

System Operator (SO) Incentives



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Summary of Ofgem Consultation June 2014

- 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

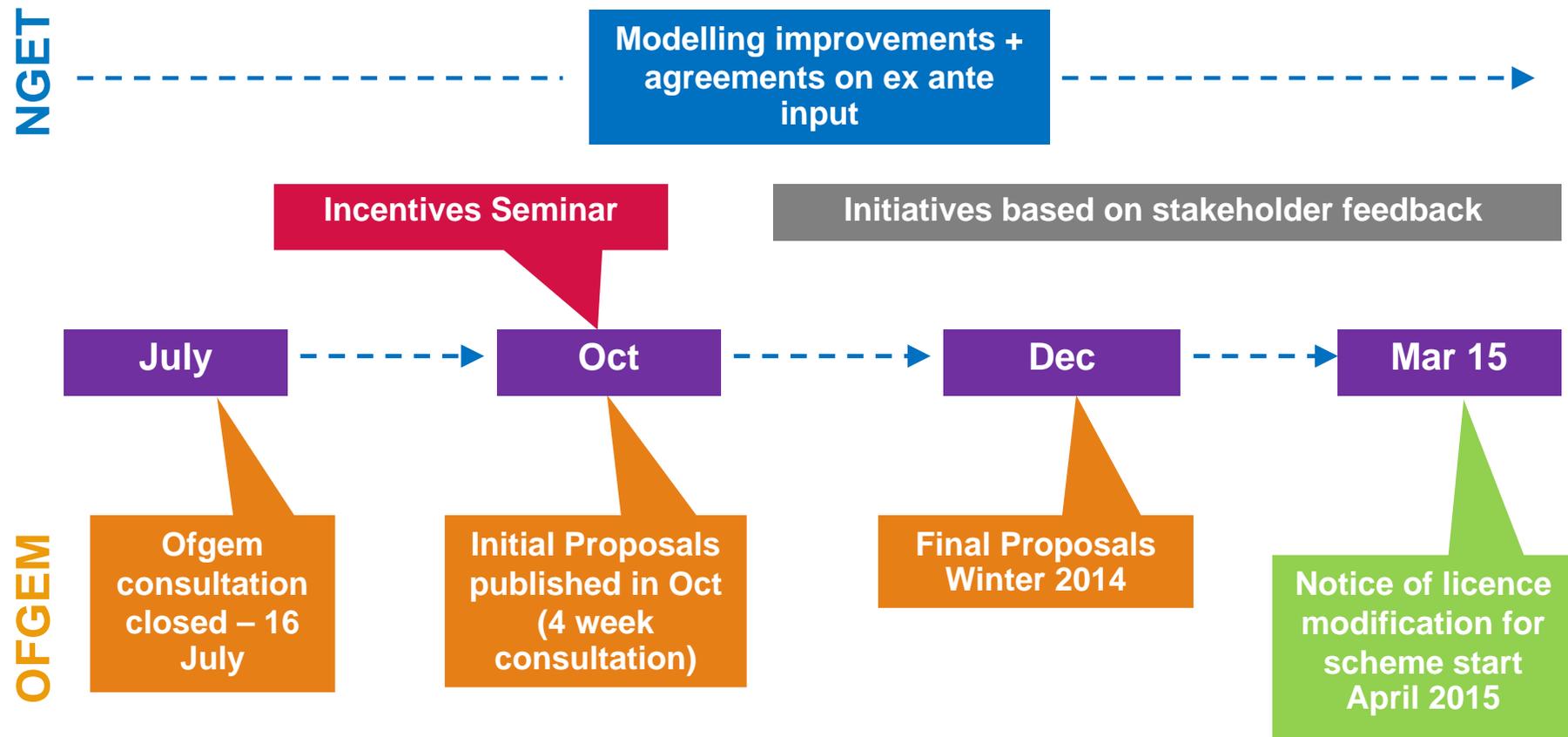
Areas for potential review – June 2014

- 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)

