

Ofgem Consultation on Electricity Transmission Network Reliability Incentives Final
Proposals December 2004– response from the Association of Electricity Producers

29 December 2004

Introduction The Association welcomes the opportunity to respond to the Ofgem consultation on Transmission Network Reliability Incentives Final Proposals. 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.

The Association is disappointed by Ofgem's dismissive rejection of previous comments on these proposals. Even with the changes indicated in the final proposals, we still see no reason why an incentive scheme is required to encourage NGC to do its job. It would appear that the purpose of the scheme is now targeted '*to ensure management effort is focused on maintaining or improving network reliability*¹.' In dealing with the consultation responses, we could find no analysis that demonstrates how such a proposed scheme would be cost effective as '*It is not intended to lead to a significant increase in investment or mandate particular operational actions by NGC*¹.' If the scheme is not intended to lead to investment, but rather '*... is designed and calibrated to provide NGC's management with a sufficient incentive to focus their attention on maintaining and improving network reliability*²', then it seems the additional income of up to £9 million per annum is a very large management bonus for focussing their attention on doing the job they should be doing anyway.

Overall, we remain unconvinced 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 it 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.

Impact Assessment: The Association made a number of comments on the draft IA. Our comments were from the perspective of customers in general and distribution-connected customers in particular. From this perspective, the customer will be faced with paying up to an additional £9 million per annum if NGC manages to improve delivery by the extra ~230 MWh considered in the scheme. A distribution connected customer who experiences a delivery failure will not care if the lack of electricity arises from failure of transmission or distribution. The customer is therefore entitled to seek assurance that the additional costs falling to those who pay TNUoS represent good value compared with other steps to improve system reliability. There is no such analysis.

Ofgem asserts that because '*There are already incentive arrangements in place for electricity distribution companies which balance any extra costs for distribution consumers with the likely improvements in quality of service... the analysis ... does not appear necessary*³.'

¹ Para 2.21, Ofgem Final Proposals document.

² Para 2.17, Ofgem Final Proposals document.

³ Para 2.21, Ofgem Final Proposals document.

The Association has not made a detailed analysis of this matter, but an approximate comparison can be drawn by reference to the recent Ofgem publication '2003/04 Electricity Distribution Quality of Service Report'. In it the author reports that the typical domestic customer consumes ~3300 kWh per annum⁴. Average customer minutes lost is approximately 80 minutes per annum⁵. Assuming there are approximately 20 million domestic households, an estimate of the total amount of energy not delivered to domestic households due to service interruption is simply obtained by multiplying the three figures and dividing by the number of minutes in a year (525,000). The estimate is approximately 10,000 MWh of energy not delivered to domestic customers due to DNO service interruption. This is forty times the value under consideration in the transmission network scheme.

This analysis does not deal with a comparison of the costs of improving DNO and NGC performance and we are not proposing new incentives for DNOs, merely suggesting that a more detailed Impact Analysis is necessary. Given the large difference between the amounts of energy considered, we would suggest Ofgem's Impact Assessment should demonstrate why it is more cost effective for the customer to be faced with the risk of additional TNUoS charges.

⁴ Section 1, page 4, 2003/04 EDQS Report

⁵ Figure 3.2, page 8, 2003/04 EDQS Report