



Ian Pashley
National Grid

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Dear Ian

National Grid Electricity Transmission System Operator (SO) Incentive for April 2011 - Initial Proposals Consultation

Thank you for the opportunity to comment on the initial proposals consultation for the National Grid Electricity Transmission System Operator (SO) Incentive for April 2011. This response is provided on behalf of the RWE group of companies, including RWE Npower plc, RWE Supply and Trading GmbH and RWE Npower Renewables Limited, a fully owned subsidiary of RWE Innogy GmbH.

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We welcome the review of the SO Incentive Scheme methodology which has been conducted by NGET and Ofgem over the past year. However, we still have a number of concerns regarding the proposed scheme.

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In previous responses to SO Incentive Scheme Initial proposals we have expressed concern that the nature of the scheme and means that there is little transparency which means it is difficult for the industry to understand and comment on. This lack of transparency also makes it impossible for the industry to assess whether National Grid have acted in such a way to justify the incentive they receive. The proposed scheme for 2011 to 2013 clearly has more sophisticated models but there is no data for the industry to be able to assess how accurate these are. This lack of transparency will also make it impossible for the industry to see how National Grid have classified actions which have more than one benefit and whether these have been classified in a consistent manner.

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The most important part of the SO incentive scheme for the industry is the forecast of BSUoS costs it contains. We are disappointed that this is not available at this time. This forecast is particularly important for elements of BSUoS such as spend on Constraints, which are impossible for parties other than National Grid to forecast due to the confidential nature of the data required. Without forecasts of these costs prior to the April contract round it is possible that suppliers may need to factor in risk premiums into customer prices in order that they are not unduly exposed to high costs. We would welcome information regarding the forecast costs for each element of BSUoS and we feel that it is important that this information is in line with the Monthly Balancing Services Summary report. Without this forecast information it is

impossible for us to assess the scheme parameters as we are unable to compare this scheme to both the current scheme and previous schemes. We have concerns over the proposed level of the sharing factors, caps and collars. We feel that due to modelling risks there is potential for there to be windfall losses or gains, especially in the first year of this new scheme. We therefore feel it would be prudent to start with low sharing factors and caps.

We note that Ofgem and National Grid are considering how to align the SO and TO incentives in the next Transmission Price Control. We feel that this is an important factor in ensuring that SO and TO activities occur in the most efficient manner. We look forward to seeing details of Ofgem's thinking on this matter in due course.

Please feel free to contact me if you wish to discuss this response in more detail.

Yours Sincerely,

By email to unsigned

Rachel Fowler

Forecasting Senior Analyst – Network Charging