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Dear Giuseppina,

National Grid Electricity Incentives from 1 April 2011 – Final Proposals

Thank you for opportunity to respond to the consultation entitled “National Grid Electricity Transmission System Operator Incentives from 1 April 2011 – Final Proposals”. This response is in addition to our letter consenting to the proposed modification of our electricity transmission licence that gives effect to the new SO incentive scheme covering the period 1st April 2011 to 31st March 2013.

We welcome the publication of the Final Proposals, which represent the conclusion of the SO Review initiated following the implementation of the 2010/11 scheme. We consider the proposals to represent a fair balance of risk and reward, being designed to focus our incentive in areas where we can seek to deliver efficiencies whilst minimising our exposure to the potential for windfall gains and losses.

We support the aims of the Supplementary Review in seeking to consolidate and develop the advances made to our modelling under the SO Review and to allow for greater alignment of the system operator incentive with other regulatory decisions, such as RIIO-T1. We further support the need to review the incentivisation of black start service provision.

We recognise that the proposed approach to calculating the incentivised cost target for constraint management, which uses actual submitted bid/offer prices, creates the need for the restriction on our ability to contract with BSC parties for constraint management services that apply conditions to the submission of bid/offer prices; however we note that this removes some flexibility in our approach to managing potential transmission constraints, which could potentially create inefficiency. We will work to remove the requirement for this restriction during the incentive period.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Mark Ripley', with a stylized, cursive style.

Mark Ripley
Regulatory Frameworks Manager