

Electricity Related Questions	
1	<p>Do you agree with the assumptions (described in detail the appendix) used to forecast the various elements that make up underlying balancing costs?</p> <p>EDF Energy agrees with the majority of the assumptions but would qualify our support :</p> <p><b>Constraints:</b> we are concerned that NGET is improperly budgeting the Cheviot constraint at prices that represent it being significantly gamed.</p> <ul style="list-style-type: none"> <li>• Cheviot boundary costs: There is information within the document that suggests outage weeks are not the only driver of cost; indexing the target to outage weeks seems inappropriate</li> <li>• Regarding within-Scotland constraints, NGET has provided no MWh and £/MWh information; this would be useful to the rest of the market in understanding the validity incentive proposals that are made.</li> </ul> <p><b>LCPD:</b> NGET's proposals seem rational, but are unduly conservative: the £15m should not be included in the target. (This is explained more later).</p> <p><b>Operating margin:</b> The margin calculation appears divorced from the actual costs of operating the system.</p> <p><b>Frequency Response BM costs:</b> There is no information surrounding how this cost is established; in the interests of transparency it should be included.</p> <p><b>WIND :</b> we have concerns over the £10m increase and believe it must be too high.</p> <ul style="list-style-type: none"> <li>• We would expect the need for additional reserve to drop as more wind generation connects, due to diversity.</li> <li>• NGET assumes that participants will manage variability in output beyond 4hrs. It may be prudent to assume that this could be case at nearer timescales as parties can use real time SCADA data to model a farm's output and contract accordingly.</li> <li>• Without information as to the additional MWs of installed wind capacity, we cannot scrutinise the £10m estimate NGET has provided for extra costs.</li> </ul>
2	In particular, do you have any comments on views on National

	<p>Grid's forecast assumptions for cost drivers:</p> <ul style="list-style-type: none"> <li>i. The behaviour of NIV during 2008/09 can be expected to be broadly in line with that seen during the current year, 2007/08.</li> <li>ii. That the forward price is the most appropriate figure to represent the likely outturn wholesale price during 2008/09.</li> </ul> <ul style="list-style-type: none"> <li>• <i>We agree that NGET is not better placed than the forward market in predicting future power prices. However taking the forward price at the time of setting the target is always going to result in a target that either benefits or penalises the GBSO when the power price varies from the forward price.</i></li> </ul> <ul style="list-style-type: none"> <li>iii. That wholesale power price either directly drive or act as an appropriate proxy to index certain balancing costs.</li> </ul> <ul style="list-style-type: none"> <li>• <i>Our analysis suggests that the wholesale power price does indeed correlate to BSUoS, and hence to some of the balancing costs.</i></li> </ul>
3	<p>Do you agree with the assumptions used to forecast Cheviot and Scottish constraint costs, and the costs associated with the forecast rise in Wind output in 2008/09?</p> <p><i>We are thankful to NGET in providing additional information on the constraints in Scotland and across the Cheviot boundary. Needless to say EDF Energy does not favour derogations across the Scottish transmission system as it places unwarranted costs on our customers.</i></p> <p><i>We shall take each in turn:</i></p> <p><b><u>Cheviot constraint:</u></b> <i>The information presented by NGET appears inconsistent, with some suggesting the cost estimates may be conservative, yet the calculations used to derive the estimate itself appear high.</i></p> <ul style="list-style-type: none"> <li>• <i>The bid-offer prices used to estimate the constraint assume it will be “gamed” by generators. We note the bid prices used in the model range from £13/MWh to £17.8/MWh – far lower than typical English available bid prices, and lower than the marginal cost of generation of a coal plant such as Longannet or Cockerzie, especially with EU ETS carbon prices in excess of €20/tC. The bid prices NGET is using are tantamount to prices that would represent gaming of the balancing mechanism. It is unacceptable that a target be set for</i></li> </ul>

