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31 March 2008

Dear Colleague,

National Grid Gas SO incentives from 1 April 2008 - Erratum to Notice under Section 23 of the Gas Act 1986

On 17 March 2008 the Authority published its final proposals for the system operator incentive scheme for NGG (National Grid Gas) to apply from 1 April 2008. A copy of a notice under section 23 of the Gas Act 1986¹ ('the Notice') setting out our proposed licence modification in this respect was also published. This replaced an earlier notice, issued on 27 Feb 2008.

It has since come to our attention that there is an error in the proposed licence modification drafting which is currently the subject of the Notice.

The error was in the drafting of the uplift for the shadow price of carbon included in the shrinkage incentive. Since this price is defined in p/kWh it is necessary to add in a conversion factor (i.e. to multiply $SPCU_{t,q}$ by 10,000) in order for the resultant price to be in £ (i.e. because $GCIT_{t,q}$ is defined in £ and the volume terms $GECVT_{t,q}$ and $GECVP_{t,q}$ are defined in GWh).

The erratum is as follows:

In paragraph 4(d) of the notice, for:

$$GCIT_{t,q} = (GCRP_{t,q} \times GVTP_{t,q} \times 10,000) + (ECRP_{t,q} \times EVTP_{t,q} \times 10,000) \\ + (GECVT_{t,q} - GECVP_{t,q}) \times SPCU_{t,q} + DUOS_{t,q} + TNUOS_{t,q}$$

substitute:

¹ The revised section 23 notice can be found here:
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=129&refer=Markets/WhlMkts/EffSystemOps/SystOpIncent>

$$\begin{aligned} \text{GCIT}_{t,q} = & (\text{GCRP}_{t,q} \times \text{GVTP}_{t,q} \times 10,000) + (\text{ECRP}_{t,q} \times \text{EVTP}_{t,q} \times 10,000) \\ & + (\text{GECVT}_{t,q} - \text{GECVP}_{t,q}) \times \text{SPCU}_{t,q} \times 10,000 + \text{DUOS}_{t,q} + \text{TNUOS}_{t,q} \end{aligned}$$

An amended Notice, reflecting this change, is provided with this letter.

Our intention is to retain the timetable set out in the Notice. We believe that this is appropriate in light of the limited nature of the erratum, the fact that the amended text reflects the policy aim on which we have previously consulted, and the time still remaining for the 28 day consultation period.

However, if you consider that you are prejudiced by this course of action, and in particular the fact that there will be less than 28 days consultation on the Notice as corrected by this erratum, we will consider whether to extend the period of consultation so that it runs 28 days from the date of this letter (and hence from the date of the publication of the Notice as corrected).

If you have any queries regarding this letter or the document please contact me on the above number or contact Kersti Berge on 020 7901 7223 or by email at kersti.berge@ofgem.gov.uk.

Yours sincerely



Andrew Wright
Managing Director, Markets
Duly authorised on behalf of the Gas and Electricity Markets Authority