



National Grid Gas (NTS) System Operator Incentives for 1 April 2010
Consultation Document
Comments from AEP¹

The Association welcomes the opportunity to comment on this consultation document providing for early engagement in the process. We also welcome the opportunities we have had to discuss these issues directly with National Grid and will be happy to facilitate further meetings.

Bundled and Unbundled Schemes

Question 2.1 Would you support bundling some or all of the shallow SO incentives? If so please explain which schemes should be bundled, what an appropriate performance measure would be and what benefits this would deliver?

We consider the schemes should remain unbundled as they are currently. This provides for greater transparency and enables the setting of appropriate incentive parameters for each scheme. The two cost minimisation schemes should also remain separate since there is no direct relationship between the two issues.

Question 2.2 Would you propose unbundling any of the existing SO incentives schemes? If so please explain the benefits that you believe would be achieved from this?

We do not consider further unbundling to be necessary at this time. Clearly there is an interaction between the two elements of the residual balancing incentive.

Residual Balancing Incentive

Question 3.1 Given the review of the residual balancing scheme carried out last year, do you support our view that another review of the incentive structure is not required this year?

¹ The Association of Electricity Producers (AEP) represents large, medium and small companies accounting for more than 95 per cent of the UK generating capacity, together with a number of businesses that provide equipment and services to the generating industry. Between them, the members embrace all of the generating technologies used commercially in the UK, from coal, gas and nuclear power, to a wide range of renewable energies.

We welcome the analysis presented here to inform respondents views, although note no financial year-to-date comparisons are provided. Given the limited amount of performance information available for the current scheme we agree that the structure should not be reviewed this year. However we remain concerned that the £30k collar for the linepack measure incentive element is too large and could lead to more actions being taken for 'polluter pays' reasons than is necessary.

Note Fig 3.3 would be easier to interpret if the frequency were presented as a percentage to the total rather than an absolute number.

Question 3.2 Do you have any views/evidence that further refinement of the residual balancing scheme parameters is required?

See 3.1 above with respect to the £30k collar

Inter day linepack product – we would suggest that NG consider very carefully possible interactions of this product with the availability of system flexibility both in the short and longer term.

Question 3.3 Are there any barriers to implementing a residual balancing scheme for more than one year?

In principle no, once an appropriate scheme has been established, but as this incentive has only recently been changed it is not yet possible to know if the structure and parameters are optimal.

Demand Forecasting Incentive

Question 4.1 If National Grid was able to improve its demand forecasts, how would this impact on your business?

Improved demand forecasts will provide shippers with better information on their balance positions and may lead to more efficient trading decisions.

Question 4.2 What value (or relative value) do you place on each of the demand forecasts?

The value of the forecasts is linked to the accuracy of the forecasts, since the forecasts influence shipper behaviour in terms of managing their balance position and hence their interaction with the market.

Question 4.3 Which of the forecast times do you believe should be incentivised?

The 1300 D-1 forecast time should continue to be incentivised but improvements in D-2 to D-7 forecasts could be of value and these should be monitored

Question 4.4 Should consideration be given to the introduction of an additional incentive around any particular element of the forecast?

There may be merits in incentivising NDM demand and total demand separately. Whilst both are important their accuracy may be of different value to different parties; shippers with NDM portfolios will be particularly interested in the NDM forecasts whilst others may be more interested in total demand vs available supply.

Question 4.5 Should the structure of the Demand Forecasting incentive be reviewed?

There could be merits in setting seasonal targets, with a focus on improving forecasts at time of possible system stress.

Question 4.6 What are the barriers to a multi year incentive? How should a target for a multiple year scheme be set?

A multi year incentive may be appropriate but if seasonal targets were to be set then this should initially be for a single year to gain experience of its operation.

Data Publication Incentive

Question 5.1 What value do users put on the data items that are published under this incentive?

We believe that this data should be routinely made available to the market as part of its role as System Operator, its never easy to place a value on availability of data or cost to it not being available

Question 5.2 Are the current levels of website availability and timeliness of data publication appropriate?

We believe so.

