

Good morning,

We would like to provide a brief response to your consultation on System Operator (SO) incentives from 2013. We would like to make three broad comments:

Firstly, we strongly support the overarching intention to try and align system operation [external] incentives with the asset [internal] price controls. Historically internal and external costs have been divided in to separate schemes, but this is likely to be sub-optimal because it creates an artificial division between asset purchase and asset usage choices that a genuinely competitive firm would not face. This could lead to distortions where the most cost efficient decision for consumers is not chosen. Bringing the two schemes together in the way that you envisage should provide a more coherent baseline for regulating National Grid's costs.

Secondly, we are slightly worried that it may still be too soon to set a long term SO scheme for electricity. NGET SO costs have been extremely volatile in recent years with ex post results considerably deviating from ex ante forecasts. We note that you are moving to a scheme design that is intended to strip out market price effects ex post, in order to try to and reduce the possibility of windfall gains/losses. This is extremely sensible, but it is also unproven. We would be more comfortable if you could show a couple of years experience of the revised methodology working well before you implemented a long-term electricity scheme.

Finally, we would like you to consider whether it is possible to implement any incentives that encourage predictability and stability in charging. BSuoS in particular has been extremely volatile in recent years and this creates risk costs for network users that are ultimately passed through to consumers.

This response is entirely non-confidential and may be published on your website.

Kindest regards,

Rich

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