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Dear Leonardo,

Final proposals for electricity System Operator incentives from April 2017

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of the Centrica Group, excluding Centrica Storage.

Final Proposals for the interim System Operator (SO) Incentives Scheme are a pragmatic approach to encouraging the SO to efficiently manage the electricity system while the enduring regulatory framework is developed and implemented.

We believe some elements of the interim proposals can form the baseline for the enduring regulatory framework to encourage the SO to pursue whole-system solutions and deliver long-term value for consumers. In particular, the emphasis on greater transparency of the SO's actions and the clarification of expectations of the SO's baseline balancing behaviour are important. Greater clarity of the SO's approach to managing the electricity system will better enable market participants to make efficient operational and investment decisions. Also, we agree different sharing factors in different parts of the curve for the Balancing Services Incentives Scheme should not be adopted because all savings should be valued equally. Different sharing factors could unintentionally weaken the incentive on the SO to pursue savings, depending on 'proximity' to the target.

We continue to support ex-post efficiency checks on Black Start expenditure, instead of a target-based approach, until robust targets can be set. However, the limit of the disallowance on inefficient Black Start expenditure to only 10% of the total incurred after the strategy and procurement methodology are approved could be less effective at encouraging the right behaviours. This may be appropriate for the interim scheme. However, there should be no expectation this proposal will form part of the baseline of the enduring arrangements as a thorough review of the Black Start regulatory framework and of how the SO fulfils its function will be conducted. Similarly, we acknowledge use of cardinal points for the forecasting incentives for the interim scheme is pragmatic but recommend the feasibility of using settlement periods instead is investigated for the enduring arrangements.

We hope you find these comments helpful. Please do not hesitate to contact me if you have any questions.

Yours sincerely,

Andy Manning
Director - Network Regulation, Forecasting and Settlements