Question 5.3 Does the incentive value of \pm £100,000 accurately reflect the value to users of having this data available and published in a timely manner?

The design of an incentive scheme is to encourage certain behaviours through financial reward rather than to match any reward or penalty to the benefit / cost to the community.

Question 5.4 Are there any barriers to implementing an incentive scheme for longer than one year?

No

Question 5.5 What information, if any, do users believe should be incentivised beyond the existing defined dataset?

We are not convinced that NG should be incentivised to release and maintain information that should form part of its function as SO in the interests of transparency and market efficiency.

Maintenance

Question 6.1 Does National Grid's summary (in section 6.2) accurately capture the issues with the existing maintenance planning process?

Yes

Question 6.2 Why would a change to the existing maintenance processes be of value to you?

Our members would benefit by potentially avoiding the loss of revenue which can be incurred where plant and pipeline maintenance is not aligned. Also costs can be incurred where no plant maintenance is planned but electricity is purchased in advance to cover a short generation position due to pipeline maintenance and where this maintenance changes at short notice or where there is lack of information concerning the duration and extent of flow curtailment required.

Question 6.3 What behaviour change by National Grid would be required to deliver this value to you?

Aligning pipeline maintenance and inspections with plant outages, keeping to original plans unless both parties agree to the change and providing more information as to the likely flow curtailment or reduction required.

Question 6.4. Do you believe an incentive on maintenance planning is required? If so what would the objective of incentive?

Given our comments to 6.3 above it would be important to recognise the multi-faceted nature of maintenance planning such that any incentive scheme would encourage appropriate behaviours without creating other unintended consequences.

It would be important that any incentive scheme would not prevent changes to plans when these are acceptable to both parties

Question 6.5. Do you have any suggestions for a suitable incentive scheme?

There would be advantages and disadvantages for each incentive suggested in paragraph 97, and as stated above it would be important not to lose some degree of flexibility where this is acceptable to both parties. Probably at least two of these incentives would be required. A possible way forward may be to gather more information over the next year and consider these incentive structures on a shadow basis.

Question 6.6. Could improvements be made to the existing communication process or UNC maintenances provisions?

We believe there is scope for some improvement here so that both sides have a better understanding of the issues and consequences for the other party. This could include identification of a project contact and more detail on actual maintenance requirements. So that if a 10 day window is called additional information advises whether this is to be a full cessation for 7 days or restricted flow for a few hours, with the window being called to allow for uncertainty in exactly when that will take place. For short term work this could then lead to work being scheduled for off-peak hours or at weekends, minimising the cost / revenue impact.

Question 6.7 Are there any specific data items that National Grid should start recording that would help facilitate the debate on a maintenance incentive?

The data provided in table 6.1 is helpful. In addition it would be useful to monitor what actual maintenance takes place compared to the days called.

Information on Incentive Performance

Question 7.1 Have the key areas where further information on incentives is required been correctly captured?

Appendix 1 provides a useful summary of the various schemes with past performance recorded. We agree this should be produced as a stand alone document in the SO incentive area of the website

Question 7.2 Are further refinements required to the summary of the incentive schemes (contained in Appendix 1) prior to its publication?

Where new incentives are being developed NG should be more forthcoming with analysis of past performance had the incentive been in place. Clearly we acknowledge that the behaviour may have been different had the incentive

been in place but such analysis would at least provide a benchmark when considering incentive parameters.

Question 7.3. Would publication of the proposed graphs showing how performance to date of incentive schemes relates to end of year incentive payments be helpful?

Yes the bands showing possible range of end of year outcomes is useful.

Question 7.4 Is there other information that could be used to better indicate likely end of year incentive payments?

Question 7.5 Would publishing a standing item on the link between incentive revenues and the SO commodity charge be helpful? Is there any additional information required prior to publication?

More transparency in this area would be helpful.

Related Issues

Question 8.1 Would you like to make any other comments on SO incentives that have not been captured through the other questions in this document?

No

Question 8.2 Are there other areas where you believe there would be benefit from introducing a new SO Incentive?

Not at this time

Aug 28, 2009