

Malcolm Arthur
National Grid Electricity Transmission plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA

Contact Bill Reed
Phone Phone 01793 893835
Email bill.reed@rwe.com

Swindon, 18th September 2009

Email: soincentives@uk.ngrid.com

**Transmission System Operator Incentives for 1 April 2010
Consultation Document 2/09 Consultation on Developments of the Incentive for the Energy Related Components of the Balancing Services Use of System (BSUoS) Costs**

Dear Malcolm

Thank you for the opportunity to comment on the Transmission System Operator Incentives for 1 April 2010 Consultation Document 2/09 on the development of the Incentive for the Energy Related Components of the Balancing Services Use of System (BSUoS) Costs. This response is provided on behalf of the RWE group of companies, including RWE Npower plc, RWE Supply and Trading GmbH and RWE Innogy.

On a general point, we continue to believe that there should be greater emphasis on the specific performance-based incentives related to costs that are directly controllable by National Grid. Consequently where costs are driven by external factors then these should be specifically excluded from the incentive arrangements. This would help to address the issues associated with windfall gains and losses. Finally we remain concerned that long term incentive schemes have the potential to create significant uncertainty as to the overall efficiency of incentive schemes

Furthermore we note that there is limited information on the details of the expected costs to be incurred particularly since commercial confidentiality prevents the publication of certain key elements of costs. We support greater disclosure of information on how National Grid has taken specific actions that have delivered costs savings is required to assess the performance of the system operator. We believe that such information could give rise to an incentive scheme that is directly related to the efficiency enhancements delivered by National Grid.

RWE Supply & Trading GmbH
Swindon Branch
Windmill Hill Business Park
Whitehill Way
Swindon SN5 6PB
United Kingdom
T +44(0)1793/87 77 77
F +44(0)1793/89 25 25
I www.rwe.com
Registered No. BR 7373
VAT Registration No.
GB 524 921354
Advisory Board:
Dr Ulrich Jobs
Board of Directors:
Stefan Judisch (CEO)
Dr Bernhard Günther
Dr Peter Kreuzberg
Richard Lewis
Head Office:
Essen, Germany
Registered at:
Local District Court,
Essen

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Our comments on the specific questions raised in the consultation document are included in the attachment to this letter.

If you wish to discuss any aspect of our response, please do not hesitate to contact me.

Yours sincerely

By email

Bill Reed,
Market Development Manager
RWE Supply & Trading GmbH

Attachment 1: Response to the specific Consultation Questions

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1 Are there any other risks or benefits associated with the existing 1 year bundled scheme?

We do not believe that there are any additional risks or benefits associated with the 1-year bundled scheme other than those indicated in the consultation document.

2 Have all cost drivers been captured and correctly identified as being within or outside National Grid control?

The actions of the system operator in managing the balance between generation and demand can have a small though marginal impact on the overall costs in the incentive scheme. From the information provided it is difficult to identify the specific influence of National Grid on these costs, particularly given the interrelated outcomes of the various actions taken to meet the requirements of operating the system. More information is, therefore, required to determine whether say constraint actions have either contributed to or relieved costs elsewhere on the GB transmission system to meet the system imbalance.

3 Do you consider that there are elements within these cost drivers that are within National Grid control? What are these and how do you believe these should be considered going forward?

Actions taken to manage the system by National Grid can influence the outcome of other balancing costs. For example, there may be a requirement to resolve constraints but in doing so the action may help to resolve other balancing requirements. The interrelated nature of the actions makes it difficult to identify where National Grid has direct or indirect control.

4 Do you agree that Energy Imbalance, Margin, Footroom, Response and Fast Reserve share the same cost drivers and should be considered together as the Energy component?

The drivers for these actions are similar in that they are all taken in different timescales to facilitate operating the system given the forecast energy imbalance. However, actions taken by National Grid may increase a requirement for different services and it is this interaction that is important in determining the overall level of incentive scheme costs.

5 Do you agree with the need for an adjustment factor to mitigate the risk of variations to cost drivers outside National Grid control?

An adjustment mechanism may be important in ensuring that there are no windfall gains or losses in the incentive scheme. However, such adjustments illustrate the difficulty in forecasting costs where the drivers may be outside the control of National Grid.

6 Do you agree that it would be appropriate for any adjustment term to cover the identified items?

It is only sensible that adjustment terms are applied to items that can be determined by some objective criteria as outside the control of National Grid. The list of proposed items appears to be an appropriate starting point.

7 Are there any other terms that you believe it would be appropriate for any adjustment term to cover? If so, what would these be and how would these work?

We have no views on other adjustment terms.

8 Do you agree that there is a balance between improving the fit and simplicity or should simply the best fit be found?

There is obviously a trade off between fit and simplicity in developing adjustment terms. However, we believe that more information is required to identify those actions which National Grid takes that deliver real and tangible cost savings. The importance of the forecast is to set a benchmark against which the benefits (or otherwise) of National Grid actions can be judged in relation to incentive scheme costs or benefits.

9 Which calculation period do you think is more appropriate, daily or halfhourly?

We would favour half hourly resolution since this reflects the balancing period for National Grid and the system as a whole.

10 Which variables do you think should be included in an improved NIA?

We would support the inclusion of variables that can appropriately reflect items outside the control of National Grid. The four drivers identified represent an appropriate starting point. In particular we would note that the level of intermittent generation should be included in market length.

11 What other NIA formats should be considered? Do you believe that there are benefits in including a NIA methodology that has a kinked line?

We have no views on this.

12 Do you believe there are benefits in the implementation of a longer than one year scheme?

Given uncertainty about potential outcomes, we do not believe that there are benefits in the implementation of a longer than one year scheme at this time.

13 Are there any additional benefits or drawbacks in the development and implementation of an unbundled incentive?

We are concerned about the treatment of the interaction of specific actions that deliver benefits in terms of overall energy balancing in any unbundled incentive scheme. For example, constraint related actions may also help to resolve market length.

14 Do you have any other comments regarding this consultation?

- Document structure
- Overall content and level of information provided
- Process

No comments.