented earlier but that a consistent approach is needed that optimises the benefits for consumers of revised SO incentive schemes.

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