	<p><i>resolving the constraint with the acknowledgment that the target assumes what some may interpret as abuse of a dominant position. If we assume generators will not “game” the constraint and act reasonably, as we must, then these assumptions would be overstating the cost of the constraint.</i></p> <ul style="list-style-type: none"> <li><i>• The cost estimate for resolving the Cheviot constraint appears to assume the system is in balance. In reality the system may well be long (as historically been the case) so the export constraint may well be resolved through returning the system to balance. We would like to see more information on the expected volume of the constraint per HH period as otherwise we can only assume the volumes 1.29TWh are well in excess of NIV.</i></li> <li><i>• An interesting point to consider is the possibility of Cockenzie adopting a winter running pattern. Our initial conclusions have been that it is viable for opted out plant to run year round on a marginal cost basis. There may also be value associated with running the plant in constrained summer conditions, for instance if the generator is able to submit bids in the order of £13.80/MWh. However if Cockenzie did adopt a winter running pattern, export constraint costs would fall.</i></li> </ul>
4	<p>Do you have any comments on our initial analysis of the likely impact of the introduction of the Large Combustion Plants Directive, in particular on the likely operation of opted-out plant?</p> <ul style="list-style-type: none"> <li><i>• Our belief is that opted out plant will operate year round on a marginal cost basis. We do not expect significant change to the operation of these stations, bar the dispatch of units on a “stack” basis. The reserve costs presented by NGET appear too cautious and span an unduly wide range. If constraint costs can range from £1m to £20m they should be discounted as a line item from the target. If the costs are extremely high then NGET would be justified in requesting an IAE.</i></li> <li><i>• We consider IAEs to favour NGET rather than Users. No User has ever raised an IAE to reduce NGET’s target, yet NGET has managed to raise them on numerous times.</i></li> </ul>
5	<p>Do you have any comments on the forecast range of incentivised balancing costs and BSUoS costs for 2008/09?</p> <ul style="list-style-type: none"> <li><i>• The forecast range presents an asymmetrical risk to the costs in figure 2.10, with a P50 of £519m yet a 10% chance of it exceeding £603m – this is not explained, however we must assume this is related to the risk of the Cheviot constraints (and possibly LCPD) turning out far more costly than planned.</i></li> <li><i>• Overall our view is that the cost associated with LCPD and wind is too high, so the target cost should be reduced by something like £20m.</i></li> <li><i>• With regard to the constraints cost estimates we would like to</i></li> </ul>

	<p><i>see the target allow for reasonable and fair bid and offer prices, that in the case of bids represent the marginal cost of generation. Should the cost of the constraints turn out to be significantly higher, through exploitative pricing, we would not expect NGET to be held accountable for the costs and an IAE would be justified. Our expectation would be that the bid offer spread between the bid and the replacement offer price would be narrower (assuming the constraint is not gamed) than the £52.90/MWh to something nearer £30/MWh, resulting in something like £35 - £40m in costs for the Cheviot constraint. This would reduce the target by another £30m.</i></p> <p>Overall we would believe the target should be nearer:</p> <ul style="list-style-type: none"> <li>• <i>P50 target £519 - £20 - £30 = £469m</i></li> <li>• <i>If using mean £530 – £20 - £30 = £480m</i></li> </ul>
6	<p>Do you agree with the main areas for efficiency identified by National Grid?</p>
7	<p>Do you agree with the range of proposed scheme options? Are there alternative scheme structures that should be considered for 2008/09?</p> <ul style="list-style-type: none"> <li>• <i>P50 target.</i></li> <li>• <i>A sharing factor equivalent to 50:50, yet adjusted for the asymmetric risk, to sharpen the incentive – this would probably be akin to Target 1 or 5 with no cap or collar.</i></li> </ul>
8	<p>Do you support the use of <i>indices</i> for the 2008/09 incentive scheme</p> <ul style="list-style-type: none"> <li>- Do you agree with the proposed level of scheme target indexation for wholesale power price?</li> <li>• <i>The price indexation appears sensible as a first step in adjusting the target by index. It should have a conservative affect on the target, not changing the overall target excessively.</i></li> <li>• <i>Yet we do believe the £2m per £1/MWh is a little simplistic.</i></li> <li>• <i>The current SO incentive arrangements have the NIA (which multiplies the NIV by MIDP 2.5 when short and 0.5 when long) tending to over-correct for the cost of resolving imbalance when the system is short. In some ways this over-correction reimburses NGET for the costs of response and reserve when NIV is negative or only slightly positive.</i></li> <li>• <i>EDF Energy recommended in its response to the earlier SO review consultation that the NIA be replaced with an ex-post</i></li> </ul>

