

Malcolm Arthur  
National Grid Electricity Transmission plc  
National Grid House  
Warwick Technology Park  
Gallows Hill  
Warwick  
CV34 6DA

Contact Bill Reed  
Phone Phone 01793 893835  
Email bill.reed@rwe.com

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Email: [soincentives@uk.ngrid.com](mailto:soincentives@uk.ngrid.com)

## **Transmission System Operator Incentives for 1 April 2010 Consultation Document 3/09 on the Development of SO Incentive for Constraints**

Dear Malcolm,

Thank you for the opportunity to comment on the Transmission System Operator Incentives for 1 April 2010 Consultation 3/09 on the Development of SO Incentive for Constraints. 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 have noted in our previous responses to the consultations on the incentive schemes from 1<sup>st</sup> April 2010 that we continue to believe there should be greater emphasis on the specific performance-based incentives related to costs that are directly controllable by National Grid. In the context of constraints we note that the incentives should to some extent relate to the performance of transmission owners in managing outages of the transmission system as well as the system operator in managing the system in operational timescales. We believe that this aspect of the incentive scheme should be considered in more detail.

In addition, we note that the NETSSQSS currently allows for an “efficient” level of constraints on the GB transmission system. These operational costs are associated with the avoided cost of investment in transmission assets. We believe that there should be an explicit recognition of the underlying “efficient” costs in the development of the system operator incentive scheme and associated transmission owner incentives.

**RWE Supply & Trading  
GmbH**  
Swindon Branch  
Windmill Hill Business  
Park  
Whitehill Way  
Swindon SN5 6PB  
United Kingdom  
T +44(0)1793/87 77 77  
F +44(0)1793/89 25 25  
I [www.rwe.com](http://www.rwe.com)  
Registered No. BR 7373  
VAT Registration No.  
GB 524 921354  
Advisory Board:  
Dr Ulrich Jobs  
Board of Directors:  
Stefan Judisch (CEO)  
Dr Bernhard Günther  
Dr Peter Kreuzberg  
Richard Lewis  
Head Office:  
Essen, Germany  
Registered at:  
Local District Court,  
Essen

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Finally we note that constraint actions may deliver other services such as the resolution of system imbalance. The benefits of such constraint actions must be recognised if an unbundled incentive scheme is to be efficient. We believe that further detail is required on the methodology that National Grid will adopt in ensuring that the costs of one aspect of the scheme are not reduced at the expense of another.

Our comments on the specific questions raised in the consultation document are included in the attachment to this letter.

If you wish to discuss any aspect of our response, please do not hesitate to contact me.

Yours sincerely

By email

Bill Reed,  
Market Development Manager  
RWE Supply & Trading GmbH

Attachment 1: Response to the specific Consultation Questions

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

### **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?**

The document provides a good overview of the nature of constraints on the GB transmission system. However, one of the crucial aspects is the outage planning process for the transmission owners and the impact of such outages on patterns of generation. More information on this should be provided to indicate how the system operator has influenced outage planning to reduce the overall costs of constraints. In particular the interaction between generator outage plans, transmission owner outage plans and the forward contracting strategy of National Grid requires detailed consideration in evaluating the efficiency of any system operator incentive scheme. On the basis of the information provided it is difficult to assess the extent to which National Grid as system operator can directly influence the patterns of generation to minimise constraint costs.

### **2 Have all cost drivers been captured and correctly identified as being within or outside National Grid control?**

From the information provided there appears to be a comprehensive list of the activities required to alleviate the impact of constraints on the operation of the transmission system. However, the relative impact of the different cost drivers is unclear. For example, the proportion of total costs related to maintaining system margin is not clear. In addition, the degree of control and influence by the system operator on each activity is also unclear.

### **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?**

As noted above, we believe that the transmission owners have a key role to play in determining the costs associated with constraints. Consequently, the system operator may have limited influence in “controlling” the costs. However, the system operator plays a key role in “mitigating the impact” of constraints given the state of the transmission system and patterns of generation. It is this aspect that should be recognised in the future development of the incentive scheme.

### **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**

It is inevitable that the interim connect and manage arrangements will increase the costs of constraints on the GB transmission system given the volume and location of schemes that are seeking to advance connection dates. This may be mitigated to some extent by locational BSUoS charges, if implemented.

**5 To what extent do you believe the increase in wind generation will impact constraint costs and as such is a key driver?**

Under the current NETSSQSS requirements and with a fully intact system it would be expected that intermittent generation could result in an increase in the occurrence of constraints. However, any additional costs that may result should be compared with the efficient level of investment in transmission assets required to meet the connection requirements of such generation. The trade off between constraint costs and efficient transmission investment should be recognised in the system operator incentive scheme and transmission owner incentives. This should enable the underlying level of constraint costs associated with an efficient NETSSQSS compliant transmission system to be identified separately from the specific incremental costs that arise from incremental constraint costs caused for example by the transmission outage programme.

**6 Do you agree the drivers for constraint costs are significantly different from those of other components of system operation?**

We agree that constraint costs could be considered a specific area of costs associated with operating the GB transmission system. However, these costs should be categorised as follows:

- Costs arising operating a NETSSQSS compliant GB transmission system (efficient constraint costs);
- Costs arising from specific patterns of generation or generation outages ( System Operator incentive costs);
- Costs arising from the planned transmission owner outage programme (efficient constraint costs);
- Costs arising from changes to or delays associated with planned transmission owner outage plans (transmission owner incentive); and
- Costs arising from unplanned outages of the GB transmission system (transmission owner incentive).

In addition, we note that in the fully integrated GB electricity system that there is an interaction between the separate system operation activities, particularly where, for example, constraint actions deliver wider system benefits.

**7 Are there any additional benefits or drawbacks in the development and implementation of an unbundled incentive?**

As noted above, constraint actions may deliver other services and this interaction should be recognised in the scheme.

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

The proposed methodology for identifying constraints is appropriate for the derivation of actions that should be taken into account for the purpose of setting cash out prices (in particular identifying actions that may be considered “out of merit”). As noted above, there may be a case for identifying the underlying efficient constraint costs associated with GBSQSS compliance and the incremental constraint costs associated, for example, with

specific outage programme or fault level conditions of specific circuits. The system operator methodology for constraints should recognise these different components and properly allocate them to those that are responsible for them.

**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?**

This proposal is consistent with proposals elsewhere in the GB incentive scheme and may be appropriate. However, as noted above the specific constraint costs may be related to other factors such as the duration and extent of outage programmes. These are outside the control of National Grid and this should be recognised as part of the incentive regime.

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

As noted under question 8, in addition to energy prices the parameters for the scheme could include factors such as outage durations.

**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?**

The issue of fault outages highlights the interaction between system operation and investment in the GB transmission system by the transmission owners. We believe that the efficient level of fault outages should be identified and the incremental costs attributable to either system operation or equipment reliability should be recognised. This would enable the incentives to be appropriately targeted.

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

As noted above an incentive scheme that recognised that shared responsibility of the system operator and transmission owners would be a more appropriate way forward than income adjusting events.

**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 have concerns about longer term incentive schemes for constraints. As noted in this response a more fundamental review of the system operator and transmission owner incentives in this area are required.

**14 Do you have any comments regarding this consultation process?**

- Document structure
- Overall content and level of information provided
- Process

No comment.