Scottish and Southern Energy

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Dear Malcolm,

Consultation on the Development of SO Incentives for Constraints

Thank you for providing Scottish and Southern Energy (SSE) with the opportunity to comment on the above consultation. Please find our response to the consultation questions below.

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?

We believe the drivers for volume have generally been identified, however we do not believe that replacement margin costs are appropriately included.

We agree that NGET do not have full 'control' over the drivers detailed, however we believe they can strongly influence the extent of the financial impact of the drivers. We believe NGET can lessen the financial impact of such drivers by making more use of innovative measures such as: contracting ahead; commercial intertrips; locking in price for stability; and the use of option contracts i.e. turn down contracts. Given the nature of the preparation and contracting for major generation station outages, that effectively fixes their outages far in advance, we believe NGET can take major generation station outages into consideration when scheduling maintenance work.

We also disagree with NGET's conclusions in relation to locational BSUoS. We do not agree that targeted locational pricing will reduce constraint costs; rather it will have perverse consequences on generation in the location.

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

Our comments on control above notwithstanding, we believe the cost drivers have been captured.

We note NGET's comments in paragraph 92 on the incentivisation of the STOs. It would be helpful to understand what payments have been made and incentives received under this mechanism.

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?

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As per our comments in question 1 in relation to control, we believe NGET can influence constraints through managing constraint price risk and this is recognised in paragraph 102. We do not however agree with NGET's comments in paragraph 103 in relation to CAP 170. We do not agree with a proposal that unilaterally removes contractual rights.

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?

Constraint volumes are likely to increase as generation is allowed to connect under interim connect and manage. Constraint volumes can be mitigated by the use of commercial intertrips, however we do not believe the volumes connecting will be significant enough for it to become a key driver in 2010.

The cost associated with these volumes will depend on market conditions; therefore it is not clear that costs will increase. It is also inappropriate to solely refer to constraint costs associated with derogated boundaries. All boundaries will be affected by increased levels of generation due to interim connect and manage.

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

As noted above, we do not believe the volumes connecting will be significant enough for it to become a key driver in 2010. In addition, NGET are developing wind turn down contracts with industry that will lower costs.

We also believe NGET should be able to predict, at least within day, wind generation output. This will become increasingly important as wind penetration increases.

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

We do not believe the drivers for constraint costs are significantly different from those of other components of system operation as constraint and energy actions can be intertwined.

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

Whilst in principle we would support unbundling as a longer term goal, we believe this to be inappropriate for 2010/11. This is because we believe that the interaction with energy actions and the fact that there are significant changes currently taking place in the market arrangements in relation to access, charging, intertrips and constraints, that this is not the time to change.

Although we support unbundling, we also do not believe that it is appropriate for these elements. We believe that any apportionment of costs can only be arbitrary and it is not clear that a methodology could readily be agreed. Indeed, whilst it does not have an impact on costs, we already have concerns with the impact of the existing apportionment of costs under the bundled scheme, in particular margin and constraint costs.

We do not believe that unbundling would improve transparency and clarity of constraints costs, these are already transparent, published on a monthly basis. We do not see transparency as a result of unbundling as a benefit.

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

In the interests of avoiding unnecessary changes in the understanding of constraint costs, we believe that the BAAR tagging process should continue to be used, rather than introducing P127 rules.

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?

We agree that if NGET has no control or ability to influence or alleviate risk levels by making more use of innovative measures such as: contracting ahead; commercial intertrips; locking in price for stability; and the use of option contracts i.e. down turn contracts, then it would be appropriate to use an adjustment term.

Whilst the overall aim of this process is to reduce costs, these proposals are aimed at reducing the risk faced by NGET. That being the case, the level and incentivisation should be tightened up to reduce overall costs.

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

We do not believe that the following elements are appropriate for an adjustment term.

- Bid/offer spread – NGET can influence this through contracting outside of the BM.
- Volume of connected generation – it cannot be related to all connected generation as not all connected generation will cause constraints, indeed some may lower constraints, therefore this would also need to be taken account of. In addition, such an adjustment could disincentivise NGET to manage costs through innovative contracting solutions.
- Volume of generation behind derogated constraints – we do not agree with the focus on derogated boundaries as constraints occur on other boundaries. In addition, such an adjustment could disincentivise NGET to manage costs through innovative contracting solutions.

We believe it may be appropriate to reconsider an adjustment based on the number of weeks of planned major outages e.g. the Cheviot circuits.

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?

We believe the Income Adjusting Events methodology is sufficient. We do not believe another method is required for the following reasons:

- Pre-agreed circuit compensation – we do not believe this would be cost effective. Instead it would be onerous and complex.
- Average compensation - as noted in the consultation, it carries with it the risk of over and under recovery, and hence would not be cost reflective. It would also rely on a longer term scheme, which we believe is inappropriate at present.
- Insurance pot – again this would not be cost reflective, and extends costs and liabilities outside a single year scheme, and we would not support this.

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

No, for the reasons outlined in question 11. However we could see benefits in more transparency of the causes of constraints in relation to faults and major planned outages. For example, the upgrade work of the Cheviot circuits under TIRG has caused significant constraint costs that should be separately accounted for to better understand the overall costs of such network reinforcements for the future.

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.

Whilst in principle we would support an extended scheme (beyond one charging year) as a longer-term goal, we believe this to be inappropriate for 2010/11. This is because we believe that the interaction with energy and the fact that there are significant changes currently taking place in the market arrangements in relation to access, charging, intertrips and constraints, that this is not the time to move to an extended scheme. Once these market arrangements have been clarified, which we believe will be in 2010, then it would be appropriate to reconsider the development of an extended scheme; e.g. for charging year 2011/12.

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

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

We have no other comments.

I hope that our comments are helpful. If you would like to discuss any of the points raised in more detail, please do not hesitate to get in contact.

Yours sincerely

Garth Graham
Electricity Market Development Manager