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## **Electricity System Operator Incentives: Incentives from 2015 Consultation**

14 July 2014

Dear Mr Heather

Our ref. SO Incentives Consultation  
Response - July 2014  
Doc. responsible HANMC

DONG Energy welcome the opportunity to comment on Ofgem's consultation concerning Electricity System Operator Incentives from 2015. Our comments are focused on addressing 3 specific areas as detailed under section 2 - Scope of Changes to a 2015-17 scheme.

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### **1. NGET's Wind Forecasting Incentive**

DONG Energy does not currently utilise NGET's wind generation forecasting information directly in its processes.

However, we see there are clear benefits from more accurate wind forecasting to the industry as a whole from a system balancing and constraint management perspective by minimising balancing and other associated costs. We do question the usefulness of having an incentive at the day-ahead stage which will always have an element of forecasting error, it would be useful to understand what this error therefore costs in terms of subsequent balancing actions.

We nevertheless believe that there is value in retaining and developing a targeted wind forecasting incentive, along with extending similar incentives to other forecasting areas which may provide some additional cost savings. Accordingly we feel that this suggestion would warrant further consideration.

We also wish to note there could be balancing cost improvements via intermittent generators being consistent in the calculation and provision (including update frequency) of their PN and MEL operational data. The calculation should be based on a standardised definition such as a profile derived from Power Available (PA) and not, for example, based on registered capacity. This would certainly improve the efficient operation of the system and allow all BSUoS payers to benefit from reduced costs of the balancing mechanism. This also doesn't involve a direct incentive and should be pursued

in any event, as this would seemingly be a matter of ensuring all parties formulate and update their MEL submissions, which in turn can be expected to increase the level of accuracy required.

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## **2. SO-TO Outage Planning Incentive**

DONG Energy agree that outage planning should be coordinated and financial incentives (both negative and positive) may assist in the efficient management of system planning and operation. DONG Energy notes in any event the statutory licence obligation of the SO to develop and maintain an efficient, co-ordinated and economic transmission system, similarly DONG Energy notes this licence obligation applies to the TO. Therefore, further incentives should only be applied where they can clearly be shown to be cost effective in the short, medium and long term.

To develop this point further, in relation to DNO outage planning and coordination, we believe there could be merit in reviewing their obligations and incentives to notify outage plans to the SO and indeed embedded generators connected to their networks (including OFTOs connected at DNO level onshore). These could be amended accordingly in order to bring them more in line with the TO obligations and incentives. We believe this area would benefit from increased transparency particularly on those DNOs in respect of GSPs which are more often frequently exporting. In this context we appreciate the additional system operational challenges this can imply. This could be more efficiently managed if there was a more coordinated and transparent approach to information provision from these network operators.

## **3. SO Transparency Incentive**

DONG Energy believes that there is a good level of transparency in terms of published market operation data at this time. However, we agree that there are further areas for improvement, given the changing nature of the system and generation mix, and the operational challenges that this brings, together with the expanding role of the SO under EMR. One such area concerns gaining an understanding of NGET's enduring requirements for operational data such as forecast PNs from intermittent generators. This is in the case of receiving a PA signal, or as the case may be, a consistent definition applied to MELs from intermittent generators (as referred to above). It would be helpful to understand how this information is utilised by the SO in terms of those decisions and actions taken in respect of the BM. For example, for frequency response and differences with actions taken for constraint management reasons.

Another suggested area that could benefit from increased transparency is the SO's requirements for short notice network reserves and congestion management at the day-ahead rather than within day stage. A more integrated market arrangement could work better for a high renewable generation/

electricity system, increasing both the coordination of reserve requirements and possibly congestion management.

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The current market arrangements mean that reserve requirements are only considered one hour before real time, arguably this can also drive congestion volumes higher and makes the resolution of that congestion unnecessarily expensive.

One possible solution may be to require the SO to provide more information provision at an earlier stage, such that there is increased ability for short-term trading and balancing activity ahead of real time. This would allow network requirements to be considered and dealt with earlier in the scheduling and dispatch process, ie at the day- ahead stage and then, if necessary, intra-day market.

The SO would need to indicate their reserve requirements to the market, and also provide information concerning any potential constraints, amongst other things. The use of Notice of Insufficient Margins (NISMS) is relevant in this context, but is currently used as a last resort measure to signal reserve requirements to the market. To date this has been typically issued within day, but does have the effect of encouraging generators and/or suppliers to respond ahead of the BM. Therefore it is suggested that obligations could be designed to facilitate the above processes with appropriate incentives targeted where applicable.

Yours sincerely

Hannah McKinney  
DONG Energy UK - Wind Power