



Comments on Potential Income Adjusting Events under NGET's 2005/06 SO incentive scheme

Constraints IAE

Question 1: Do you consider that, prior to the start of the 2005/06 SO incentive period and based on available information at the time, NGET acted economically and efficiently in deciding to manage internal to Scotland and Cheviot constraints in the BM?

Question 2: Do you have any comments on whether the analysis we present in relation to forecasting the level of self-despatch of generation is appropriate in addressing this issue?

Internal Scotland constraints

Due to the lack of detailed information available it is very difficult to comment on whether NGET acted in an economic and efficient manner in resolving internal Scottish transmission constraints. However there are a couple of areas that suggest that up until November 2005 NGET did act in an economic and efficient manner.

Ofgem has made the assumption that generation local to the NLOANSSE constraint would be pre 1995 CCGT plant which under average demand conditions would not be expected to run at all. Presumably from Fig 3.3 of the consultation, the post 1995 local CCGT plant (which we assume includes the repowered, more efficient, Peterhead unit) would be running and also there would be a degree of generation at Peterhead as a result of the must take Miller contract. NGET estimated that around 200MW of local capacity would be required during winter daytime to secure the transmission system. It therefore seems reasonable to assume (without the benefit of hindsight) that with a combined capacity totalling 2000MW of Peterhead, Fife (a post 1995 124MW CCGT) and Foyers, local generation levels would exceed 200MW. Therefore, at the time, NGET's assumption that there would be sufficient generation to alleviate the constraint does seem reasonable.

Cheviot constraints

Again it is difficult to comment on whether NGET was correct to use the BM to manage Cheviot constraints rather the commercial intertripping scheme. We don't have access to information on the indicated costs of the commercial

intertrip contract that NGET tried to negotiate with the Scottish generation companies.

There is merit in NGET's assertion that it would be complex to contract to manage aggregate Scottish output to manage the Cheviot constraint. Whilst there are three companies exporting generation across the constraint, we presume British Energy's nuclear plants would not want to turn down output. SSE plant in the NLOANSSE area might have to run to alleviate the local constraint which leaves SSE's hydro plant which may also have to run to maintain river levels or because of high rainfall. NGET might therefore be left with one contract option to manage the Cheviot constraint; negotiating a contract with Scottish Power at Longannet or Cockerzie. This would clearly be detrimental to competition. It would appear more efficient and economic to leave constraint management to the BM where more timely information on generation levels for SSE and SP's Scottish plant gives NGET a greater choice of options to manage constraints.

Question 3: Do you consider that, in November 2005, NGET acted economically and efficiently in managing internal to Scotland constraints through a commercial contract?

Question 4: Do you consider that NGET acted economically and efficiently in negotiating this contract?

As noted in the consultation, this was a bilaterally negotiated contract. Without further detail, we are unable to comment on whether the decision to use a commercial contract was economic and efficient.

Question 5: Do you have any comments on the methodology used by NGET in estimating the total cost of managing internal to Scotland and Cheviot constraints following the start of BETTA, and the amount of the proposed income adjustment?

The methodology highlights that estimating the costs of managing constraints is very complicated and that there are different ways of calculating the cost. Going forward an independently verified methodology should be considered should further claims be necessary.

For the internal constraint cost, it would seem that the problems of managing the constraint could only have been identified with the benefit of hindsight. We therefore support the amount claimed by NGET on this occasion. This constraint would appear to have been resolved via a bilateral contract between SSE and NGET and going forward the costs should be easier to forecast.

The additional costs to manage Cheviot constraint are appropriate. Managing the constraint through the BM ensures competition in the bid prices submitted by SP and SSE.

Question 6: Do you have a view on the appropriateness of having separate cost allowances within the overall SO incentive scheme cost target?

There should continue to be a separate costs allowance within the incentive scheme for Cheviot constraint costs due to the unpredictability of these costs.

The move to a bilateral contract for the internal constraint costs removes the need for a separate cost allowance. However, given the lack of competition in this area compared to other balancing services, it may be appropriate for Ofgem to be involved in negotiations to ensure value for money for end consumers.

Frequency Response IAE claim

Question 1: Do you consider that NGET has acted economically and efficiently in procuring frequency response to minimise costs?

The data provided by Ofgem suggests that this is the case.

Question 2: Do you have any comments on the methodology used by NGET in estimating the total cost of procuring frequency response following the implementation of CAP047, and the amount of the proposed income adjustment?

Question 3: Do you have any comments on our proposed alternative methodology, and the amount of the income adjustment that may result should we determine that the events or circumstances surrounding the increase in frequency response costs incurred by NGET is an IAE?

Ofgem suggests that NGET methodology for determining what mandatory frequency response prices would have been in the absence of CAP 47 is flawed. This is because NGET has assumed that average prices would have been £1.63/MWh in November whereas actual prices on October 2005 were already £1.75/MWh. We therefore support the Ofgem methodology which would reduce the amount paid to NGET under its IAE claim.

Question 4: Do you have a view on the appropriateness of having separate cost allowances within the overall SO incentive scheme cost target?

We do not see the need for a separate cost allowance going forward. By 2007/08 when the next scheme applies, NGET will have 2 years experience of managing these costs and providers will have greater knowledge of contract prices which will enhance competition for the provision of the service. A more accurate assessments of future costs should be possible.

Libby Glazebrook
International Power-Mitsui (First Hydro Company)