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15th May, 2014

Dear Leonardo

Gas System Operator Incentives Review: Initial Consultation April 2014

We thank you for the opportunity to respond to the Gas System Operator Incentives Review: Initial Consultation. This response is provided on behalf of RWE Supply and Trading GmbH, RWE Generation SE and RWE npower.

Our comments on the specific questions raised in the consultation are set out below.

CHAPTER 1

Question 1: Do you agree with the proposed assessment criteria for this review?
We agree that is important that there are transparent assessment criteria for considering the effectiveness of the three incentive schemes. Ofgem highlights in paragraph 1.5 that it may not "have sufficient data and information to understand the key drivers of NGG's performance". Although this is in the context of the GHG incentive, we would argue that this concern is equally applicable to all the incentives currently under review.

Question 2: Are there any other specific incentives-related policy issues you think we should consider as part of this review? What are they and what benefits could they bring for consumers?
No other specific policy issues at this time.

CHAPTER 2

Question 3: How useful have you found the D-2 to D-5 demand forecasts so far? To what extent do you use or rely on them?
Question 4: What value would (further) improvements in the accuracy of D-2 to D-5 demand forecast bring to you?
Question 5: How do you think the D-2 to D-5 demand forecasting incentive could be improved? How would any proposed changes to the incentive feed through to benefits for consumers?
Question 6: Does the current target strike the right balance between a challenge and opportunity for reward for the gas SO?

We do not use the D-2 to D-5 forecasts so they have little value for our business. In terms of wider industry benefit, we would expect to see evidence of a reduced SO residual balancing requirement to offset the additional costs of funding the incentive. Our preference would be for the financial incentive to be replaced with a licence obligation/reputational incentive.

CHAPTER 3

Question 7: Have you experienced improvements in NGG's maintenance planning and re-scheduling processes after the introduction of the incentive? Where possible, please provide specific examples/evidence to support your answer. How have you benefitted from these changes and how do these benefits from improvements feed through to consumers?
Question 8: Are there any ways in which you think the maintenance incentive could be improved? Do you think the targets set the appropriate weighting between changes in maintenance days and minimising the length of maintenance works?
Question 9: What value would (further) improvements in NGG's maintenance planning and re-scheduling bring to you, and ultimately consumers?

We have been unaffected by the incentivised maintenance planning and re-scheduling processes. Given the nature of maintenance planning cycles, it may be too early to undertake an informed assessment of performance under the incentive or draw any strong conclusions about its effectiveness.

As noted in previous responses, we have no specific concerns in this area and our experience is that NGG works flexibly and in collaboration with Users to coordinate maintenance. Both NGG and User-initiated changes have been agreed historically and we do not see the need for specific incentives. Maintenance is a good example of where "business as usual" and enhanced performance need to be carefully defined.

CHAPTER 4

Question 10: Do you believe having a financial incentive continues to be appropriate? What other form of incentive might ensure that NGG remains incentivised to minimise GHG emissions where possible?
Question 11: Do you believe that the current, downside only, structure of the incentive is appropriate if we continue with financial incentives? If not, what do you think would be the most appropriate structure for this incentive from April 2016?
Question 12: Are there any ways in which the GHG emissions incentive could be improved?

It appears that the level of GHG emissions is not well defined so it is very difficult to establish metrics and set a meaningful incentive. This, in part, may explain NGG's poor performance to date but this should not be used as a trigger to recalibrate the incentive to give a more favourable outcome.

NGG is beginning two pieces of work – a review of System Flexibility and developing its strategy for compressor replacement as driven by the Industrial Emissions Directive (IED). These will clearly interact with the GHG incentive and it may be preferable to review the incentive once there is more certainty around the levels of methane vented and the operation of the compressor fleet so that robust financial and performance targets can be set..

If you require any additional information or wish to discuss any aspects further, please do not hesitate to contact me.

Yours sincerely

By email so unsigned

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