

Non Confidential

Johannes Pelkonen
System Balancing
9 Millbank, London SW1P 3GE
020 3263 2718
soincentive@ofgem.gov.uk

6th July 2016

Dear Johannes,

Reference: Consultation on a Proposed Income Adjusting Event submitted by National Grid Electricity Transmission plc in relation to the 2015-17 Electricity System Operator Incentives Scheme.

Gazprom Marketing & Trading Retail Limited ("***Gazprom Energy***") would like to thank you for the opportunity to respond to your consultation on the Proposed Income Adjusting Event submitted by National Grid Electricity Transmission (NGET) plc in relation to the 2015-17 Electricity System Operator Incentives Scheme. We do not consider our response to be confidential and we are happy for our comments to be shared with other interested parties.

Gazprom Energy operates in the UK non-domestic sector as a gas supplier and a gas shipper. In addition, we also operate in the UK non-domestic power market as an electricity supplier.

We are concerned about the material adjustment to the SO incentive scheme that is being proposed more than 2 months in to the charging year of 2016/17. Furthermore, this is unlikely to be confirmed until later in the summer creating additional BSUoS uncertainty for BSUoS liable parties.

The timing of the notice to industry parties is concerning. NGET requested a mid-scheme update in December 2015 and on the 31st March 2016, Ofgem confirmed that an additional £12.39 million could be recovered by NGET for Black Start costs. The latest request from May 2016 is now looking to recover a further £113m. It is difficult to see how a greater than 600% increase in costs can be warranted from 2015/16 and a greater than 400% increase from the target only adjusted on the 31st March 2016.

A recurring theme from recent regulatory change has been increases in third party costs for suppliers. In this example, the resulting cost increase for BSUoS is unlikely to have been accurately forecast so unless suppliers and generators have priced in a sufficient risk premium, or can adjust contracts mid-term, then losses are likely to be made. This comes ahead of an already more

uncertain winter for BSUoS costs, with the unknown utilisation of the Supplemental Balancing Reserve (SBR).

We do not believe it is appropriate for the income adjusting event to be accepted by Ofgem, on the basis of the assessment timescales involved and the material nature of the request. However, we note that even if the request is rejected, our understanding is that with NGET's performance under the scheme limited to \pm £30 million per year, there may still be a notable increase in BSUoS costs for liable parties.

We would welcome early clarity from NGET as to when any additional BSUoS costs, whether through the income adjusting event or scheme performance, will be invoiced to suppliers.

Should you have any questions on or would like to meet to discuss our response, please don't hesitate to contact tom.breckwoldt@gazprom-energy.com.

Yours sincerely,

Tom Breckwoldt
for and on behalf of Gazprom Energy