Ofgem Consultation on Electricity Transmission Network Reliability Incentives – response from the Association of Electricity Producers

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Introduction The Association welcomes the opportunity to respond to the Ofgem consultation on Transmission Network Reliability Incentives. The Association of Electricity Producers (AEP) is the UK trade association representing electricity generators. It has some 100 members ranging from small firms to large, well-known PLCs. Between them they embrace nearly every generating technology used in the UK. Many member companies have interests in the production and development of renewable energy where the government has set ambitious targets for development over the next decades.

Summary:
The Association is not convinced by Ofgem's assertions that an incentive scheme is required to encourage NGC to do their job. We see no analysis that demonstrates how such a proposed scheme would further encourage NGC to improve their reliability performance. Overall, we are not convinced that this scheme is necessary. There is no compelling reasoning as to how this represents a proportionate or targeted response to the recent problems in London and Birmingham. We believe that calling NGC management to account publicly was far more effective than this scheme could be.

If such a scheme is required, it should be developed after more informed debate amongst stakeholders and ready for the start of the next price control round. This will allow a more considered evaluation of what NGC can do to improve network reliability and what size of incentive would be necessary for them to undertake such actions and investments. It will also give time to ensure that the interface between the GB SO and the three TOs is correctly defined.

Detailed Comments:

1. Transmission System Reliability and Performance (paras 2.18-2.34): The data provided by NGC and not challenged by Ofgem clearly indicates that NGC are already amongst the best if not the best performer against international benchmarks for reliability. Before embarking on an incentive scheme there needs to be a dialogue between NGC, industry and customers, facilitated by Ofgem to consider what investment and operational options are available to NGC to further improve their performance. This would place consideration of any incentive scheme on a firm base of common understanding of what benefits are attainable and at what price.
2. Recent Events: Ofgem's investigation of the recent blackouts in London and Birmingham concluded that there were no systematic failings by NGC and that their post event response had been adequate. If that is true then it is difficult to see what would be immediately changed that would have any effect. Ofgem report that on average there are ~9 events per year (Figure 3). If there is no clear plan for what changes NGC would make, it is difficult to see why there needs to be a rush into an ill-considered interim scheme.
3. Network Reliability: The document asserts that this scheme does not quantify voll Para 3.5-3.8). Nevertheless, in the absence of other than the bare facts presented, the implied value for voll of ~£40,000 per MWh is clear. The consultation goes on to suggest the need for a 'detailed … exercise' to determine a value for voll. We would suggest that this should be undertaken before any scheme is finalised.
4. Consistency with distribution incentives: In the development of any transmission incentive scheme, a comparison should be drawn between the marginal improvement in reliability that is likely to be realised by applying the same resource to the transmission network or the distribution network. In the event of loss of supply, the

customer will not care which network is at fault and would expect any additional resources to be applied to the most effective point. Such a comparison would allow a more informed discussion of the relative benefits of distribution and transmission incentives.

5. Setting targets and incentives: We already know NGT are good performers by international standards and that no systematic shortcomings in their processes and procedures have been identified by Ofgem. In these circumstances, the incentive scheme risks being nothing more than an annual lottery in which NGT and/or TNUoS payers can either claim a prize or a forfeit depending on how many of the events each year are trivial or longer lasting.
6. Impact Assessment: The draft IA contains a high level discussion (Para 3.10-11) of the costs and benefits without any comparison of whether or not i) additional costs falling to those who pay TNUoS would be better applied to distribution network performance, or ii) what investment or operational actions NGC might undertake to improve performance. For NGC to undertake such actions their incentive should be set such that they benefit relative to the cost of such actions, not relative to some estimated value for voll. It is extremely unlikely that the rate of benefit (£9m/230 MWh) would relate to the costs of the actions to NGC.