National Grid Gas Transmission Gas System Operator incentives Stakeholder Engagement Consultation

Responder's Details

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Is your response confidential? No

Energy UK welcomes the opportunity to respond to this consultation. We believe the overarching principle of all incentive schemes is to encourage continuous improvement against each incentive. A distinction should be drawn between business as usual and enhanced performance with additional funding only being provided for the latter. Whilst in some cases enhanced performance may require investment and a longer term scheme to recoup that investment, this is not the case for all schemes and we have reservations about long-term schemes risking loss of focus if outcomes diverge significantly from targets over time.

[1] Energy UK represents a wide spectrum of interests across the sector. This includes small, medium and large companies working in electricity generation, energy networks and gas and electricity supply, as well as a number of businesses that provide equipment and services to the industry.

System Operation

Residual Balancing

Q1. Do you agree with our proposal to maintain the current Residual Balancing incentive structure of linepack and price performance measures in preference to a cost minimisation scheme?

Yes, we believe this has been effective in recent years and that NG should continue to be incentivised to trade close to market prices, to minimise its impact on the market. We note NG has outperformed the targets in recent years and received incentive revenue.

We do not support a cost minimisation incentive as we do not see a strong need to change the incentive. The incentive should be structured appropriately to avoid encouraging NG actions in the market, which risk creating distortions on the OCM.

Q2. Do you support the proposed change to link price and linepack targets to market volatility and imbalance? If not, how do you consider a performance measure should be set?

There could be some merit in such approaches but there isn't much detail provided, and no compelling evidence for change. A potential formula for the target price spread has been provided on the day before the consultation closes. This does not explain how days when NG takes no actions are considered and may even encourage NG to trade further away from the market price to achieve a wider spread for the following year. There is also no indication of how the spread should tighten rather than just reflect past performance.

Q3. Does our proposal of a daily maximum value (£9,240) represent a suitable potential reward for our residual balancing performance? If not, what value do you attribute to the Residual Balancing role?

Again there is little detail on this.

The current scheme allows for a maximum payment to NG of £5,500 and whilst we accept this might be arbitrary and there is clearly a value in NG not trading and affecting market prices it is difficult to quantify this. We are struggling to see a rationale for nearly doubling payments to NG when the market self balances and no NG actions are needed. NG's actions should be driven by genuine system needs with incentives being a secondary concern, if no actions are necessary then no actions should be taken, that is an economic and efficient outcome consistent with licence requirements.

NTS Shrinkage & Unaccounted for Gas

Q4. Do you feel it is appropriate to separate the baseline procurement of shrinkage from prompt purchases for changes to forecast levels?

There could be some merit in this, but to allow full pass through of shorter term shrinkage procurement does not feel quite right. If this were progressed then NG would be facing less risk under this incentive than currently, which should be reflected in reduced incentive rewards, particularly as NG has maximised its performance under this incentive in recent years.

Q5. Do you consider a rolling 9 month price reference period to month ahead of the delivery quarter sets a fair benchmark price for shrinkage energy procurement performance assessment?

We agree that moving the price reference period closer to the time of application seems like and appropriate change

Q6. Do you consider the Traded Price of Carbon Adjustment alone provides an appropriate mechanism to incentivise the proper consideration of environmental impacts of compressor use?

No view at the moment

Q7. Are there suitable incentives to reduce UAG on all the appropriate industry parties?

NG is only party with access to the relevant data and therefore capable of taking an overview of this issue with respect to developing options to reduce UAG. The costs associated with UAG are considerable, we believe in excess of £100M although as the elements of the shrinkage incentive are not reported separately, it is difficult to be certain of this. It also seems perverse that with the industry facing UAG costs of this magnitude that NG still maximises its shrinkage incentive performance.

Even though NG does not own all the meters its does have access to the metering data, such that some kind of incentive on metering accuracy could be appropriate to avoid a recurrence of the current spate of metering errors, which has resulted in significant reconciliation events for the affected Shippers.

Operating Margins (OM)

Q8. Do you agree with our proposal to reconsider OM incentivisation following the OM services review?

Yes if not before. We would like to see proposed timescales for the review and agreed steps post-review.

