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Dear Malcolm

**Response to National Grid Electricity System Operator Incentives Mini Consultation on the Development of Incentives for Constraints**

Thank you for the opportunity to respond to this Consultation Document. This is a non-confidential response on behalf of the Centrica group of companies excluding Centrica Storage Ltd. Below we provide our detailed responses to the questions posed in the above consultation.

1. Do you believe that the drivers for the volume of generation have been identified? How much control do you believe National Grid has on volumes?

Centrica mostly agrees with National Grid's analysis of the drivers for the volumes of generation and the control it has over these. However, whilst National Grid has limited influence over volumes dispatched and participation within the BM, it does have recourse to bi-lateral agreements with generators to alter output in certain pre-determined conditions. We welcome National Grid's pro-active approach to increase the number of such contracts where it is economical and efficient for them to do so.

2. Have all cost drivers been captured and correctly identified as being within or outside National Grid control?
3. Do you consider that there are elements within these cost drivers that are within National Grid control? What are these and how do you believe these should be considered in the future?

Centrica is largely in agreement with National Grid's analysis of its control over the cost drivers. Nevertheless, we would like to make a number of comments. First, it is correct that there is limited scope to use demand as a method of managing constraint costs. However, in the future, Smart Grids and Smart Meters should provide response services and hence be used to help manage constraints. Second, we agree that certain fault outages are outside the control of National Grid, especially third party damage. However, Centrica believe that National Grid, as a TO, has an influence over equipment failure by the levels of maintenance, and for example tree cutting, it carries out.

We welcome the development of the Constraint Management Service (CMS) to better manage

constraint costs and believe that bi-lateral contracts for dealing with constraints can represent an economical way of dealing with constraints issue. However, we believe that there are limitations to the CMS, most notably when there is a small number of potential providers (e.g. in Scotland) which can lead to offers that are unfavourable to National Grid.

4. To what extent do you believe that the increase in connected generation behind non-compliant boundaries due to Interim Connect and Manage will impact constraint costs and as such is a key driver
5. To what extent do you believe the increase in wind generation will impact constraint costs and as such is a key driver?

Centrica agrees that interim Connect & Manage could lead to a potentially significant increase in constraint costs. However, we would also point out that there are a number of mitigation tools that are currently being considered by the industry which could reduce the potential impact of these.

We would also note that it is vital that National Grid focuses on exploring ways to minimise increased costs associated with more wind generation on the system. More flexible STORR contracts and projects to improve wind forecasting techniques are potential mitigation tools. In addition we would also note the improvements being made in the accuracy of wind forecasting and that it is vital that National Grid utilise the improvements in wind forecasting to minimise balancing costs. In essence, National Grid's actions will need to be increasingly innovative as more wind comes online. We would welcome some insight into the methods that National Grid intends to use in order to constrain down wind.

We believe that the potential for constraints should be mitigated through investment in the Grid. It is for this reason that Centrica has long argued for increased investment in the network. In essence, whilst we would agree that in the short term (e.g. within day), as SO, National Grid does not have a significant amount of influence on constraint volumes, we believe that as TO (together with the Scottish TOs) it does have an influence over volumes in the longer term.

6. Do you agree the drivers for constraint costs are significantly different from those of other components of system operation?
7. Are there any additional benefits or drawbacks in the development and implementation of an unbundled incentive?

Centrica believes that unbundling is only desirable when a segment is very different in nature to the other parts of the scheme and do not believe that it warranted in this case. First, the unit cost of solving constraints closely follows power prices, as do the majority of the other segments within the BSIS scheme. Second, there is a certain amount of cross-over with the constraints segment of the BSIS scheme and the other BSIS components. For example, an action to solve an energy imbalance issue may also solve a constraint issue and vice-versa.

8. Please provide your views on the methodologies described? Is there an alternative methodology which should be developed?

As stated above we do not believe that the constraints segment should be unbundled from the rest of the scheme. However, if it were to be unbundled we would prefer that the "BAAR" tagging methodology be used to identify constraints. First, we believe that it is more equitable for actions that would have taken place anyway (but nevertheless have the effect of solving a constraint) are not tracked as a constraint. Second, given the frequent changes to the cashout regime, the P217 methodology has the potential to be less stable.

9. Do you agree that it would be appropriate to have an adjustment term to mitigate National Grid's exposure to uncontrollable and unpredictable risks affecting constraint costs?

10. What items that you believe it would be appropriate for any adjustment term to cover and how would these work?

We do not believe that it is necessary to have an adjustment factor. The incentive on National Grid, as SO, to work with TOs to find different ways to reduce the risk of constraint costs would be lost if such an adjustment factor were introduced.

11. Please provide your views on the development of an alternative method to manage constraint costs due to fault outages? Is there an additional method which should be developed?

12. Do you agree that development of an alternative treatment for fault outages is appropriate?

We do not believe that alternative treatment is required for fault outages due to the fact that Grid has some influence over these. However, if alternative treatment were to be introduced, we believe that the Income Adjusting Event (IAE) model would be the most appropriate way of adjusting the target and not the pre-agreed level of compensation or by spreading costs over multiple incentive years. We are of the opinion that any adjustment should most closely match the costs incurred and the IAE model would best able to achieve this. However, we are of the opinion that the IAE should only be invoked during events which are exceptional and over which National Grid has no control.

13. Do you believe there are benefits in the implementation of a longer than one year scheme? Please describe your views on the optimal incentive duration for constraints.

We do not believe that the duration of the incentive scheme for constraints should be increased beyond the current one year. National Grid cites certain benefits that would be accrued from lengthening the duration of the scheme for constraints. It is stated that they would allow for longer term, more economic contracts to be entered into with generators to manage output; advance appropriate system reinforcement works that require a longer term payback period, and focus attention on optimising the outage plan over multiple years. However, we believe that National Grid should be focusing on these areas already and should not require further incentive to do so.

14. Do you have any comments regarding this consultation process?
- Document structure
  - Overall content and level of information provided
  - Process

We have no further comments.

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