

Duncan Burt
National Grid House
Warwick Technology Park
Gallows Hill
Warwick
CV34 6DA



10th September 2008

Dear Duncan,

National Grid System Operator Incentives – Consultation on the Development of an Incentive Target Indexation Methodology.

EDF Energy welcomes the opportunity to respond to this consultation and has answered the questions in the consultation in numerical order. Where the questions are not in an area of our expertise or where we do not have a view we have chosen not to comment.

EDF Energy believes that predictable transmission charges (in all their forms) provide a solid base for competition in the generation and supply markets.

The use of an Ex Post Unconstrained Schedule is the most economically precise methodology currently available to effectively target costs and should be developed as part of the proposed incentive package.

We trust that you will find these comments helpful.

If you have any queries please contact me on the number below.

Yours Sincerely,

Dr Sebastian Eyre
Energy Market Regulation
Energy Branch

Question 1: Do you agree with the principle of indexation

Yes, if the methodology behind the indexation adequately reflects the anticipated benefits. EDF Energy also supports any improvements that can be made to SO incentives that may help them to make longer term investment plans.

Question 2: Do you support the use of indexes for the scheme starting in April 2009?

Yes

Question 3: What incentive components should be included in the indexation methodology?

The proposed components to be included appear, at first glance, to be reasonable, however we would like to take the opportunity to look at this in more detail.

Question 4: Considering the volatility of the index and the individual components, are there any periods that should be excluded from the development of indexation components? E.g. exclude the data from 2005/6 due to the market being unsettled in the first year of BETTA

Question 5: Do you agree with the proposed method of indexing balancing costs?

See answer to question 3.

Question 6: Are there any additional benefits/drawback of implementing the proposed indexation?

We agree with the Pros and Cons outlined in paragraph 3.2.1.8. Indexation may also serve to help smooth costs for generators and suppliers alike.

Question 7: Do you have any comments on the development and implementation of an energy indexation?

We firmly support the development of an EPUS methodology, as it should enable more economic targeting of imbalance costs.

Question 8: Do you have any comments on the development and implementation of a reserve index?

Due to the relationship to energy costs and reserve costs, we acknowledge that if energy indexation was implemented it may be appropriate to implement a reserve index alongside this.

Question 9: Do you have any comments on the development of constraint cost indexation? What incentive arrangements should be considered for constraint costs?

No.

**Question 10: Do you believe that a reactive power index should be developed?
What is your preferred option for a reactive power index?**

We support the further development of a reactive power indexation methodology.

**Question 11: Do you believe that a frequency response index should be developed?
What is your preferred option for a frequency response power index?**

We support the further development of a frequency response indexation methodology.

Question 12: Do you have any comments on the benefits and drawbacks of unbundling? If any, what incentive components could and should be unbundled?

Unbundling potentially offers increased targeting of SO incentives, however interactions between the components involved must be looked at in more detail.

Question 13: Are there any other forms of indexation that you believe should be considered further?

We do not believe that there are any other applicable forms of indexation that are not already considered within the consultation document.

Question 14: Do you believe that there are any benefits in developing longer term incentives? Are there any benefits/drawbacks not covered by this consultation?

Yes, there are clear benefits in developing longer term incentives for both consumers and generators, as mentioned within the consultation document. EDF Energy supports all efforts to further develop longer term incentives.