

RWE Innogy Comments on OFGEM Consultation Published October 2003

Price Controls and Incentives under BETTA

The following comments are made on behalf of RWE Innogy plc, Innogy Cogen Ltd., Innogy Cogen Trading Ltd., npower Ltd., npower Northern Supply Ltd., npower Yorkshire Supply Ltd, npower Northern Ltd, npower Yorkshire Ltd.

1. Wherever possible, licensee's activities should be bundled together as this provides a strong incentive for overall efficiency. This principle applies equally to interacting activities of separate licensees. Where a simply bundled scheme is not possible due to separate licences, a mechanism that mimics the incentive properties of a bundled scheme will produce the most efficient overall outcome.
2. The proposed Part 2 TO incentives are to be designed to provide incentives on TOs to support the GBSO in minimising the costs of constraints and losses. ***Missing from the proposals is a similar additional scheme to provide incentives on the GBSO to support the TOs in minimising the costs of infrastructure reinforcement. The TO costs are roughly twice that of the SO and are therefore the primary driver of overall efficiency.***
3. It is perverse and to the detriment of overall efficiency for the incentives to reduce SO costs to be stronger than those to reduce TO costs. The disproportionately strong incentive offered by the NGC's current SO Incentive Scheme (up to 12% rate of return) positively discourages reductions in TO expenditure that could be facilitated by greater SO expenditure. However, if OFGEM is not minded to change the form of this incentive, the scheme parameters (sharing factors) could be adjusted to ensure that the SO incentive is not stronger than TO incentive.
4. A system of formal monitoring of TO and SO licensee expenditure including the route by which decisions in specific areas were made would greatly support the price control enforcement and review process. It may be appropriate for such reporting arrangements to be annual in frequency and to particularly focus on expenditure on activities that interact with the expenditure of other licensees eg. outage planning, reactive power procurement.

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