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Dear Malcolm,

National Grid Electricity Transmission System Operator Incentives for 1 April 2010

I am responding on behalf of E.ON UK to the above mini consultation. Our responses to the detailed questions asked in the consultation are as follows.

1. What benefits do you see for the development of an indexation methodology for reactive power costs? What drivers should be included in such an index?

Given that participants are currently opting for the default arrangements at present, then developing an index related to power price would appear sensible. We therefore in principle would be supportive of an approach as outlined in the initial proposals document for the 2009/10 incentive. This in effect would incentivise National Grid to manage the amount of reactive power rather than the cost. We are not convinced at this moment that any greater level of indexation (ie related to reactive power volumes) is appropriate.

2. What benefits do you believe there are in the implementation of a longer than one year scheme?

A longer than one year scheme still holds a concern for us as it would make the raising of income adjusting events more likely. IAEs are a significant risk for BSUoS payers in that they occur after the end of the charging year to which they refer and consequently cannot easily be recovered in revenue. A longer scheme makes it more likely that future

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issues will arise that have not been taken into account when setting the incentive arrangements. Therefore, the possibility of IAEs increases.

3. Are there any additional benefits or drawbacks in the development and implementation of an unbundled reactive power incentive?

Unbundling schemes should only be undertaken when the costs associated with the unbundled element are clearly identifiable and that it can be demonstrated that there are no interactions with other elements of the incentive scheme. We have some concerns that there are potentially trade offs to be made where actions that reduce the levels of reactive power services required increase other cost elements of the BSIS. For instance if reactive power levels are influenced by flows on the system, as stated in the consultation document, then actions taken to influence those flows may impact other balancing costs too. If the SO sees an aggregated target for all costs affected by such a trade off, then it will be incentivised to make the most efficient choice. Unbundled schemes allow different targets to be played off against each other. We therefore are wary of unbundling this element from the main incentive, even if indexation is introduced into the scheme.

4. Please provide your views on the development of the reactive power incentive? Do you see any benefits in changing the current arrangements?

We have no further comments to make.

5. What benefits do you see for the development of an indexation methodology for transmission losses? What drivers should be included in such an index?

It is hard to conclude at present how an index would work for losses other than the proposal to adjust the reference price monthly in response to new information on forward prices.

6. Please provide your views on whether the SO can influence sufficient drivers to reduce Transmission Losses?

The evidence in the consultation appears to contradict itself. Paragraphs 119 and 120 seem to imply that there is a linear relationship between generation output (or demand) and the amount of losses on the system in order to conclude that the SO can only have a very limited role on influencing their level. However, the example given in 123 to 126 appears to suggest that in some cases relatively large changes in losses can be influenced by changes in the output of single power stations. However, we accept that the SO can only directly influence a small proportion of the output of stations and that generators' own generation decisions are likely to have a greater influence.

7. What benefits do you believe there are in the implementation of a longer than one year scheme?

As with our response in respect of the reactive power incentive, we would be concerned

about the impact on IAEs so would not be supportive.

8. Are there any additional benefits or drawbacks in the development and implementation of an unbundled transmission losses incentive?

We do not believe that it would be correct to assume that losses are a standalone element of balancing costs that operates independently of other balancing costs. For instance, if the SO takes balancing actions to relieve the level of losses on the system, this would surely have an impact on balancing costs elsewhere. Therefore, unless the independence of the losses element is clearly illustrated we do not believe that an unbundled scheme would be appropriate.

9. Please provide your views on the development of the transmission losses incentive? Do you see any benefits in changing the current arrangements? Are there any benefits in the development of a TO incentive to manage fixed losses?

Our only comments are on the third element of this question. It would seem difficult to introduce a specific incentive on TOs' investment in the network through the SO incentive arrangements. Instead, TOs should have an absolute requirement to invest in low loss equipment when this is cost effective; that is when any additional cost of the equipment is more than offset by the savings in losses. Losses could be priced for such a cost benefit assessment at a similar level to that used for the incentive scheme, taking into account the energy and carbon costs.

10. What benefit do you see in developing a transmission losses zonal forecast incentive?

This would appear to prejudge the outcome of the P229 process and should perhaps be considered if a locational losses scheme is implemented. However, we believe that it would be difficult for National Grid to make such a forecast and its value therefore may be doubtful.

11. What benefit do you see in the development of a Transmission Losses procurement incentive similar to the Gas Shrinkage incentive?

We believe that in a self despatch market individual participants should be incentivised to make the correct operational decisions directly. This is why we support the approach advocated under P229. Therefore, a central procurement incentive would appear to be inappropriate and unnecessary.

12. Do you agree that National Grid should be incentivised on the procurement of black start services for 2010/11 and 2011/12 as under the current scheme framework? 13 Do you believe that the black start scheme should be extended to a 2 year target?

At present, given the present level of uncertainty about future provision, it would not seem appropriate to make fundamental changes to the incentive for Black Start.

14. How do you believe black start services are best procured post 2012?

Our view remains the same as that expressed in the workshops held last year on the future of Black Start procurement by National Grid. Future development of these services would be best carried out through this forum with service providers rather than being a part of the SO incentive scheme consultation process.

15. Did you find the level of information within this consultation informative? What additional information should National Grid provide to explain better?

It would be helpful if National Grid could explain in more detail the benefits it believes longer term schemes would provide. For example, stating that this might incentivise investment in better IT systems isn't compelling enough a reason in itself to assuage our concerns about Income Adjusting Events. An idea of the exact benefits and costs expected would be more helpful.

16. Do you have any further comments on any aspect of this consultation in relation to the Electricity SO?

Not at this time.

I hope the above proves of help.

Yours sincerely

Paul Jones
Trading Arrangements