

**R/27**

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## **OFGEM TO REGULATE NATIONAL GRID'S ELECTRICITY SYSTEM OPERATOR COSTS**

National Grid Electricity Transmission Ltd (NGET) is to have its external system operator costs regulated using existing powers, energy regulator Ofgem said today (Thursday).

NGET had rejected Ofgem's proposed System Operator incentive based approach and it was left to Ofgem's governing Authority to decide whether or not to refer the matter to the Competition Commission (CC).

The Authority has decided that it will not be referring the matter at this stage to the CC. It believes the interests of consumers are best served by Ofgem using existing licence requirements to regulate NGET's external costs for the next year.

Ofgem takes its duty to monitor compliance very seriously and if there is any evidence that NGET is incurring costs inefficiently, Ofgem will take enforcement action accordingly.

Ofgem intends to develop a new incentive scheme for NGET's internal and external balancing costs to come into force from April 2007.

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### **Notes to Editors:**

1. Ofgem had put forward two options for targets of either £390 million or £410 million for external balancing incentive scheme but NGET wants a higher target. While NGET has accepted the incentive on its internal costs, it has rejected both options for its external balancing incentive. Ofgem continues to consider that both of these options provided a fair balance of risk and reward between customers and NGET.

2. NGET has faced incentive schemes for its system operator costs since 1994 and these schemes have been successful in driving down those costs. This is the first year that NGET has rejected Ofgem's proposals.

3. In the absence of an agreed external balancing incentive scheme, Ofgem will regulate these costs based on NGET's existing licence obligations to develop, maintain and operate the electricity transmission system efficiently. For example, NGET's transmission licence places an obligation to make sure that it operates the network in an efficient, economic and co-ordinated manner. Should there be any evidence that NGET is incurring costs inefficiently, Ofgem can take enforcement action under NGET's licence with the potential for fines up to 10% of turnover.

4. Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. Ofgem's aim is to bring choice and value to all gas and electricity customers by promoting

competition and regulating monopolies. The Authority's powers are provided for under the Gas Act 1986, the Electricity Act 1989 and the Utilities Act 2000.

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