

## Appendix C - Consultation Questions

National Grid invites responses to this consultation by 10 August 2012. The responses to the specific consultation questions (below) or any other aspect of this consultation can be provided by completing the following proforma.

Please return the completed proforma to [soincentives@nationalgrid.com](mailto:soincentives@nationalgrid.com)

<b>Respondent:</b>	Mark Cox
<b>Company Name:</b>	EDF Energy
<b>Does this response contain confidential information? If yes, please specify.</b>	No

### Overview

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, combined heat and power plants, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

We welcome the opportunity to respond to the consultation on the proposed changes to the constraint cost target model and provide some general comments before we answer some of the specific questions raised in the consultation.

1. We welcome the increase in transparency being proposed by NGET, as we believe that this will provide assurance regarding the suitability of the model. We also acknowledge that the complexity of the issues faced in balancing the network is challenging and changes may be required to ensure stability in the future.
2. In general, the amendments proposed by NGET appear reasonable. As identified by NGET, many of the changes relate to the inputs to the model, rather than the methodology itself. Since the outputs of a methodology are very dependent on the quality of the inputs, NGET's proposed changes seem logical.
3. It also appears reasonable that NGET moves to an ex-post arrangement for identifying model inputs to ensure that the output of the model is as accurate as possible, and to identify which factors are within NGET's control or not. However, given that the majority of the proposed changes are moving from an ex-ante to an ex-post input, it would be useful to understand whether this has any impact on NGET's risk profile and, if so, whether the sharing factors for these incentive arrangements should also be reviewed.
4. We are, however, concerned with the level of movement NGET is proposing for the 2011 constraint target and the scale of the modelling deficiency. NGET's proposals appear to be doubling the constraint target for 2011; whilst the modelling deficiency of £9.3bn is also significant. An independent assessment either from Ofgem or an independent third party seems critical to provide the industry with assurance that these amendments are being driven by learning and experience, and not a fundamental flaw in the model or methodology.
5. We remain to be convinced that the application of these amendments retrospectively for 2011 is appropriate. Although we agree that models and methodologies should be updated to reflect improved learning and experience, we are concerned that retrospective application will be perceived as NGET seeking to minimise its cost exposure. We would therefore welcome further explanation from NGET as to why this

should be applied retrospectively including an assessment and consideration of the impact on users.

6. Notwithstanding this, if the amendments are to be applied retrospectively we would welcome greater explanation as to how these will be fed into charges and the scale of any impact. In particular, we note that there is significant focus on charging volatility at the moment, and the impact that this has on competition. We are therefore concerned with the impact that any retrospective application has on the volatility of charges. Given that there is some benefit of this to NGET, there may be a role for NGET to smooth the impact by delaying or smoothing its application to charges.
7. It is suggested that any financial cost as a consequence of a change in methodology is applied into the 2013/14 scheme. An approximation could be made to include into this future scheme with a true-up and subsequent adjustment at the end of the current 2 year scheme applied to 2014/15 or in 2013/14 if the costs was minimal.

No	Question	Response (Y/N)	Rationale
1	Do you agree with the proposed approach to modelling the voltage constraints experienced since the commencement of the current scheme?	No	<p>The inputs for voltage constraints can clearly have a significant effect on the constraint costs. The change is effectively to treat the actions taken to deal with voltage constraints as largely unavoidable. However, it is very difficult to independently verify the cause of such a constraint, or whether it is something that could have been avoided with stronger incentives on the transmission owner or operator, or whether it could at least have been forecast in advance.</p> <p>We do not agree that the changes should commence from the beginning of the current scheme.</p> <p>At EDF Energy we usually fix BSUoS costs in our contracts with customers. It is unreasonable to expect customers and suppliers to be hit by the cost of a retrospective adjustment in methodology, especially if customers are no longer under supply and the supplier has to absorb these costs themselves.</p>
2	Do you have any suggestions as to how we could better model these effects on the transmission system?	No	We do not have any suggestions
3	Do you agree with the proposed approach to reassess generation availability as an ex post rather than an ex ante input to the Constraint model and that it serves to increase Constraint model accuracy?	Yes	However, when generator availability is removed by transmission faults, that generator's availability should be retained in the unconstrained model. Removal of availability in the constrained model would allow better reflection of the consequential costs. Ideally, costs due to transmission faults would be linked to incentives on transmission owners.

No	Question	Response (Y/N)	Rationale
4	Do you have any suggestions as to how we could better model generation availability on an ex ante basis?	No	We do not have any suggestions
5	Do you agree with the proposed changes to the methodology statement in relation to boundary flow model setup errors?	Yes	
6	Do you agree that Ofgem are best placed to audit and approve these changes in future?	Yes	Ofgem have a balanced view and are probably best placed to approve changes in the future.
7	Do you have any comments on the proposed changes to the modelling methodology for Interconnectors availability?	Yes	The BritNed Interconnector Error Administrator can have significant expected flow at Gate Closure that should be included in the model together with expected flows of other interconnector users.
8	Do you agree that moving Interconnector flows to an ex post input is appropriate and provides a more accurate modelling methodology?	Yes	
9	Do you agree that this clarification should be made to the modelling methodology?	Yes	
10	Do you agree with the proposed changes to the modelling methodology that allow us to detect and seek amendment to material differences in generator running patterns compared to model forecasts?	Yes	Forecasts should be improved by trying to simulate the model closer to real instances.  In Q14, materiality is defined as greater than £2m. It will be useful to understand what NGET considers as 'material differences' in the context of generator running patterns.
11	Do you agree with treating commissioning generation as an ex-post input for a period of 6 months while the generator undertakes its commissioning programme?		
12	Do you agree with our proposal to change these optimiser settings?		As recognised in the consultation, given that we are not familiar with NGET's optimiser software, we are not in the position to agree or disagree with the proposed changes.
13	Do you agree with the approach that Ofgem oversee and approve any future optimiser setting amendments?	Yes	We agree that the technical changes should only be allowed upon approval from Ofgem.
14	Do you agree that if a market participant submits erroneous data in error that we should have the ability to remove the error such that the target cost remains unaffected?	Yes	However, it is not clear from the proposed new paragraph 2.25 (on page 38 of the consultation) whether NGET will verify that the data is erroneous rather than simply 'believe' that it is erroneous. In our view, the data must be verified.

No	Question	Response (Y/N)	Rationale
15	Do you agree with the approach that Ofgem oversee and approve these changes?	Yes	
16	Do you consider that there is value to the industry from publication of BSIS model outputs e.g. modelled MWh per BMU versus actual BMU output?	Yes	Publication of BSIS model outputs should provide greater visibility to the industry with respect to NGET's actions and those of the wider market. However, figures alone may not be enough to add real value; an explanatory note to explain the differences may be necessary.

**EDF Energy**  
**August 2012**