

Appendix C

RWE Trading



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8th January 2007

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Proposed revisions to the Procurement Guidelines, Balancing Principles Statement and Balancing Services Adjustment Data Methodology Statement, Incorporation of Revised Standing Reserve Weighting Factors and Clarification of the Treatment of Supplemental Standing Reserve – RWE Response

Dear Balancing Services

Thank you for the opportunity to respond to the above consultation.

We welcome the proposal to update the standing reserve weighing factors to reflect revisions to the periods of actual utilisation. We believe that such a change is overdue and that it is disappointing that NGET have not taken the opportunity through the annual review process to update the relevant utilisation periods. We look forward to NGET's proposals for an enduring solution to this issue.

We note the proposal to introduce revised treatment of Supplemental Standing Reserve in the allocation of costs. However, we are concerned that the proposed weighting factor for Settlement Period 31 in the winter period (29th Oct – 9th Feb) appears to be set to zero despite the fact that an SSR volume has been procured. This seems to be either an anomaly in the calculation or an error in the weighting factor. We would expect that if costs have been incurred for reserve in settlement period 31 then an appropriate weighting factor should be applied.

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

Yours sincerely

By email

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Market Development Manager

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Shafqat Ali
National Grid
National Grid House
Warwick Technology Park
Gallows Hill
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CV34 6DA

08 January 2006

Dear Shafqat

Proposed Revisions to the BSAD Methodology Statement

EDF Energy welcomes the opportunity to comment on the proposed revisions to the BSAD methodology statement.

We support National Grid's proposal to revise the BSAD weighting factors to better reflect current utilisation patterns as a result of changes in the market. This will ensure that option fees for Standing Reserve and Supplemental Standing Reserve are more appropriately targeted at those settlement periods where they are required.

We also look forward to receiving National Grid's longer term proposals for the treatment of weighting factors, but are wary that removing these from the BSAD methodology statement would allow National Grid too much flexibility in the allocation of option fees. Any change to the calculation of BSAD has a direct effect on electricity imbalance prices and should therefore be subject to both the scrutiny of Ofgem and industry as a whole.

National Grid could also consider improving market transparency more generally via full disaggregation of the BSAD data that feeds into cash out prices. Now that we have a more marginal price calculation it may be appropriate to re-consider this issue again.

I hope you will find this is helpful. If you have any queries, please do not hesitate to contact me on 020 7752 2180.

Yours sincerely

A handwritten signature in black ink, appearing to read 'David Lewis'.

David Lewis
Environment and Market Regulation



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Regulatory Frameworks
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8 January, 2007

Dear Shafqat,

Incorporation of Revised Standing Reserve Weighting Factors and Clarification of the Treatment of Supplemental Standing Reserve

I am responding on behalf of E.ON UK to the above consultation. We are content for the proposed changes to the BSAD statement to be made for the period from January to March of this year. However, we would ask National Grid to consider carefully how they structure any enduring proposals for April onwards.

Given the evidence provided in the consultation it appears that the proposed changes to weighting factors would result in a profile which is more representative of actual current usage. Of course, in terms of the illustrative examples shown in Appendices 1 and 4, we are cautious of concluding too much from a single day's data. However, if the cost reflectivity of the BPA can be improved then the changes should be made.

As a general rule, we would be concerned if changes are made too frequently to the weighting factors. We are not convinced that this necessarily would result in factors which are more reflective. Although usage patterns between years can change, it could be that the averaging effect of the present methodology smoothes out more extreme changes which take place over shorter timescales. Additionally, there is a balance to be struck between cost reflectivity and stability. It does not benefit the market if the methodology changes too often. Therefore, we would ask that National Grid carefully considers how to structure any enduring arrangements.

Yours sincerely

Paul Jones
Trading Arrangements

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Our Ref.
Your Ref.
4 January 2007

Dear Sir/Madam

Proposed Revisions to the BSAD Methodology Statement – Incorporation of Revised Standing Reserve Weighting Factors and Clarification of the Treatment of Supplemental Standing Reserve

Centrica welcomes the opportunity to comment on the proposed revision to the BSAD methodology statement. We are broadly supportive of the proposed changes, and agree that it is appropriate to use more recent data in order to derive representative weighting factors. There are a number of points, however, which we would like to raise in relation to this proposed change.

The timing of this review means that any change will be implemented mid-way through the winter period, and it may have been more reasonable to make any changes during a period of lower imbalance price volatility. While we recognise that NGET would not have had a complete picture of the level of SR/SSR procurement for this winter at an earlier time, it would still have been clear that the weighting factors were based on an old dataset some time before the onset of winter.

No analysis has been presented in the consultation document on the effectiveness of using a year's historic data as a basis for future weighting factors. It may be, for example, that a two-year dataset (with or without weighting the years) may actually derive a more accurate profile, and may mitigate against the embedding of an unrepresentative year in the calculation and thereby threatening cost reflectivity.

Finally, we would hope to see analysis relating to more than one day in the next consultation on this subject. While it is useful to examine 6th Nov 2006, it is not clear that this is a 'typical' day from which general conclusions can be extrapolated.

As noted above, however, despite these concerns we are broadly supportive of this interim change, and we look forward to the opportunity to comment further on the forthcoming enduring proposals.

If you have any questions or comments relating to this response, please contact me on the number above or at dave.wilkerson@centrica.co.uk.

A *centrica* business

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Yours sincerely

Dave Wilkerson
Contracts Manager

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