

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

Respondent:	Paul Jones
Company Name:	E.ON
Does this response contain confidential information? If yes, please specify.	No.

No	Question	Response (Y/N)	Rationale
	General comment		<p>This consultation underlines the concerns that we expressed during the original consultation covering the introduction of this new scheme, namely:</p> <ul style="list-style-type: none"> • That a highly indexed scheme was being rushed in when it was not apparent that the relationships being used for the indexation were particularly strong (R^2s often below 50%). This meant that windfall gains and losses could be introduced by inaccuracies in these relationships. • That a two year scheme would mean a higher likelihood of reopeners being required. <p>We are now facing the potential for a significant change to the scheme after one year, which it is proposed would be applied retrospectively.</p> <p>Therefore, as far as balancing charge payers are concerned we have been presented with a scheme which is significantly more complex and less transparent than the previous one, as the target is not apparent until the incentive scheme has played out, but with no apparent benefit in terms of preventing windfall gains and losses, or of avoiding reopeners after a year.</p> <p>Therefore, whilst we will endeavour to respond to the particular questions posed, we believe that the issues that have arisen call into question the whole approach undertaken for the scheme.</p> <p>We would also particularly wish to comment on the idea of retrospective amendments to the scheme. We believe that these should generally not take place. Users are not in a position to influence the accuracy of National Grid's modelling and are simply exposed to the consequences. Therefore, it does not seem correct for users to underwrite errors in this methodology to the benefit of National Grid. However, it has become apparent that this scheme has also created a massive error of £9.3bn which is to the detriment of users. Therefore, if retrospective changes are to be made to the scheme it seems appropriate that this should only occur when the error has resulted in a significant benefit to National Grid, in order to protect users and customers from the effects of the error which they were powerless to avoid.</p> <p>However, the most fundamental question is whether this new form of highly indexed scheme is working as intended and whether it would be more appropriate to revert back to the simpler form of scheme adopted for previous years.</p>

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?	N	We say no only on the issue of retrospectively applying this change. It is not clear why conditions at peak were used when a significant amount of cost was caused overnight. However, if a change to the modelling can rectify this then it should be implemented going forward and not to correct a previous modelling error.
2	Do you have any suggestions as to how we could better model these effects on the transmission system?	N	This is National Grid's area of expertise.
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?	N	We are not convinced that it is not possible for National Grid to model availability data. However, regardless of this, the proposed approach appears to be to use even more ex post data in the calculation of the target. If National Grid is unable to forecast or influence large elements of balancing costs, the whole appropriateness of having an incentive scheme has to be called into question.
4	Do you have any suggestions as to how we could better model generation availability on an ex ante basis?	Y	Assuming that we were to accept that an ex post input of data was appropriate, using MEL is not a fully robust approach. For instance, a generator with a long NDZ in reality could be considered as being less available than its MEL alone may suggest.
5	Do you agree with the proposed changes to the methodology statement in relation to boundary flow model setup errors?	N	Clearly the model should be changed if it has been populated incorrectly. However, it is not clear that it is appropriate for Users to underwrite errors that National Grid makes retrospectively.
6	Do you agree that Ofgem are best placed to audit and approve these changes in future?	N	Not if this were to occur without consulting cost payers. If there are errors in the modelling which will change the nature of the scheme going forward, users must be made aware of this.
7	Do you have any comments on the proposed changes to the modelling methodology for Interconnectors availability?	Y	Please see answer to 8 below.
8	Do you agree that moving Interconnector flows to an ex post input is appropriate and provides a more accurate modelling methodology?		Anything that uses actual outturn data is likely to be more accurate by definition as it's no longer a forecast. Again, this questions whether National Grid should be incentivised to reduce balancing costs when its influence on significant elements appears to be in doubt. If more ex post data is used for the target then this reduces the risk on National Grid and therefore should result in a commensurate lowering of reward from the scheme through lower sharing factors.
9	Do you agree that this clarification should be made to the modelling methodology?	Y	Although it is not clear whether this is a change to the methodology applied or a clarification of how it works. If it is a change to the methodology, again we would question the appropriateness of a retrospective application of this.

No	Question	Response (Y/N)	Rationale
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?	Y	However, the industry should be made aware of any changes made and the likely impact on the target.
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?	Y	Potentially, although it may be that better modelling of commissioning generators would suffice based on past experience. However, this solution has the appearance of a sticking plaster, as a £9.3bn error is massive and calls into question the appropriateness of the modelling which is underpinning this new approach to the scheme.
12	Do you agree with our proposal to change these optimiser settings?	Y	It would seem appropriate going forward, but not retrospectively. Again, we would question whether changing the scheme after one year really delivers a two year scheme.
13	Do you agree with the approach that Ofgem oversee and approve any future optimiser setting amendments?	N	Not if this means that industry will not be consulted on any changes. Ofgem should oversee and approve changes anyway.
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?	Y	This appears sensible.
15	Do you agree with the approach that Ofgem oversee and approve these changes?	Y	<p>However, changes should not be made without consulting the affected participants first. At the moment the proposed clause says:</p> <p><i>If NGET detects data that it believes is erroneous (i.e. bad data), NGET will investigate the materiality on the model output. If the materiality is greater than £2m, NGET will propose specific changes to the data and agree those changes with Ofgem. No changes to the data will be approved without written Ofgem approval.</i></p> <p>There is no mention of checking the validity of the data with the generator/s concerned.</p>
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?	Y	Although this should not replace the requirement for appropriate consultation with participants as mentioned in various answers above.