

Ref: S708

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**Engineering the future**

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Dear Ms Uvais,

**Re: Electricity transmission network reliability incentive schemes: Initial proposals [240/04].**

The IEE is pleased to have this opportunity to respond to the Ofgem consultation on initial proposals for Electricity transmission network reliability incentive schemes.

We understand that the current consultation seeks comments on Ofgem's proposals for an electricity transmission network reliability incentive scheme aimed at encouraging electricity transmission licensees to maintain and improve network reliability and continuity of supply to consumers. The IEE is submitting a brief response in the form of an Annex which addresses issues raised in the consultation document, where the IEE feels able to contribute to the consultation process.

The IEE's 130,000 members are drawn from a broad range of engineering disciplines. The IEE's membership represents a wide range of expertise from technical experts to business leaders. Many of the most experienced members of the IEE, and their sector peers, voluntarily participate in a variety of IEE policy guidance groups. To these groups they bring their wealth of personal experience and knowledge, independent of commercial interests, to address the policy issues of the day and give the IEE independent and authoritative views of trends in technology and engineering. This response has been prepared on behalf of the IEE Trustees by the Environment and Energy Policy Advisory Group whose details can be found at: <http://www.iee.org/Policy/Areas/> Input from the IEE Membership was requested in preparing this response.

If you require further information or amplification of any aspect of this response, then please do not hesitate to contact me. In particular, if you, or any of your colleagues, wish to meet with members of our Environment and Energy Policy Advisory Group to explore aspects of this response then we will be pleased to make suitable arrangements.

Yours sincerely

A handwritten signature in black ink, appearing to read "Nick Moiseiwitsch". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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## **ANNEX**

### **Submission to Ofgem:**

#### ***Electricity transmission network reliability incentive schemes: Initial proposals [240/04]***

The proposals contained in the recent Ofgem consultation paper are generally welcome, as they will give some financial incentives to transmission network operators to minimise the number and effects of network disturbances that affect customer supplies. However, it is not clear how effective they will be in improving network resilience against failure in future.

We recognise that the quantum of any potential financial penalties must reflect among other things their effects on the licensee's financial position. This restricts Ofgem's ability to impose penalties that might seem more appropriate in the public's perception of the importance of a major supply failure. But it is for consideration whether the maximum penalty of £13.5m [*Electricity transmission network reliability incentive schemes: Initial proposals* § 4.19] would have seemed an adequate penalty in the case of the recent London blackout, or indeed whether it would have been acceptable for no penalty to result from the Birmingham supply interruptions. It is also debatable whether the definition of network reliability targets for electricity unsupplied on an accumulated annual basis distinguishes sufficiently between such large scale failures and a more general deterioration in the quality of supply manifested in a larger number of lower impact incidents.

Another related factor is the extent to which incentives and penalties result in licensees taking actions to mitigate the effects of system failure. It seems unlikely that the penalty levels proposed would result in significant changes to the licensee's investment programme or operating procedures. To this extent, the proposals might be seen as little more than an automatic penalty mechanism.

Finally, although the IEE recognises the limited ability of networks to withstand the effects of extreme weather, it is important that incentive schemes of this type remain applicable in as wide a range of circumstances as possible. This will maintain incentives on network operators to continue to seek technological measures to minimise the risk and extent of supply failure in all credible circumstances.

In summary, while the IEE welcomes the introduction of regulatory incentives to safeguard transmission network reliability, we hope that designing a more refined economic incentive scheme of the type alluded to in the consultation document [§ 3.6-3.8] will be a priority for the longer term.