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Ofgem

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Date : 8th April 2011

Changes to the OFTO availability incentive

Dear Robert,

Thank you for your letter in relation to the proposed changes to the OFTO availability incentive.

We believe that the current availability incentive is both overly complicated and fails to provide appropriate signals to OFTOs and we welcome the work that Ofgem is doing to revisit the original incentive arrangements. It is important that the availability incentive is straightforward and that it's effects can be easily forecast to ensure that the desired behaviour is achieved.

Given that offshore generation has only one route to market, it is critical that OFTOs are incentivised to provide maximum availability, particularly at times of high generation output. We believe that the current arrangement, whereby an OFTO is allowed to "bank" good performance to insulate against poor performance in later years, does not provide a sufficient signal to ensure that the OFTO provides maximum availability at times of high generation output.

We believe that it is appropriate to remove the monthly availability targets but retain the incentive rate based on forecast revenues. The incentive rate based on forecast revenues should drive OFTOs to align maximum availability with high revenue periods and reduces some complexity in the existing model.

We also welcome the proposal to remove the credit banking mechanism and bring the timing of payments closer to the period in which the unavailability occurred and agree that this should sharpen the OFTO's incentive to outperform immediately after the outage period.

If you would like to discuss our response or require further information, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Samantha Ridsdale', written over a horizontal line.

Samantha Ridsdale
Regulation and European Affairs