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## Electricity System Operator Incentives: consultation on a scheme for 2013-2015

Dear Lewis,

### **THIS RESPONSE IS PROVIDED ON BEHALF OF THE RWE npower GROUP OF OPERATING COMPANIES.**

RWE npower appreciate the opportunity to respond to your consultation on System Operator Incentives. As a significant element of consumer's bills we believe that all measures to encourage efficient system operation should be pursued.

We consider that Ofgem's current proposals have merit and provide an appropriate balance between visibility and the changing circumstances on the network. In particular we agree that a target based scheme is the appropriate way forward and welcome the improvements National Grid have made to their target setting model. The data published through this model and the continued availability of this through the MBSS report is of high value and we would support further publication and visibility of Balancing System information to the market.

However, we cannot agree with retrospective application of this scheme to April 2013 if a restatement of BSUoS costs is necessary. We would expect that the SO would look to efficiently comply with its licence by operating the network in an efficient manner until the full incentive scheme was agreed and adopted. Retrospective application is not a precedent that we would want established as it does not encourage predictability for market participants.

Our concerns around a cost disallowance scheme are based on the fact that this would be largely opaque to the market and does not define a specific number for the SO to target. We also see that within this scheme the SO is far less likely to take action if it feels there is a likelihood that these costs will be disallowed. Therefore in the interests of market clarity and certainty we feel this is the poorer option.

We are disappointed that it has taken a considerable amount of time to

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establish the parameters and definitions of this incentive scheme as it does not give market participants any guidance on potential costs and removes certainty for those charged BSUoS. This includes Suppliers and Generators but also customers who have a BSUoS pass-through contract with their Supplier and are less able to mitigate changes in their cost base.

We look forward to a speedy implementation of this incentive scheme to give the market visibility and confidence in the operation of the Balancing System. We are also supportive of further long term schemes where the SO is encouraged to think over a broader horizon, however, this should not come at the expense of predictability to the market.

Yours Sincerely

Jonathan Wisdom

Network Charges Forecasting Manager