



# Early Competition

Operational Incentives



# Pre-Read Material

A separate Word Document has been provided with three availability-based incentive examples.

In advance of the webinar please read the above document and consider the following questions.

- What are the key features of each incentive mechanism?
- What are the potential benefits and drawbacks of each incentive mechanism?
- Are there any other comparable availability incentives which should be considered?
- Are any comparable features suitable (or unsuitable) for an early competition availability incentive?

The aim of the webinar will be to compare and contrast these availability-based operational incentives in the context of early competition and start to develop an early competition availability incentive.

The start point will be the OFTO TR6 availability incentive design and we will need to consider where that design might need to be adapted for early competition.

We will also briefly consider potential incentive design for the proposed timely new connections and environmental incentives.

The remainder of this pack provides an overview of the session and includes a couple of examples. Further information will be provided in the session on 22 September 2020.

# Phase 2 Consultation

In the session we will briefly recap on the Phase 2 consultation position in respect of incentives.

*‘Our current preference is Option 2, where an availability-based incentive like that in place for the offshore regime is developed. This ensures that there is an incentive in place to maximise asset availability, not only through asset maintenance but also through ensuring good asset health practices.*

*Whilst an availability-based incentive appears appropriate for radial and partially integrated network solutions, we note some stakeholder feedback that it may be less appropriate for fully integrated network solutions. There may also be changes required to an incentive structure for non-network solutions.*

*We will consider this further in the context of our pathfinders where we have also been considering availability-based incentives. We will also continue to explore whether this type of incentive is appropriate for non-network solutions and fully integrated network solutions.*

*In further developing an availability based incentive structure we will need to consider whether the incentive will be weighted and on what basis, the incentive value/penalty range and whether there will be any caps and/or collars.*

*For example, reward for availability (or penalty for unavailability) might carry more weight for a capability need in months where the capability requirement is expected to be higher to reflect the likelihood of higher constraint costs due to asset unavailability in such periods.*

*We will also consider whether the incentive applies to the performance of the solution as a whole or individual components within the whole solution, as well as whether financial security related to availability incentive performance is required towards the end of the revenue period.’*

# Phase 2 Consultation

In the session we will briefly recap on the Phase 2 consultation position in respect of incentives.

*‘There may be a requirement to invest in amending the successful solution to facilitate new connections. This will be more likely to occur for network solutions than for non-network solutions, but we believe that in theory it could apply to both categories. Our current preference is to have a financial incentive in place which is comparable to RIIO-2 arrangements under development e.g. a penalty of up to 0.5% of annual base revenue for relevant process failures.’*

*‘Whilst many environmental factors will be considered as part of the tender process, we are also considering whether any specific environmental incentives are required for providers. Again, this is an area where some alignment with RIIO-2 might be possible. For example, in relation to a requirement for an environmental action plan and/or the requirement to publish an annual environmental report. In both cases solution providers could have a comparable obligation to incumbent TOs but proportionate to their potential environmental impacts.’*

*‘Where the successful solution requires a leakage (e.g. SF6) incentive we see no reason at this point why such an incentive could not mostly mirror this type of incentive being developed under RIIO-2. We would however need to further consider and potentially adapt the resulting baseline, targets and reward/penalty for early competition.’*

# Phase 2 Consultation Feedback

We are currently in the process of considering the stakeholder feedback on our proposed operational incentive regime and at this point we are continuing to develop our operational incentive proposals in respect of availability, environment and timely new connections.

# Availability Incentive

## Key Design Components

In the session we will discuss the key design components of each of the three availability incentives.

Key Component	Voltage	Stability	OFTO TR6
Structure	Availability Payment not made if Unavailable (>90%) Availability Payment also charged if Unavailable (<90%)	Availability Payment not made if Unavailable (Winter) Availability Payment also charged if Unavailable (Summer)	Future Year TRS Adjustment based upon Incentive Performance
Range	0-100% Revenue Potential PA	0-100% Revenue Potential PA	90%-105%* Revenue Potential PA
Weighing	None	Winter/Summer	Seasonal + Capacity
Exclusions	Force Majeure (No Payment / No Rebate)	Force Majeure (No Payment / No Rebate) 15 Calendar Day Outage Allowance PA	Exceptional Events
Timing	Monthly Calculation and Rebate Process + Annual Reconciliation	Monthly Calculation and Rebate Process + Annual Reconciliation	Annual Adjustment applied in Future Year(s)
Information Exchange	Yes	Yes	Yes
Complexity	Low	Low	High

*\*The revenue reduction in each year can be as low as 50% but if this occurs the revenue impact is rolled into up to five future years with the cumulative exposure over the total revenue term being no more than 10%.*

# Availability Incentive

## Potential Early Competition Incentive Design

In the session we will discuss the potential structure of an availability incentive for early competition.

*We will also consider whether the structure needs to be flexible in relation to The Network Need, Non-Network Solutions and More Integrated Solutions.*

Key Component	OFTO TR6	Early Competition
Structure	Future Year TRS Adjustment based upon Incentive Performance	...
Range	90%-105%* Revenue Potential PA	...
Weighing	Seasonal + Capacity	...
Exclusions	Exceptional Events	...
Timing	Annual Adjustment applied in Future Year(s)	...
Information Exchange	Yes	...
Complexity	High	...

*\*The revenue reduction in each year can be as low as 50% but if this occurs the revenue impact is rolled into up to five future years with the cumulative exposure over the total revenue term being no more than 10%.*

# Environment

In the session we will briefly consider the environmental incentive proposals.



# Timely New Connections

In the session we will briefly consider the Timely New Connections incentive proposals.

# Next steps

- Please take time to answer our short feedback poll, at [www.sli.do](https://www.sli.do) using code #OIW to allow us to further improve your experience for future events.
- Alternatively, please contact us by email at: [Box.earlycompetition@nationalgrideso.com](mailto:Box.earlycompetition@nationalgrideso.com)
- The slides and any notes from this session will be made available on our website.
- Our next milestone is the Early Competition Phase 3 Consultation document which we expect to publish in December 2020.

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