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Informal Consultation on Potential Electricity Transmission Owner (TO) Incentives

Dear Malcolm

Thank you for the opportunity to comment on the informal consultation on Potential Electricity Transmission Owner (TO) Incentives. This response is provided on behalf of the RWE group of companies, including RWE Npower plc, RWE Supply and Trading GmbH and RWE Innogy.

We welcome the initiative taken by National Grid in exploring the potential to create incentives on transmission owners in relation to timely grid connection and minimisation of network constraint issues. However, we do not believe that the issues are related exclusively to transmission owners in general or National Grid as transmission owner specifically. Rather we believe that the design of an incentive scheme whether related to early connection or outages should recognise the interaction between the use of the transmission system by generators and demand, the level of acceptable congestion on the GB transmission system and economic and efficient investment in transmission infrastructure. This means that an incentive scheme needs to encompass both system operation and transmission investment.

With regard to timely grid connections we believe that the current transmission licence requirement to deliver an economic and efficient transmission system should ensure that the timing of connection offers and delivery of physical connections is fully optimised at all times. Therefore we do not believe that there is a case that the transmission owners should have a specific incentive in this area. However, we believe that in the context of the delivery of local connections further consideration is required in the interaction between the generators seeking connection and the transmission owners.

It may be possible that generators seeking to advance connection dates are willing in some circumstances to underwrite or share costs that would otherwise be transmission costs. A risk-based assessment of these costs associated with appropriate incentives could enable the advancement of certain local works. For example, users may be willing to share the costs with the transmission owners for early planning applications for transmission assets or acquisition of equipment.

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In relation to the minimisation of network constraint costs we note that the NETS SQSS currently allows for an “efficient” level of constraints on the GB transmission system. These operational costs are associated with the avoided cost of investment in transmission assets. We believe that there should be an explicit recognition of the underlying “efficient” costs in the development of the system operator incentive scheme and associated transmission owner incentives.

We believe that detailed consideration of incentives is required for transmission outages. Under normal system operation with an intact network there is an efficient level of constraint costs. However, where there are significant transmission outages the system is no longer intact and there will be an enhanced level of constraint costs in order to achieve NETSSQSS compliance. It is these enhanced costs that need to be considered carefully in the design of the transmission owner incentive scheme.

Further investigation is required into the potential implications of “connect and manage” proposals for the system operator and transmission owner incentives. We are concerned that local investments for users seeking to advance connection dates may divert resources from wider investments designed to reduce constraints. Whilst “connect and manage” may result in increased renewables capacity connected to the system it will not result necessarily in greater output. Consequently there may be a risk that the Government’s targets for carbon reduction may not be met. A transmission owner incentive scheme must ensure that there is efficient system operation and efficient construction of both local and wider works under a “connect and manage” regime.

Finally we note that constraint actions may deliver other services such as the resolution of system imbalance. The benefits of such constraint actions must be recognised if a joint system operator and transmission owner incentive scheme is to be efficient. We believe that further detail is required on the methodology that the system operator and transmission owners could adopt in ensuring that the costs of one aspect of the system operator scheme are not reduced at the expense of another.

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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Incentivising Timely Grid Connection

3/1 Do you believe there is a role for incentivising accelerated completion of local works and therefore the connection of new generation in England & Wales? Do you believe there is a requirement for such a role in Scotland?

We remain to be convinced that there is a role for incentivising accelerated completion of local works and therefore the connection of new generation in England & Wales (and Scotland). We believe that there are sufficient incentives in the Transmission Owners licence conditions and prevailing price controls with regard to the provision of local works. We are particularly concerned that an incentive scheme for local works could divert resources from wider reinforcement with a consequent impact on the associated constraint costs.

However we would support an initiative to explore incentives for generators and transmission owners based on the sharing of risks associated with advancing connection dates.

3/2 Do you believe that the potential enhancement outlined which balances National Grid's current price control incentives in respect of timescales is an appropriate model, or are there others that should be considered? Given the incentive properties that are provided by the current price control arrangements in Scotland do you believe it would be possible to further align these arrangements with customers' potential desires for timely connections?

As noted in our answer to question 3/1 we do not support the development of specific incentive arrangements for the provision of local connections. The current licence and price control incentives are sufficient for the delivery of local transmission infrastructure.

3/3 Do you believe the potential incentive correctly balances the risk and reward for National Grid?

