To: soincentives@uk.ngrid.com

7 October 2009

National Grid Electricity Transmission System Operator Incentives for 1 April 2010

EDF Energy welcomes the opportunity to respond to Consultation Document 3/09 on the development of System Operator (SO) incentives for constraints. The key points we wish to make are as follows:

- EDF Energy would support the unbundling of constraint costs.
- Cost allocation of system actions should be transparent and robust.
- EDF Energy would support a longer term scheme for a constraint incentive.
- We propose a seasonal adjustment to allow a new baseline for the incentive to be set. This would enable the SO to secure their incentive from the previous season.
- Further consideration and analysis should be undertaken to ensure that any of NG's proposals for income adjusting events are proportionate.

Unbundling of constraints from the Balancing Services Incentives Scheme (BSIS)

As National Grid has identified, there is increased focus on constraint costs and it is increasingly important to manage constraints under the Interim Connect and Manage arrangements for transmission network access. EDF Energy believes that it is very timely for NG to consider a separate incentive in respect of constraints, which will distinguish these costs from other system balancing activities.

However, in making this significant change to the incentive scheme, it is imperative that BSUoS payers can be sure that NG control room will allocate actions in a similar manner independently of any individual choices. We support a transparent method for cost allocation, but we note that the P217 tagging methodology has yet to be implemented. We therefore want experience of this to be taken into account when NG makes final proposals for cost allocation methodologies.

Scheme duration

EDF Energy would support the development of a longer term scheme for constraints, as this will recognise the value in aligning the management of constraints with a forward consideration of transmission network investment and outage planning. We note for example that the intentions of the TIRG work on the Cheviot boundary had a greater than one-year investment timescale. EDF Energy would suggest an initial two-year scheme from April 2010 might be worthy of consideration, as this would align with the end of the current transmission price control period.

Adjustment terms

EDF Energy appreciates the difficulties in forecasting constraints over a longer period and we offer the following option as a method for adjusting the incentive. We propose that the initial incentive is set for a two-year period, with transparent assumptions such as price, volume and a monthly shape of the forecast being provided in some detail. Seasonal re-forecasts might then be used to revise the remaining period of the incentive and at that time a measure of the initial season's performance could be taken against the original transparent assumptions. This would allow the SO to secure its incentive over shorter periods, aligned to outage planning, while requiring it to look further ahead. The transparency of the assumptions and potentially some measures of how significant a variance from the original forecast might need to be considered in more detail.

Treatment of fault outages

EDF Energy recognises that there is uncertainty in the current treatment of fault outages for both BSUoS payers and the SO; however the proposals put forward are fairly complex and carry risks of both under and over-recovery. While we agree that separation of 'planned' and 'fault' constraints prevents the constraint incentives from being distorted by these unplanned costs, we believe more work is needed to ensure that the treatment proposed is proportionate.

If you have any queries on this response or would like to arrange a meeting to discuss it, please do not hesitate to contact Louise Schmitz on 01452 656370 or myself.

Yours sincerely

Denis Linford
Corporate Policy and Regulation Director