System Operator Incentives Development Update

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April 2013
Overview

- Summary of Ofgem’s latest set of proposals
- Key points from NGET response
  - An incentive framework is important, however a number of key points need to be addressed
  - We must continue to develop the modelling methodology
- Proposed timeline to implementation
- Ongoing modelling work
- Summary and next steps
# Ofgem Proposals (6 March)

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<th>Scheme</th>
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| **Balancing Services Incentive Scheme (BSIS)**  | • 2 year scheme (2013-15)  
• Cap/collar of £25m per annum, 25% sharing factor  
• Modelled targets for constraints and energy  
• Possible retrospective application from 1st April 2013  
• Question posed on removal of Income Adjusting Event provision |
| **Black Start**                                  | • Question whether the 2011-13 approach to setting a target would be appropriate given proposal for a further two year BSIS |
| **Renewable Generation Forecasting**            | • A new 2 year financial incentive on day ahead wind forecasting error (seasonal targets)  
• Cap/collar of £250k per month – cap at 0% error and collar at 2 times target |
| **Discretionary Reward Scheme**                 | • Possible scheme to run alongside BSIS to encourage longer term innovation by the SO  
• Cap of £10m per annum |
NGET Views on BSIS Proposals

Constraint cost discount factor
- Should be representative of an appropriate level of constraint actions that can be taken ahead of real time
- Applicable to a percentage of constraint costs rather than total model output

Timing of outage plan input
- Ofgem propose that the outage plan is input to the constraint model at year ahead
- We consider that the outage plan should be accurately represented within the model

Treatment of network faults
- Currently no funding for network faults within the proposed framework

Income Adjusting Event
- Provides a force majeure provision that can be employed by all
- Unforeseen events can still occur regardless of methodology design and these must be managed appropriately
Ofgem Proposed Timeline

- **Feb**: Ofgem consultation published - 6 March
- **Mar**: Ofgem consultation closes – 5 April
- **Apr**: Finalise modelling methodology statements
- **May**: Publish Final Proposals & licence mod consultation (4 week consultation)
- **Jun**: Notice of licence modification and proposed effective date of scheme
- **Jul**: Scheme Effective Date (backdated to 1st April 2013)
Summary and Next Steps

- A further two year BSIS scheme ensures that incentives remain focussed in the short term.
- We must however ensure that the modelling methodology continues to be developed.
- We continue to work closely with Ofgem towards Final Proposals.
- Ongoing model development / testing and associated documentation.
Key Information


- Our response to Ofgem’s consultation can be found on our website (www.nationalgrid.com/uk/Electricity/soincentives)

We would welcome further discussion:

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