We do not believe that the potential incentive for the provision of local connections correctly balances the risk and reward for National Grid. We are concerned that the local incentive may skew investment priorities and divert resources from investment in the wider transmission system with a consequent impact on constraint costs. We note in this context that if a transmission owner incentive for local connections was considered desirable, then the design of such a scheme should be aligned with the incentive for provision of wider works and system operator constraints.

3/4 If you presently have future transmission connection interests, in principle, could you be seeking a grid connection date which is less than 4 years from signing the connection offer?

There may be opportunities to deliver projects on timescales shorter than 4-years in certain circumstances. However, we would seek to address the accelerated connection through the normal process for modifying our bilateral connection agreements and associated construction agreements.

SO/TO Interface Issues

4/1 Do you think it is appropriate to extend the current outage change arrangements in the way described? Please outline any relevant issues that have not been highlighted.

We would support the development of an outage programme over longer timescales. However, we are concerned about the proposals for the outage change costs. We believe that these should be addressed through comprehensive incentive arrangements for managing outages under a coordinated system operator and transmission owner incentive arrangement.

4/2 Should the current SO incentive in relation to the outage change allowance be reviewed to remove potential perverse incentives, and are there any relevant issues arising that have not been described above?

We support a review of the current SO incentive to remove the potential for any perverse incentives. In this context we are concerned about the interaction of the various incentives where system operation and transmission ownership are part of a single entity.

4/3 Should the current incentive distortions between National Grid's SO and TO activities be addressed in the short term (i.e. ahead of TPCR5)?

There is no doubt that any inefficiency (if it exists) between the National Grid's system operation and transmission ownership activities should be addressed in the short term.

4/4 What are your views on the potential solution suggested and what controls would need to be put in place?

We support the alignment of SO and TO incentives to ensure that any distortion in the existing scheme is removed. However, we believe that the issue highlights the shortcomings of the current arrangements particularly with regard to England and Wales. We believe that enduring incentive arrangements are required that are cost reflective, economic and efficient.

4/5 What are the issues associated with a model where the SO has a capex 'pot' that it could spend on TO schemes to reduce balancing costs and, in principle, is this something that you would support?

We support alignment of the system operator and transmission owner incentive schemes to ensure that there is efficient investment in the GB transmission system. We believe that the proposal for the SO to invest in transmission is the wrong way round. Rather our preference is for the transmission owner to be ex-

posed to the cost of system operation related to constraints. We believe that the system operator manages the GB transmission system based on an intact network with an efficient level of constraints. Where the system is no longer “intact” then there should be appropriate incentives on transmission owners to deliver an intact system based on investment. This ensures that the investment signal is the “right way round”.

4/6 In principle, would you support the development of incentives that encourage SO driven capital schemes to be prioritised for delivery by TOs?

We do not support the development of incentives that encourage SO driven capital expenditure. Rather we support incentives on transmission owners to avoid constraint related system operation.

Aligning TO and SO Incentives

5/1 In principle, do you believe that there is a role for establishing TO incentives, in the shorter term, in relation to managing SO outage change requests to enhance the operation of the current model?

We support the development of appropriate transmission owner incentives that reflect the enhanced constraint costs associated with network outages. However, we believe that a robust and enduring solution is required and do not support the development of short term measures based on the current model since these arrangements may not be internally consistent.

5/2 More broadly, what are your views on the potential longer term development of alternative models for incentivising TOs with regard to their influence on network availability / constraints?

Given the impact of the current outage programme on the cost of constraints we believe that there should be a major review of the current process to ensure that it results in economic and efficient system operation and transmission investment. We believe that the relationship between system operation and transmission ownership requires detailed consideration.

Essentially the system operator manages the generation/demand balance with an NETSSQSS level of efficient constraints on an intact network. By definition major outages do not maintain the intact network and measures are required by the GB system operator to ensure compliance with the NETSSQSS. These outage related incremental constraint costs are required as part of the investment in transmission infrastructure and should be considered as part of the transmission price control and associated incentives. In this context the cost of the outage programme can be estimated and the financial consequences properly assessed to ensure that it is both economic and efficient. Furthermore, such an assessment should enable the financial consequences of changes or alteration to the outage programme and of any delays. Therefore the overall cost of an outage programme, the cost of changes and alterations and the cost of delay form the start-

ing point for the assessment of system operator and transmission owner costs of constraints.

Having established the baseline costs the incentive scheme should incentivise the early and timely completion of outage work since there is an avoided cost associated with this (i.e. the avoided costs of constraint related system operation).