Greenhouse Gas Emissions (Venting)

Q9. Do you support our approach for the greenhouse gas emissions incentive and what value would you place on a greenhouse gas emissions scheme?

Think reputational incentives should be sufficient given the potency of methane as a greenhouse gas. NG's proposal to split out venting that is driven by obligations and that which relates to operational decisions would add further complexity and challenges in setting targets and monitoring performance.

Timely Connections

Connection Offers

Q10. Do you agree or disagree that we should be incentivised to find new and innovative ways of delivering connection offers quicker than the timescales stated in the UNC?

We acknowledge that the timescales for the delivery of a connection offer are longer than originally desired by stakeholders during the development of UNC Modification 373. However an initial offer stage was built into the process to avoid undue delay to developer's projects. Since the timescales are time limits rather than targets, we would expect some offers to be provided in advance of the back stop date. We believe late delivery would constitute a breach of Code.

We have reservations about a financial incentive in this area, linked to the following issues;

- Interactions with requests to Ofgem to extend timescales for complex connections,
- Target setting for different types of projects, given the 'slack' already built into the process.
- A new incentive scheme being set for 8 years leading to windfall gains
- Difficulties in progressing any future UNC Modification to adjust timescales

What matters most to project developers is that timescales and costs are know and offers are delivered to these benchmarks so that these can be reflected in the developers own project plan.

A reputational incentive is appropriate. Reporting of the number of applications and timescales for delivery of offers is already included in Mod 373. Reputational incentive reporting should clearly show how these parameters evolve over time.

Capacity Delivery

Q11. Do you agree or disagree that a reputational incentive is appropriate to encourage National Grid to optimise the activities from signature of a bi-lateral contract to capacity application readiness, where applicable?

We agree, and support a licence obligation to publish time taken for key milestones leading up to submission of an application for a Development Consent Order and for steps up to capacity delivery. Again reporting of this incentive should show how these milestones evolve over time.

Q12. Do you agree or disagree that a financial incentive should be introduced to provide flexibility to adjust obligated lead times where there is a user requirement?

We have concerns that this seems to be trying to sidestep the principles of Modification 376 and incorporate them into an incentive. Users should be able to provide signals for capacity at any time of year and to submit requests for non-October start dates and for these to be binding, given defined lead times.

Constraint Management

Q13. Do you support the principle that SO incentive targets will need to change to reflect the application of the TO uncertainty mechanisms?

Yes, since NG can invest or take commercial actions to address system requirements. Whilst recognising commercial confidentiality we would need assurances about the transparency of this mechanism.

We have some reservations over combining exit and entry capacity management actions, since currently NG is exposed to 100% of the costs of exit buybacks and combining the incentives would dilute this. Evidence of how a combined incentive would deliver benefits to downstream shippers and directly connected customers is required.

Q14. Do you have a view about what the relevant constraint management action price assumed within our modelling?

We acknowledge that some assumptions on price need to be made to that extent these prices may be reasonable but the circumstances of each constraint action are likely to be different and lead to different outcomes.

The values seem broadly reasonable, but may change significantly over an eight year time period.

Market Facilitation

Demand Forecasting

Q15. What aspects of demand forecasting do you use in your decision making and value the most (e.g. forecast times, components of demand etc) and how do you expect your requirements to change over the RIIO-T1 period?

Members report that the 1300 D-1 forecast is the most important, this should continue to be incentivised, and seasonal targets should be considered further.

We are not convinced that incentives should include forecasts between D-5 to D-2.

There could be merits in NGG being incentivised on the dayahead NDM forecast in addition to the total demand and to ensure that these forecasts show an evolution of demand rather than NDM forecasts jumping around within day due to external factors.

Q16. Do you agree or disagree that the absolute forecast error is a more appropriate way to measure forecasting performance than the error as a percentage of demand?

Yes – and think targets should be set seasonally to reflect the higher costs of forecasting errors in the winter when gas is usually more expensive.

Q17. Do you agree or disagree that the incentive target should reflect the level of demand volatility in the market?

