



To: soincentives@uk.ngrid.com

National Grid Electricity Transmission System Operator Incentives for 1 April 2010

EDF Energy response to Consultation Document 1/09 on the development of incentives for reactive power, transmission losses and black start

EDF Energy welcomes the opportunity to respond to this consultation and makes the following key points:

- No changes are necessary to the current reactive power and transmission losses components of the incentive scheme
- Subject to an understanding of the materiality of any possible benefits, we would support the development of a TO incentive to contribute to managing the costs of 40% fixed share of losses
- EDF Energy do not support a zonal forecast incentive or a procurement incentive for transmission losses
- We would support further work on developing an unbundled longer term incentive for Black Start

Our response initially discusses the principles of unbundling, longer term incentives and indexation before we make further, specific comments on the components addressed in this first consultation.

EDF Energy believes that transparency of the Electricity Balancing Services incentive scheme is paramount whether or not the component parts are bundled into one scheme. There are pros and cons in respect of both approaches, unbundled schemes have in the past been referred to as having greater transparency for industry parties however this is not felt to be a significant concern with recent SO incentive schemes. We do however believe that transparency of NG allocation of costs to each individual component would be an important part of any unbundled scheme.

However, it might be reasonable for some components to be incentivised separately - particularly where a longer term view can be more readily provided. We believe that a longer term scheme is a natural evolution of NG's incentives particularly as the market currently faces a number of long term policy goals. Ensuring appropriate incentives on the costs of system operation is a critical part of the necessary investment climate to ensure that these policy goals can be met. Appropriate indexation would seem a logical follow-on from any longer term scheme

Reactive power

EDF Energy believes that the existing bundled scheme for reactive power remains appropriate due to its strong link to active power and the wholesale price. Furthermore, we do not see any immediate benefits in a longer term scheme and therefore any further indexation for this component is unnecessary.

Transmission Losses

EDF Energy supports the continuation of the existing incentive for transmission losses. However, subject to an understanding of the materiality of any possible benefits, we would support the development of a TO incentive to contribute to managing the costs of 40% fixed share of losses. A zonal forecast incentive for losses is unnecessary and need not be developed whilst industry

code modification processes for zonal losses have yet to conclude. Furthermore NG's procurement of losses is a major step change in industry processes and would create significant uncertainty for all parties and therefore should not be progressed at this time.

Finally we note NG's analysis of the current scheme. It would be useful to understand how NG's control room takes account of location and therefore losses when they see similar bid and offer prices from BMUs in different locations.

Black start

EDF Energy supports the NG review of Black Start procurement post 2016 and current work in this area to explore the feasibility of other Black Start providers. Indeed we would also suggest that procurement of Black start might be aligned to the longer term procurement of STOR which has been recently developed by NG. However, it is imperative that the NG contracting strategy be transparent to all participants.

In view of the comments made by NG in this consultation document as regards the likely increase in future costs of Black Start we would support the development of an unbundled longer term incentive on NG.

If you have any queries regarding this response, please contact me on 01452 656370.

Yours Sincerely,

A handwritten signature in black ink, appearing to read "L Schmitz".

Louise Schmitz
Senior trading consultant, Corporate Policy & Regulation