System Operator (SO) Incentives

Iain McIntosh - Electricity Incentives Development Manager
Extend existing incentive framework for 2015-2017

- It has delivered real efficiency improvements for consumers
- Ofgem monitoring regime has provided evidence of where incentives are driving SO to make economic and efficient decisions
- Number of market changes in coming years that could have impact on SO – need to understand impact of these prior to more fundamental review
- But incremental changes likely to be made to existing approach
Areas for potential review – June 2014

Possible areas for review

- **Target setting approach** – does target setting methodology remain robust

- **Design of additional incentives** – review of 4 additional incentives

- **SO-TO Financial mechanisms** – is there a need for financial transfers between SO and TOs to ensure whole system impacts

- **Transparency** – provide greater understanding around scheme
## Ofgem indicative position (June 2015)

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| **Balancing Services Incentive Scheme (BSIS)** | • Has driven economic and efficient decision making by NGET  
• 2 year scheme (2015-17) – with some incremental improvements  
• Cap/collar of £25m per annum, 25% sharing factor  
• Modelled targets for constraints and energy |
| **Black Start**                       | • Continuation of scheme in place for 2013-2015  
• Ability to amend target to reflect possible capital contributions – where evidence of commitment provided |
| **Renewable Generation Forecasting**  | • 2 year financial incentive on day ahead wind forecasting error remains – potential to have **tighter** seasonal targets  
• Cap/collar of £250k per month – cap at 0% error and collar at 2 times target |
| **Innovation Roll-Out Mechanism**     | • Continuation of scheme to run alongside BSIS Some minor improvements to process required  
• Cap of £10m across 3 projects |
Proposed Timeline

July
- Initial Proposals published in Oct (4 week consultation)

Oct
- Ofgem consultation closed – 16 July
- Initial Proposals published in Oct (4 week consultation)

Dec
- Final Proposals Winter 2014

Mar 15
- Notice of licence modification for scheme start April 2015

OFGEM

NGET
- Modelling improvements + agreements on ex ante input
- Incentives Seminar
- Initiatives based on stakeholder feedback
Summary and Next Steps

- A further two year BSIS scheme ensures that incentives remain focused in the short term…but fundamental review to commence in 2015
- Improvements to modelling methodology implemented
- Improved clarity around determination of ex ante inputs
- We continue to work closely with Ofgem towards Final Proposals
Key Information

- Ofgem’s consultation document can be found on the Ofgem website

- Incentives Seminar today at 14:00 – a few spaces left!!

We would welcome further discussion:

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