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Balancing Services Incentive Scheme (BSIS) 2011-13 Methodology Amendments

Dear Katharine,

RWE npower welcome the opportunity to respond to your consultation on amendments to the BSIS methodology. Although we feel unable to comment on the technical elements of your consultation we have some overarching comments that we feel need to be taken into account.

RWE npower are supportive of clear market transparency and an economical management of the Balancing Mechanism. To this end we understand National Grid's desire to encourage and develop their ability to do this and be appropriately rewarded where this can be demonstrated.

However, RWE npower cannot support a retrospective re-statement of costs for prior periods. The proposed amendment will result in an increase in BSUoS charges for the 2011-12 year including periods that have already passed final reconciliation. We would be extremely surprised and disappointed if this were to take place as Ofgem's guidance in the past has been to avoid retrospective adjustments. This has most recently been seen within the industry in the regulators response to UNC Modification Proposal 0335.¹

We can see logic in restating the methodology for 2012/2013 and clarifying ex-post and ex-ante inputs for the current year. In our view revising the methodology and therefore any potential costs for 2012/13 is possible within the current charging framework as BSUoS can be amended for the RF settlement run. To implement a process outside of the usual settlement procedure would incur costs on all industry parties which we may be necessary if 2011/12 costs were to be restated.

In addition implementing from April 2012 would allow National Grid to correct the clearly overstated £9.3bn result from their current model. It must be noted that we are very concerned that there may be other issues with the methodology that are currently unquantified and may lead to under/over performance of the scheme in future.

It has been highlighted within the responses to the CMP208 (*Requirement for National Grid Electricity Transmission to provide and update forecasts of BSUoS*) workgroup consultation that the industry take any unforeseen movement in BSUoS charges seriously.² The conclusions of this group and National

¹ Page 5, Ofgem notice of non-implementation UNC modification - 0335
<http://www.gasgovernance.co.uk/sites/default/files/UNC335D.pdf>

² CUSC Modifications area –
<http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/amendments/>

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Grid have been that greater transparency and more accurate modelling can be achieved but only with greater resource. RWE npower are supportive of the work that National Grid are doing with the working group to justify these resources and the benefits that will come forward from greater focus on transmission constraints. We are also very supportive of the clarification of reporting requirements that will be inserted into the CUSC to formalise the current MBSS reporting process.

In conclusion we appreciate the work that National Grid are undertaking to provide greater transparency to the market and are supportive of the principle that incentives should be placed on elements within their control. However, we cannot support retrospective amendments to BSUoS and consider that National Grid should implement any changes for 2012/13 forwards only.

If you have any questions please do not hesitate to get in touch.

Yours Sincerely

Jonathan Wisdom

(sent by e-mail so unsigned)

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