	<p><i>unconstrained schedule (EPUS) cost of resolving imbalance. This suggestion remains valid.</i></p> <ul style="list-style-type: none"> <li>- Do you prefer wholesale power price index option (a) or (b)?</li> <li>• <i>Of the two index options for power prices, we believe the ex-post option (a) is far superior to the ex-ante trend option (b) and superior to the existing method of establishing the target. We don't like (b) ex-ante trend as it will be using forward prices that we would consider to be far less representative of the expected out-turn costs than a price taken in March 2008.</i></li> <li>- Do you agree with the proposed level of scheme target indexation for Cheviot outage weeks?</li> <li>• <i>We do not believe there should be an index against the number of outage weeks.</i></li> <li>• <i>Our reason for this is simple: the evidence provided in the consultation suggests that "outage weeks" are not the main factor on constraint costs. This could well be because the Scottish system is deficient against the security and planning standards, so in some respects outage/constraint conditions apply year round.</i></li> </ul>
9	<p>Which is (are) your preferred scheme(s)? (please provide reasons)</p> <ul style="list-style-type: none"> <li>- If your preferred scheme is scheme 3 or 4 do you consider these should have a target indexed to power price and/or Scottish outage weeks or not?</li> <li>• <i>We <b>not</b> support the concept of indexation to what is a "line item" in the target, such as outage weeks. Rather we recommend using rather generic indices, such as power price. With these we can develop a flexible, yet simple, scheme.</i></li> </ul>
10	<p>Do you agree that longer term development of systems that will reduce the cost and carbon impact of operating the system be supported? Which manner of funding do you consider to be the most appropriate?</p> <ul style="list-style-type: none"> <li>• <i>No. There are already enough subsidy mechanisms within the electricity industry. It is our view that such mechanisms often stifle, rather than promote, innovation.</i></li> <li>• <i>Innovators can look for private finance or (should a longer term scheme be applied) the GBSO can consider investing in innovative offerings to beat the SO incentive target.</i></li> </ul>
11	<p>Did you find the level of information within this consultation, and associated documentation and workshop, on our balancing and</p>

	<p>BSUoS costs forecasts for the current year and 2008/09 informative.</p> <ul style="list-style-type: none"> <li>- What additional information should National Grid provide to explain better the costs and cost drivers?</li> <li>• <i>Figure 2.12 should have all the preceding years' IBC and outturn costs.</i></li> <li>• <i>MW connection rates for wind generation and resultant cost of reserve so we can work out a £/MW value.</i></li> <li>• <i>The calculation used in assessing the impact of the additional wind generation.</i></li> <li>• <i>Constrained volumes and prices for within Scotland constraints.</i></li> <li>• <i>Information on the calculation of "BM costs" for Response.</i></li> <li>• <i>More information (and reasoning on the Operating Margin calculation in paragraph 4.12.2).</i></li> </ul>
12	<p>Do you have any further comments on analysis and information provided within the appendices to this consultation or in the further documentation available on our website?</p> <p>Do you have any further comments on any aspect of this consultation in relation to the Electricity SO?</p> <ul style="list-style-type: none"> <li>• <i>EDF Energy is pleased that NGET has published this information to industry participants as we support transparent market operations, especially when considering monopoly services, such as system operation.</i></li> </ul>
<b>Gas Related Questions</b>	
13	<p>Do you agree with the approaches used in forecasting the various elements that make up NTS shrinkage?</p> <ul style="list-style-type: none"> <li>• <i>We agree with NGG that there is greater variation in CVs and uncertainty as a result of increasing LNG imports and ensuing change in NTS flows/ compressor usage.</i></li> <li>• <i>It would be worthwhile resetting the volume targets annually to take this uncertainty into account so that a more accurate and effective incentive can be set.</i></li> </ul>
14	<p>Do you support the continued linking of shrinkage target volumes with flows at the St. Fergus entry point, and do you support the move to an increased number of bands?</p> <ul style="list-style-type: none"> <li>• <i>Yes, but that more analysis should be undertaken by stripping out TOM volumes over which NGG has no control over, to assess the correlation with national flows and reassess the incentive level.</i></li> </ul>
15	<p>Do you agree that the SO should not be incentivised on CV shrinkage that is outside of its control? Please comment on</p>

