

18 September 2009

By email

Dear Sir,

Consultation on Developments of the Incentive for the Energy Related Components of the Balancing Services Use of System (BSUoS) Costs

Many thanks for the opportunity to respond to this consultation. Our views on National Grid's consultation on developments of the incentive for the energy related components of BSUoS costs are set out below.

Consumer Focus is the statutory organisation campaigning for a fair deal for consumers in England, Wales, Scotland and, for postal services, Northern Ireland. We are the voice of the consumer and work to secure a fair deal on their behalf.

Although we do not wish to provide responses to the individual questions posed in the consultation, there are some key issues and principles that we would like to raise for consideration in the forthcoming stages of the incentive development process.

Firstly, Consumer Focus is pleased to note the steps being taken by National Grid to encourage involvement in the process from a wider range of industry participants, including end customers.

There are some features of the current bundled scheme that we believe are beneficial to consumers, and should be harnessed going forward. For example, paragraph 27 highlights the fact that the current bundled scheme provides an overall focus on driving down costs where most benefit can be achieved and focuses attention on areas where National Grid can drive most value to the consumer. We also note that this approach is simpler to manage and administer, so presumably has lower associated costs? Consumer Focus fully supports these characteristics and believes that any future incentive schemes should maintain these benefits.

We also note the benefits that National Grid has identified in relation to the duration of the scheme. In particular, Consumer Focus notes the fact that 'a scheme that has a duration of longer than one year would focus on investments that have a longer than one year payback'. This is particularly relevant given current issues being raised around Transmission Access Reform and the widely recognised fact that the system is at an age where investment is needed. Consumer Focus welcomes any approach that encourages investment in infrastructure that will contribute to the task of meeting emission and renewable energy targets while providing a platform for reducing or minimising the overall costs of energy borne by the consumer. However,

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we would always seek confirmation that investment levels would be closely monitored to ensure that they remain appropriate and that the anticipated benefits, particularly those borne by the customer, are being realised and passed through. Paragraph 33 seems to suggest that a longer term scheme would come hand in hand with unbundling of components of the scheme. If this is the case, we would counter our views on the need for investment (which would seem to lead to the conclusion that a longer incentive scheme is preferable) with recognition of some of the less desirable outcomes that have been identified as a result of unbundling. Specifically, it is concerning to Consumer Focus that 'an unbundled scheme may divert valuable resources from key areas into incentive areas where there is less impact to the consumer'. In addition, we would be wary of the 'increased governance and complexity' that National Grid cite (paragraph 33).

At this stage, Consumer Focus does not have any more specific views on the design of the incentive scheme. However, there are some basic principles that Consumer Focus would like to see translated into the final solution. An incentive scheme should ideally seek to maximise the delivery of financial benefits to consumers via reductions in the costs of operating the electricity transmission network. This should come hand in hand with the necessary incentives to encourage appropriate levels of investment

Consumer Focus awaits the publication of National Grid's initial proposals and subsequent Ofgem consultation with interest.

I hope these comments are helpful. If you would like to discuss our response in more detail, please contact my colleague, Victoria Moxham (victoria.moxham@consumerfocus.org.uk; 020 799 7935).

Yours sincerely,



Robert Hammond

Head of Regulated Industries