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**National Grid Gas (NTS) System Operator Incentives for 1<sup>st</sup> April 2010  
Consultation Document 1  
July 2009**

Dear John,

Thank you for providing us with the opportunity to comment on these Initial Proposals. 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 continue to believe that there should be greater emphasis on the specific performance-based incentives related to costs that are directly controllable by National Grid. Consequently where costs are driven by external factors then these should be specifically excluded from the incentive arrangements. In assessing the SO incentive schemes, the impact on National Grid's operational performance driven by the schemes needs to be considered.

Although we agree that longer-term incentive schemes would allow the SO to trade-off operational costs against investments that would reduce costs over several years we still believe that given the operational focus of the SO, annual schemes are generally more appropriate and reduce any uncertainty as to the overall efficiency of incentive schemes.

Our detailed comments in response to the questions raised in the consultation are set out in an attachment to this covering letter.

We hope these views are helpful and if you wish to any aspect of our response, please do not hesitate to contact me.

Yours sincerely,

By email so unsigned

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Attachment 1: Response to the specific Consultation Questions  
**Attachment 1: Response to the specific Consultation Questions**

**Bundled versus 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?***

Given the range of performance measures and relative lack of interaction between them, we do not support further bundling the shallow incentives.

***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?***

Although there is scope to unbundle the residual balancing incentive, we agree that the benefit of separating the two components is unclear.

**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?***

We would like the LM component reviewed next year following the parameter changes introduced for the 2009/10 scheme.

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

This can be considered next year following the review requested in 3.1.

We remain to be convinced that there is any benefit in the intra-day linepack service.

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

Although there may be an administrative benefit from setting a longer term scheme, we would be concerned that this has the potential to create significant uncertainty as to the overall efficiency of the incentive scheme and we would prefer an annual review.

**Demand Forecasting Incentive**

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

It may improve trading efficiency.

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

The key forecast is the 13.00 D-1. Clearly, forecasts further in advance of D-1 have less of an operational benefit.

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

The 13.00 D-1 should continue to be incentivised.

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

We agree that there may be merit in considering an incentive on the NDM component.

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

The value in the accuracy of any forecast is, amongst other things, a function of the avoided cash-out cost. On this basis, it makes sense to look at introducing a seasonal forecasting incentive.

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

We think this should be an annual incentive. However, if it can be demonstrated that investment in forecasting systems will deliver additional improvements, then a multi-year incentive might be appropriate.

**Data Publication Incentive**

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

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

***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?***

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

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

Our general view is that this incentive should be removed as this data should be made routinely available by the System Operator. It is not clear what improvements to National Grid's operational performance it delivers and appears to be a "nice to have" service.

**Maintenance Incentive**

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

National Grid's summary of the issues surrounding maintenance is a fair one and their decision to enhance data capture of maintenance parameters is welcome.

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

The most significant benefit would be the avoidance of lost revenues where plant and pipeline maintenance is misaligned.

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

Better coordination of maintenance with plant outage and not varying agreed plans.

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

We do not think that there is a convincing case for maintenance incentive at present but National Grid should continue to capture the data they have already published and new data sufficient to be able to design a maintenance incentive based around any of the structures shown in para 97.

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

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

***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?***

National Grid should also capture data on the number of actual maintenance days (or part thereof) against planned days per offtake.

Of the parameters listed, the ones of most interest to us would be "an incentive to minimise the number of changes made to the planned maintenance dates", "an incentive to not book maintenance periods longer than required" and "an incentive based on the percentage of shippers date change requests that are accommodated by NG".

A maintenance incentive could ultimately replace the data publication incentive.

**Reporting Incentive Performance**

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

We believe so.

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

It may be useful to highlight whether the incentive is assessed annually, quarterly or monthly and to ensure that the Upside/Downside sharing factors and any Cap/Collar are described in a consistent manner.

**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?**

We believe so.

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

The Quarterly Report and Summary on Incentivised Costs - 2009/10 Q1 published on National Grid's website on the 20<sup>th</sup> August is also very helpful and provides a more coherent basis for assessing SO incentive costs than previous versions published for the last formula year. However in our view:

- National Grid should aspire to update this report on a monthly (as opposed to quarterly) basis;
- The Capacity Incentives sheet, whilst useful, should be included elsewhere as capacity incentives are not part of what are typically regarded as the SO Incentives scheme applicable under Special Licence Condition C.8.F;
- Details on Capacity Incentives should be included in a spreadsheet which could be developed to cover the SO incentives applicable under Special Licence Condition C.8.D and similar spreadsheets should be developed to cover the SO incentives applicable under Special Conditions C.8.E and C.8.G. This will make it easier to link incentive information to the allowed SO revenue under TPCR;
- Where information from National Grid's Data Item explorer is used to populate information provided in the spreadsheet (e.g. in the case of the Demand Forecasting, Residual Balancing and Shrinkage reports) National Grid should make it clear which specific data items have been used in generating the report;
- As well as Performance Graphs National Grid should provide a summary of the incentive performance by incentive type for the current formula year every time the report is updated. This could be in the same format as provided in Appendix 1.2

**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?**

We support the proposals to improve the information published on incentive performance. It is important that shippers, suppliers and customers understand the SO commodity charge drivers.

**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?**

Not at this stage.

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

We have not identified any other areas.