	<p>whether you believe it is necessary for Ofgem and BERR to review the continuing appropriateness of the CV capping rules in the Gas (Calculation of Thermal Energy) Regulations.</p> <ul style="list-style-type: none"> <li>• <i>Analysis is needed to show the true volume of shrinkage needed, both within and outside NGGs control and then an assessment should be made to assess how much volume NGG should procure and be incentivised for in total.</i></li> </ul>
16	<p>Do you have an objection to the proposed interim GCRP and ECRP methodologies for 2008/09? If so please explain why and outline your suggested alternative.</p> <ul style="list-style-type: none"> <li>• <i>We believe a split between using forward and prompt prices should be introduced as a more challenging and reflective incentive.</i></li> </ul>
17	<p>Do you support the proposal to establish the proposed enduring GCRP and ECRP methodology arrangements into the National Grid's GT Licence for an extended period, (to avoid the need for interim arrangements in the future) regardless of the duration of any incentive scheme?</p> <ul style="list-style-type: none"> <li>• <i>Given that NGG has constantly over performed against the price component we believe it should be more challenging. We also believe that a balance should be struck between setting the reference price to the forward and prompt markets where NGG buys some gas to satisfy its prompt requirements. Given that volumes aren't large we would suggest a 75/25% forward to prompt split.</i></li> <li>• <i>However, as previously stated we believe a longer multi-year incentive would provide more certainty and predictability for the SO in hitting targets and therefore more certainty for market participants. However, we believe there is a balance to be struck and that it shouldn't be for more than 2 years to minimise the risk of deviation from targets which is possible in the current volatile energy markets.</i></li> <li>• <i>Regarding the ECRP methodology, we agree that NGG should have an uplift associated with its retail contract to buy the electricity necessary to run its new electric compressors but are unsure whether £8.50/mwh is set at the right level given that retail costs differ on different parts of the network.</i></li> </ul>
18	<p>Do you agree that the incentive cost target should be constructed in the way proposed in this consultation?</p> <ul style="list-style-type: none"> <li>• <i>We believe that the incentive cost target should be stripped of utilisation costs when assessing the appropriate level, given the uncertainty around its use. The utilisation cost sharing factors should then be calculated separately based on a few scenarios.</i></li> <li>• <i>We also believe that the likelihood of OM margins being used and to what extent under different scenarios should be reviewed as it appears the targets are set on extreme and unlikely events happening all at once and therefore quantities may be over stated.</i></li> </ul>
19	<p>Which of the scheme options do you believe is the most appropriate</p>

	<p>way to incentivise the costs of utilising OM?</p> <ul style="list-style-type: none"> <li>• <i>We believe that NGG should share in the utilisation costs of OM gas should they need to use it rather than have it factored into their target as in Option C. We therefore support option A with split in the utilisation costs if necessary.</i></li> </ul>
20	<p>Do you agree that a one year scheme is appropriate pending a potentially more fundamental review of residual balancing incentive going forward?</p> <ul style="list-style-type: none"> <li>• Yes.</li> </ul>
21	<p>Which of the scheme options do you believe provides the most appropriate incentive arrangements for the residual balancing activity for 2008/09, and what are your views on the potential removal of the linepack element of the incentive?</p> <ul style="list-style-type: none"> <li>• <i>We believe that there is still merit in the LP incentive despite NGG choosing not to use it that often as it is easier to hit the max payout on the Price incentive, especially on days when no Balancing action is taken. The daily maximum could be reduced from £5000 in this case to £3k - £4k.</i></li> <li>• <i>There is an incentive for NGG to play off one incentive against the other and therefore we reiterate the need to review a joint incentive where decisions are linked.</i></li> </ul>
22	<p>Do you agree that the current Demand Forecasting incentive should roll forward to 2008/09, pending a more fundamental review of the residual balancing activity and incentives?</p> <ul style="list-style-type: none"> <li>• <i>It is difficult to say whether it is best to roll over the incentive to 2008/09 due to the lack of data around demand forecasting calculations and incentive.</i></li> <li>• <i>We believe that NGG's ability to calculate target demand and incentive to hit it might create a perverse incentive. There have been many days where demand figures can not be replicated. We also note that NGG made a 30% amelioration to their target and therefore the time may be right to review this whole incentive as well as NGG's residual balancing role.</i></li> </ul>
23	<p>Do you think it is appropriate to widen the data items that are subject to incentivisation to include the additional data items outlined in the proposal?</p> <ul style="list-style-type: none"> <li>• <i>The current data items are sufficient but new data items need more consultation and detail to assess merit.</i></li> </ul>
24	<p>Do you agree with the proposed scheme design in terms of timeliness and availability elements, and the provisions for planned upgrades / monthly measurement intervals?</p> <ul style="list-style-type: none"> <li>• <i>We note that NGG hit their targets again this year and that they need to be stretched to make them more challenging for next year, we therefore agree with NGG's new targets.</i></li> </ul>
25	<p>Which of the proposed performance improvements and associated incentive schemes do you believe is most appropriate?</p> <ul style="list-style-type: none"> <li>• <i>We believe that all of the improvements would benefit but it is not clear over whether the extra investment indicated would create additional benefit.</i></li> </ul>

	<ul style="list-style-type: none"><li>• <i>We believe it is important that performance levels are maintained.</i></li></ul>
26	<p>Are there any other points that you would like to raise in relation to the setting of the Gas SO incentives from April 2008?</p> <ul style="list-style-type: none"><li>• <i>No.</i></li></ul>