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Dear Rachel,

Response to consultation on Retaining the Transitional Interruption Incentive

Thank you for the opportunity to respond to the Ofgem consultation on Retaining the Transitional Interruption Incentive. This response is sent on behalf of National Grid's distribution business.

As we have stated previously we believe that the >15 day interruption element of the incentive scheme in the period 1 October 2008 – 30 September 2011 (the transitional period) should be retained but not at the suggested target level of zero. As stated in our previous response on this matter (Response to consultation on NTS Exit Capacity and interruption incentive for Gas Distribution Networks 2010/11, May 2007) the target for this element was only set to zero from 2008 onwards because it was expected that enduring Exit Reform arrangements would take effect from that date and incentives would be superseded. With the delay of the implementation of Exit Reform a transitional period has resulted which is an extension of the present interruption arrangements. To that extent we agree with Ofgem's view that it is not necessary "to formulate a more sophisticated scheme" than present; we are merely advocating that the incentive scheme should be an extension of the scheme pre-October 2008 and targets should be in line with those target levels.

With regard to Ofgem's view that if the GDNs do incur significant losses they can then have recourse to the Income Adjusting Event Provisions (in paragraph 3 of Part B of Special Condition E7) we note that these provisions do not take effect until the threshold of either £1.5m (years 1 and 4) or £1m (years 2 and 3) is reached and therefore we would be exposed to the costs incurred if they are less than the threshold amounts. Therefore, we re-iterate our previous comments that the proposed target setting means that there is no benefit to the GDNs in this element of the scheme and is therefore a somewhat one-sided incentive.

I hope you find these comments helpful, if you have any queries, or would like to discuss this response, please do not hesitate to contact me.

Yours sincerely,

[By e-mail]

Mark Freeman