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Electricity System Operator incentive schemes from 2013: disallowing costs and the efficiency in system operations reward scheme

Dear Giuseppina,

Many thanks for the opportunity to comment on your published overview of the proposed System Operator's incentive scheme from 2013. Incentivising the correct behaviour from the System Operator is we feel a crucial element of the proposed framework and we support the development of efficient and meaningful incentives that encourage correct decision making from the SO.

Question 1:

We broadly agree with the manner in which the proposed cost monitoring is to take place.

Question 2:

Further detail particularly around the process whereby which stakeholders and National Grid will participate in the process of investigating inefficient costs are needed as this is a crucial element of this process.

Question 3:

It is difficult to comment on whether this is an appropriate level as there is no justification as to how Ofgem have arrived at what

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appears to be a rather arbitrary set of numbers.

Question 4:

Costs determined to be disproportionate should be disallowed regardless of value. This will ensure appropriate redress is made to customers if the SO has operated in a manner which would have caused greater costs to be incurred.

Question 5:

Yes

Question 6:

Inappropriate costs should as far as possible be paid back to the market in the same financial period as they were incurred.

Question 7:

We believe it is appropriate for the SO to earn some reward for particularly innovative behaviour. We would like to see a robust governance process around any submission from the SO to this framework and believe that a guaranteed return for the amount invested should be guaranteed therefore giving surety to the market that the proposed market benefits will be delivered.

Question 8:

A cap should be established if any ex-ante costs are liable for recovery prior to delivery of benefit to the market.

Question 9:

We believe that net benefits should be measured based on out-turn and all schemes should provide surety of return for at least a five year period. We believe that any rewards to National Grid should be implemented in line with the recent charging volatility consultation and hence have a 2 year lead time to allow the market to understand additional costs will be incurred.

Question 10:

The independent expert panel should include Supplier, Generator and consumer representatives.

Question 11:

Yes

Question 12:

We believe that a 2 year period is more appropriate as this will allow market participants more effective understanding of the likely changes in BSUoS.

Question 13:

We believe they are a fair starting point.

Question 14:

We believe that the forecast should be submitted 3 months before the start of the scheme year to give the market more visibility.

Question 15:

Yes. NG should continue to develop its models and continue to update the market on the progress of its costs throughout the year.

In addition to this we note that the current set of reporting produced by National Grid (the MBSS report) is a crucial document to the market and we would expect that the production of this will continue under whatever scheme is determined appropriate by Ofgem.

Yours Sincerely

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