It is suggested that a target should be based on past performance with an adjustment for volatility, but there is no adjustment for expected enhanced performance. As incentives should be challenging to meet and should promote continuous improvement we are not convinced about adjusting for volatility.

Information Provision

Q18. Do you agree that it is appropriate to replace the current financial incentive scheme with a reputational incentive?

Given the relatively low value of this incentive this would be appropriate, we consider that timely provision of information should form part of NG's routine activities. However we have some concerns arising from the fall off in performance for timeliness and availability[2]

[2] http://www.nationalgrid.com/NR/rdonlyres/5D96378A-8383-4593-82B2-BCB7D774CC7E/51599/1112QuarterlyIncentiveReportQ3.pdf

Q19. Are there areas where we could provide more information that would contribute to the efficient operation of the market, bring benefits to stakeholders' businesses and the value they provide to their customers?

Information provision will need to take account of requirements in EU codes and other legislation.

Q20. Do you agree with our current approach to review information provision requirements with industry before seeking appropriate funding if necessary?

Yes

Other New Incentives

Maintenance

Q21. Do you agree or disagree that the concept of maintenance days should apply at entry points?

We believe the concept of maintenance days already applies at some entry points. However it seems an entry maintenance day would not require cessation of flows as required at exit, rather management of flows. This could be complex to apply at multi-shipper entry points further consideration of this is required. We would have concerns if this led to a wide ranging review of maintenance days already agreed in NExAs.

Q22. How much notice do you require of maintenance scheduling changes?

Ideally would prefer there not to be changes to the maintenance period once agreed, except by mutual agreement, we have real concerns that NG can schedule 'planned maintenance' at short notice. A key issue is engaging with parties in advance of setting maintenance periods and considering out of hours working to minimise the impact of maintenance. However we recognise there may be times when it is to the benefit to both parties to revise maintenance periods.

Q23. Do you support the introduction of a financial incentive scheme relating to the scheduling of maintenance? What value would you place on such an incentive?

Yes, where maintenance days are changed without mutual consent. The value to generators is that of lost generation revenue but this is likely to be too high to be fully reflected in an incentive.

It is possible that improved communications and maintenance being progressed outside 'normal' working hours may address a number of concerns with maintenance. Clearly the incentive value associated with more flexible 24/7 working to minimise disruption in supplies to customers would need to exceed the overtime payments to ensure such practices are progressed.

Capacity Scaleback

Q24. Do you agree or disagree that an incentive relating to the restoration of scaled back capacity would maximise the level of non-firm capacity made available to the market?

As a simple statement we agree that an appropriate incentive should maximise the level of non-firm capacity made available to the market, but are unsure why NG considers it is not currently sufficiently incentivised to maximise the capacity made available.

At the current time, scale back is used infrequently so we are unsure about the materiality of this; some examples on when scaled back capacity might have been restored would be helpful. Also there could be concerns about a see-saw effect if restored capacity later has to be scaled back again.

At this time, we consider a simple UNC modification allowing for restoration of scaled back capacity, if this is not already provided for, would be sufficient.

Q25. Do you agree or disagree that linking the financial parameters to buyback cost assumptions is appropriate?

We are not convinced about this since buyback relates to firm capacity whilst scale back relates to off-peak or interruptible capacity.

Provision of enhanced services for NTS users

Q26. Do you agree or disagree that an incentive relating to the development of new services such as shorter notice periods or higher ramp rates may be appropriate in future?

We would have strong reservations about NG having an incentive to develop new services. Users should take a lead and bring forward modification proposals for any new services they need such that these can be developed using the existing governance arrangements, this would ensure transparency of processes and engagement of stakeholders. Once established there could be merits in an incentive to maximise the release of any new service, but how this interacts with existing reasonable endeavours obligations would need investigating. It would be premature to consider an incentive at this time.

Q27. What are you views on the potential interactions between an incentive and the network flexibility uncertainty mechanism?

It is likely that any investment arising from the flexibility uncertainty mechanism would require a review of any incentive relating to 'flexibility' products in the broadest sense.

SO innovation

Q28. Do you agree or disagree that the SO should have access to innovation funding or should it be considered under the TO scheme?

We cannot see why innovation funding should be restricted to TO activities.