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Your ref 76/11

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30th June 2011

Dear Ian

National Grid Electricity Transmission System Operator Incentives from 1 April 11

RWE npower welcomes the opportunity to comment on these proposals. This response is provided on behalf of the RWE group of companies, including RWE Npower plc, RWE Supply and Trading GmbH and RWE Npower Renewables Limited, a fully owned subsidiary of RWE Innogy GmbH.

We welcome that NGET will be incentivised to more accurately control the costs within its control and that action it undertakes to reduce its cost are not diluted by external factors.

We continue to be concerned at the lack of transparency within the SO Incentive Scheme which means it is difficult for the Industry to understand and comment on. We note that NGET has improved its modelling of energy costs and has replaced its suite of bespoke constraints models with a single model that considers the GB system as a whole. These costs should be made transparent to the Industry at a level of aggregation that does not cause issues with Industry Party confidentiality.

It is impossible for parties other than National Grid to forecast spend on constraints. We would like more visibility of NGET's latest forecast view of constraints spend, taking account of actual spend to date. These regular updates are essential for suppliers, who use this information to calculate their own view of BSUoS price.

The level of commodity prices heavily influences NGET's forecast of spending on transmission constraints. Changes in the level of commodity prices represent a significant determinant in the deviation of constraint costs away from initial forecast costs. Using commodity price pass through factors in the SO incentive scheme passes the commodity price risk contained in constraints back to suppliers, without providing suppliers with the level of information necessary to mitigate the commodity price exposure. For suppliers to be able to manage this commodity price risk NGC must provide information regarding the volume of constraints expected, the level of commodity prices used to forecast the cost of constraints and the expected spend. Suppliers would also need to know the distribution of constraint volumes during the year, and the sensitivity of the constraint volumes with respect to changes in commodity prices.

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When BSUoS prices are published by NGET, this is seen by the Industry and Customers as the new 'market price' and will be used for pricing purposes. An understanding of how this new market price has been derived by NGET is essential, particularly if the underlying assumptions used to calculate this price have changed.

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In summary, we would request much more visibility of the underlying assumptions and individual cost components / volumes behind any NGET forecasts that are released into the market.

Lack of information transparency will result in higher costs to consumers in the form of the risk premium that suppliers have to charge due to difficulty in forecasting charges..

It is difficult to comment at this stage on how appropriate the caps / collars / sharing factors and dead-band numbers are for this scheme, particularly since the forecasting methodology has changed considerably. However, if large windfall gains or losses are observed in the first year of the new scheme, we would suggest that Ofgem may wish to reserve the right to revisit these numbers at the beginning of year two.

Please feel free to contact me if you wish to discuss this response in more detail.

By email so unsigned

Helen Inwood
Network Charging Manager