



To: [soincentives@uk.ngrid.com](mailto:soincentives@uk.ngrid.com)

## Potential Enhanced Electricity Transmission Owner (TO) Incentives for timely grid connection and minimisation of network constraint costs

EDF Energy welcomes the opportunity to respond to this consultation. The key messages for our response are as follows:

- This consultation addresses key issues regarding incentives for optimum design, build and operation of the transmission network and EDF Energy recommends an industry workshop to discuss this topic.
- National Grid (NG) has proposed a number of simple and potentially beneficial short term changes in this consultation, which EDF Energy supports.
- However, any implementation of these changes will require transparent, robust justification and some further consideration of the costs and benefits.
- Existing TO incentives might be enhanced with a time-based incentive to minimise constraint volumes on derogated transmission boundaries only.

### Introduction

EDF Energy welcomes the opportunity to comment on the issues raised in this consultation. The incentives for transmission owners and the system operator to ensure efficient design, build and operation of the transmission network are an imperative consideration for the future network, to facilitate Government policy objectives. Current arrangements, although approved by the Regulator, do not seem to provide an optimum balance of incentives for transmission network capital costs and incentives to minimise operational costs. The complexity of these issues is highlighted by the recent Frontier Economics report for Ofgem on the role of future energy networks<sup>1</sup>. As a result, EDF Energy believes that an industry workshop to develop understanding of the issues would be the best way of taking forward the debate on this.

Our detailed comments and views on the main issues and options in this consultation are set out below.

### National Grid incentive for local works

EDF Energy believes that the option suggested by National Grid to provide an incentive to connect generation ahead of the baseline assumption is an appropriate enhancement. It is clear from the consultation that the existing arrangements do not incentivise earlier connection dates (in part due to the increased costs of advancing connection dates) and therefore a % uplift on NG's cost allowance is reasonable. However, we would wish NG to provide transparent justification and determination of the level of the % uplift.

---

<sup>1</sup> <http://www.ofgem.gov.uk/Networks/rpix20/forum/Documents1/Ofgem%20Future%20Role%20of%20Networks.pdf>

## **SO and Scottish TOs (STOs) outage co-ordination**

The consultation proposes a two year final outage plan to replace the existing one-year arrangements. If implemented for April 2010 this would align with our suggestion of a two-year SO incentive for constraints (as described in the EDF Energy response to NG's consultation<sup>2</sup>). The NG suggestion to improve the SO incentive for the outage change allowance is a sensible change; i.e. the SO should always be incentivised to control costs for the entire duration of the incentive. However, if the sum of the allowance is to be changed, some analysis to justify a revised budget (forecast of future spend) would need to be undertaken. This justification is particularly important when the possibility of an increase is viewed against low expenditure in recent years.

### **SO-TO interaction in E&W**

NG has put forward two options for enhancing current arrangements: either extending the outage change allowance to E&W; or defining circumstances in which TO operational expenditure (which reduces constraint costs) could be reallocated as SO controllable costs. EDF Energy believes that any approach to change existing arrangements in E&W which may result in increased costs to industry participants needs to be very transparent and appropriately justified. If the outage change allowance is reviewed for the purposes of SO and STO outage co-ordination (as discussed above), then some analysis should also be undertaken of the possible cost benefit of extending this to E&W.

### **SO driven capital expenditure on STOs**

EDF Energy notes the proposal to create a fund for capital scheme design to be adjusted, at the request of the SO, to help minimise constraint costs, alongside an associated incentive for the TOs to share a forecast of the cost benefits. Any fund to address this should be very transparent and appropriately justified, and a cost benefit analysis of this issue should be considered.

### **New or revised TO incentives to minimise constraint costs Short term change to incentivise specific outage changes (Option 1)**

In view of the urgent need to improve constraint incentives in the short term, a direct incentive might be considered for April 2010. However if a % uplift on the Scottish TOs recovery of reasonably incurred outage change costs is used, then the level of uplift should be subject to robust justification.

### **Medium to long term change to TO incentives to minimise constraint costs**

EDF Energy suggests that existing TO incentives might be enhanced with a time-based incentive to minimise constraint volumes on derogated transmission boundaries only. This would be a variation of Option 2 (as proposed, this is an incentive to maintain transmission capacity on all boundaries or circuits) and could be developed to provide an incentive on TO's to lift derogations more quickly than planned. This suggestion would complement a TO incentive on local connections and might be beneficial under a Connect and Manage regime for transmission access, with time-limited boundary derogations from the SQSS.

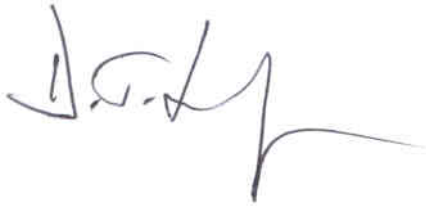
---

<sup>2</sup> <http://www.nationalgrid.com/NR/rdonlyres/DCFB432A-A5FC-41F7-8EB3-B957CD243A2B/37564/ElectricitySOIncentivesfor2010Consultation3edfResp.pdf>

The proposed Option 3 (to provide TOs with an incentive to minimise constraint costs) involves a significant amount of complexity and would need considerably more consideration, assessment and development.

If you have any queries on this response or would like to arrange a meeting to discuss further, please do not hesitate to contact Louise Schmitz on 01452 656370 or myself.

Yours sincerely

A handwritten signature in black ink, appearing to read "D. Linford".

**Denis Linford**  
Corporate Policy and Regulation Director