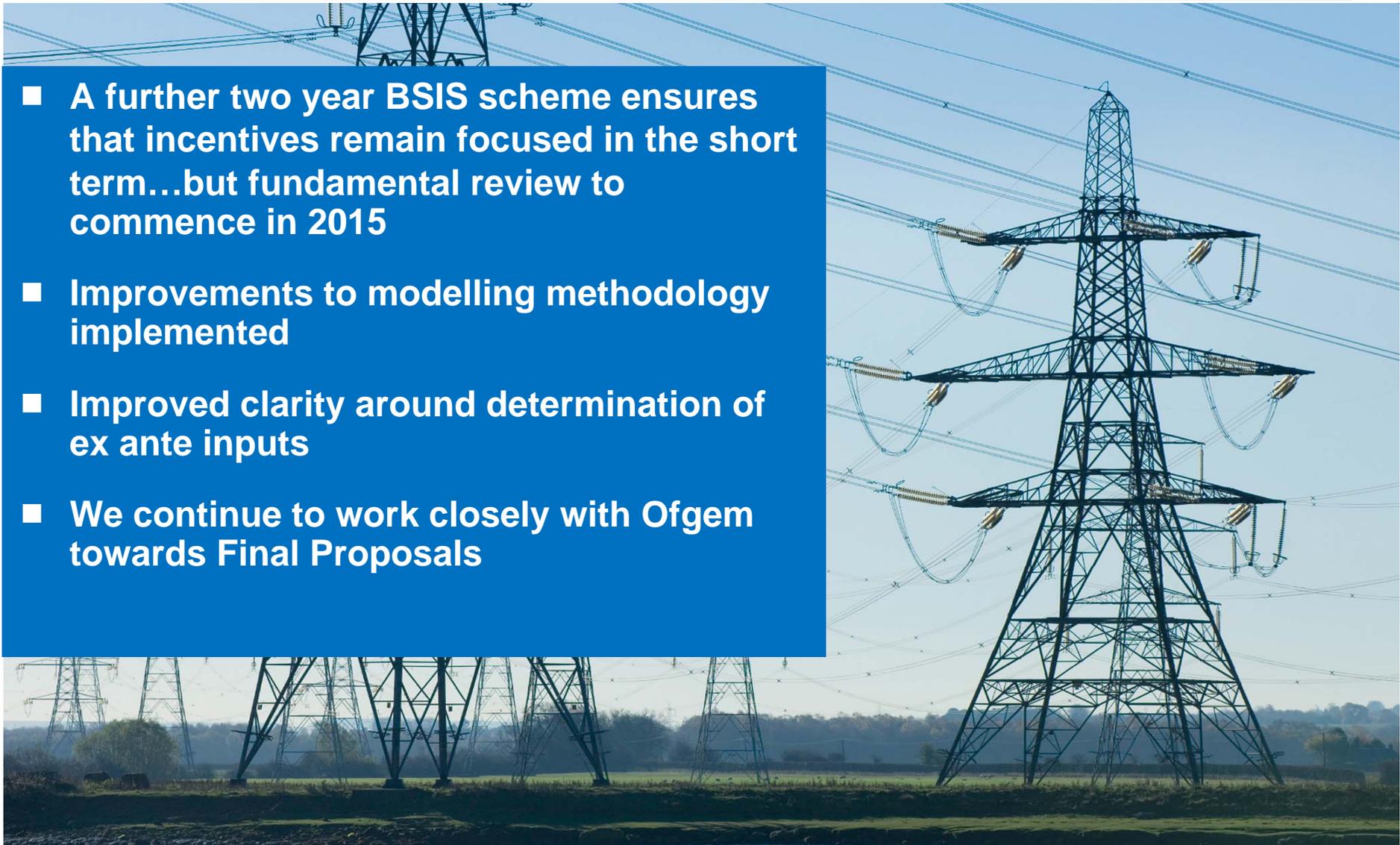
Scheme	Ofgem indicative position
Balancing Services Incentive Scheme (BSIS)	<ul style="list-style-type: none"> • Has driven economic and efficient decision making by NGET • 2 year scheme (2015-17) – with some incremental improvements • Cap/collar of £25m per annum, 25% sharing factor • Modelled targets for constraints and energy
Black Start	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Continuation of scheme to run alongside BSIS Some minor improvements to process required • Cap of £10m across 3 projects

Proposed Timeline



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 <https://www.ofgem.gov.uk/publications-and-updates/electricity-system-operator-incentives-incentives-2015>
- Incentives Seminar today at 14:00 – a few spaces left!!

We would welcome further discussion:

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Q&A

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