

Response to the consultation on Initial proposals on setting revenue, outputs and incentives for National Grid Electricity Transmission plc's roles in Electricity Market Reform

16 June 2015

Energy UK is the trade association for the energy industry. Energy UK has over 80 companies as members¹ that together cover the broad range of energy providers and suppliers and include companies of all sizes working in all forms of gas and electricity supply and energy networks. Energy UK members generate more than 90% of UK electricity, provide light and heat to some 26 million homes.

Energy UK welcomes the opportunity to respond to this consultation, as it is important that costs arising from EMR are carefully scrutinised and that the right incentives are in place for the Delivery Body. We provide a summary of our response below followed by answers to the consultation questions.

Executive Summary

- Energy UK believes that the priority must be that National Grid is able to fulfil its role as Delivery Body for EMR. This means ensuring that the CfD and Capacity Market programmes are managed and executed efficiently and effectively. The cost of National Grid not being able to fulfil its responsibility adequately would outweigh the increased cost via the incentive scheme. However, we agree with Ofgem that further savings can be made to National Grid's original budget and therefore support the proposed changes.
- Energy UK broadly agrees with Ofgem's proposed changes to the incentives. The accuracy of demand forecasting in particular is important given the security of supply and cost implications of over or under procuring in the auction.
- National Grid's stakeholder engagement as part of its Delivery Body role is very important and generally has been very good to date. Using a formal customer and stakeholder survey as part of the process could be beneficial, although there are several customer surveys in existence relating to SO and TO performance and it is not clear how that feedback is taken on board. Therefore, we recommend that National Grid provide a response or update on how it has taken on board the key issues raised by stakeholders.

¹ National Grid is a member of Energy UK but did not have input into this consultation response.

Consultation questions

Question 1: Do you agree that the proposed funding baseline has been set at the appropriate level?

1.1 Energy UK agrees with the funding baseline set out by Ofgem and the savings identified to National Grid's proposed budget.

Question 2: Do you agree that there should not be any allowance or uncertainty mechanism for NGET to claim costs in addition to those funded here?

2.1 Energy UK agrees that there should not be any allowance or uncertainty mechanism to claim further costs unless National Grid can provide further compelling evidence that it is required.

Question 3: Do you agree with our proposed allowances and 'true-up' for the first 20 months of EMR – August 2014 to March 2016?

3.1 Energy UK agrees with the proposed allowances and 'true-up' for the first 20 months of EMR.

Question 4: Do you agree with our proposal to introduce EMR Customer and Stakeholder Satisfaction Surveys as an additional output?

4.1 The proposal to introduce an EMR Customer and Stakeholder Satisfaction Survey sounds sensible as an additional output. However, there are several customer surveys in existence relating to SO and TO performance and it is not clear how that feedback is taken on board. Therefore, we recommend that National Grid provide a response or update on how it has taken on board the key issues raised by stakeholders.

Question 5: Do you agree with maintaining the broad structure of the incentive on disputes and the proposed amendments to its parameters, and the increase in the value of the incentive? If you would like to propose an alternative, please provide evidence to support this.

5.1 Energy UK agrees with maintaining the broad structure of the incentive on disputes and the proposed amendments.

Question 6: Do you agree with the proposed incentive on EMR Customer and Stakeholder Satisfaction, its parameters and value? If you would like to propose an amendment, please provide evidence to support this.

6.1 Energy UK agrees with the proposed incentive on EMR Customer and Stakeholder Satisfaction, its parameters and value.

Question 7: Do you agree with the proposed incentive on the volume of pre-qualified DSR in the T-1 auctions, its parameters and value? Do you think the incentive should be based on the absolute amount or the percentage of DSR that prequalifies compared to the benchmark?

No comment.

Question 8: Do you agree that we do not introduce an incentive on the volume of pre-qualified capacity in the T-4 auctions?

8.1 Energy UK agrees with the decision to not introduce an incentive on the volume of pre-qualified capacity in the T-4 auction.

Question 9: Do you agree with the proposed incentive on the accuracy of forecasting demand at T-1 and T-4, its parameters and value? If you would like to propose an alternative, please provide evidence to support this.

9.1 Energy UK agrees with the proposed incentive on the accuracy of forecasting demand. Accurate demand forecasts are critical to avoiding under procurement in the Capacity Auction which increases the likelihood of stress events. Over procurement ultimately leads to higher costs to consumers than necessary.

9.2 We agree with the proposed parameters and values.

Question 10: Do you think the value of the incentives (overall and individually) is appropriate for NGET's roles in EMR?

10.1 The overall incentives appear to be appropriate.

Question 11: Do you agree with our proposed adjustments to NGET's preparatory costs incurred between April 2013 and July 2014?

11.1 Energy UK agrees with the proposed adjustments to preparatory costs incurred between April 2013 and July 2014.

For further information please contact:

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