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Dear Graham,

Gas System Operator incentive schemes from 2013: Final Proposals

Recognising that these are Ofgem's Final Proposals for the Gas System Operator incentive scheme, we appreciate the limitations of providing comment at this stage. Nevertheless, for completeness, we have set out our observations below.

We are disappointed by the decision not to apply a cost incentive from the outset in relation to operating margins and unaccounted for gas. We believe reputational incentives are relatively weak tools to apply to the system operator role given the lack of comparators on which to benchmark / measure performance. Unaccounted for gas, in particular, places a significant cost on industry (and ultimately customers) and we do not believe appropriate emphasis has been given to this. As a minimum, we supported the proposed industry workgroup to assist NGGT and believe this is a shortcoming of Ofgem not to have driven this through. As it stands, we believe there is now a risk that this is not given the appropriate focus. In a similar vein, we are disappointed that the unaccounted for gas component of shrinkage lacks any incentive to reduce volumes from one quarter to the next.

Given the lack of financial incentives and the move from a single year scheme to an eight year scheme, we believe it would have been prudent to have factored in a mid-period review in addition to the uncertainty mechanism. This would have been consistent with the RIIO process and would have given industry some comfort that where reputational incentives were subsequently found not to be operating as effectively as hoped and better information had become available, that financial incentives could have been developed and implemented.

Finally, we have two more specific observations. In relation to the demand forecasting proposals, we note that Final Proposals are silent on any D-2 to D-5 demand forecasting financial incentive post 2014. Presumably the intent is to learn from the first two years of this new incentive before putting in place anything longer-term for the remainder of the eight year period? Secondly, we note that in relation to the maintenance incentives that a value of £20 k per day is attributed to 'saved' maintenance days, but £50 k per day to 'changed'

maintenance days. This does not appear to be consistent with the supporting text, which seems to be making the case for equal weighting.

Even at this late stage, I hope this is useful feedback. Should you wish to discuss any of the above, please do not hesitate to contact me.

Yours sincerely,

Gillian Hilton
Regulation