

SO Incentives – Current and Future



Katharine Clench – Senior Regulatory Analyst

Introduction

Current Balancing Services Incentive Scheme (2011-13):

- Industry consultation published 12 July
- Overview of responses
- Next Steps

Future SO Incentives for RIIO-T1 (2013–21):

- Publication of Ofgem's Initial Proposals
- A comparison with our proposals
- Next Steps

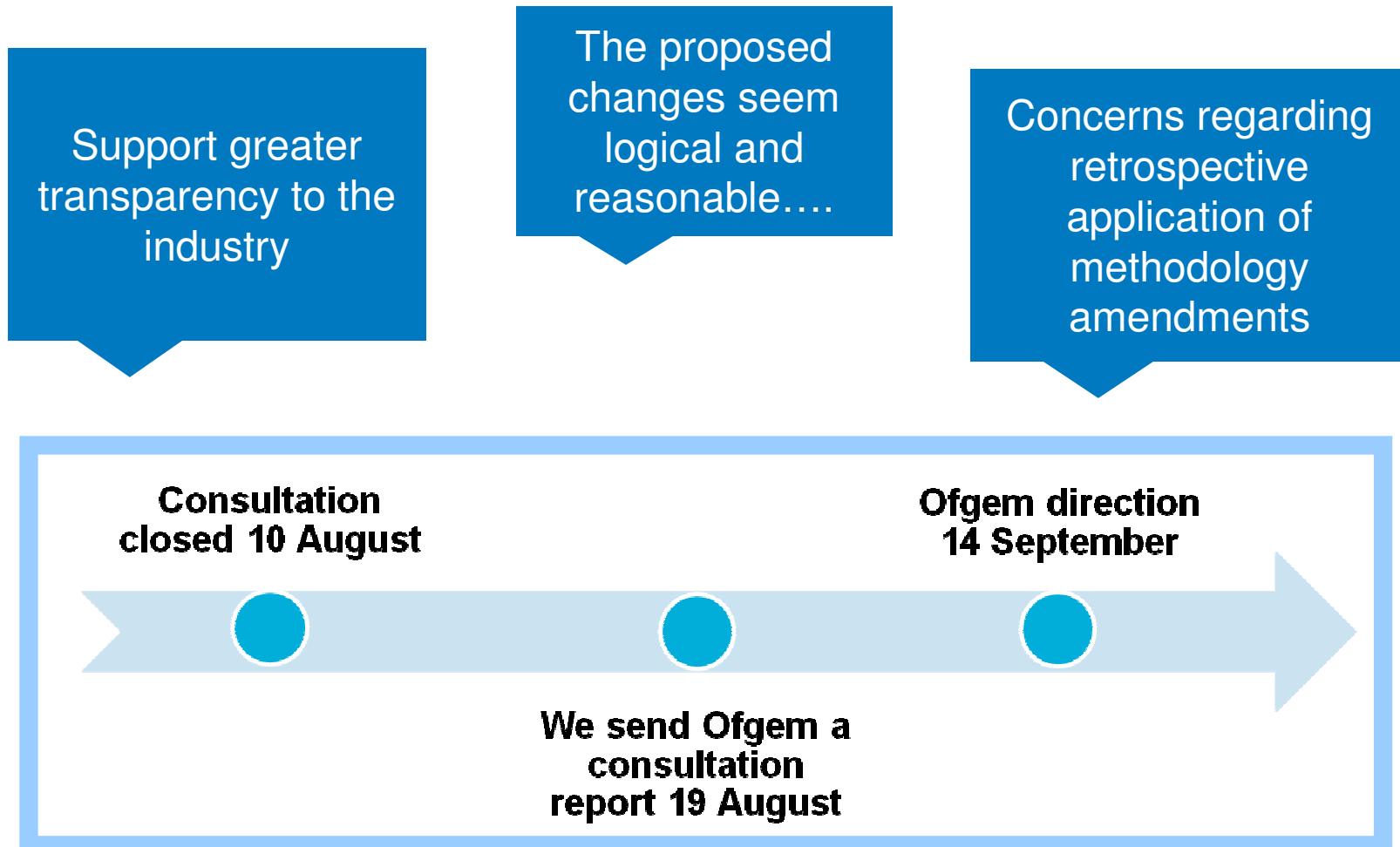
Current BSIS Consultation (1)

- We published a consultation on 12 July 2012
- Proposed a number of amendments to the current BSIS methodology statements
 - Statement of the Constraint Cost Target Modelling Methodology
 - Statement of the Ex-Ante or Ex-Post Treatment of Modelling Inputs Methodology
- Intention of proposed amendments is to **increase accuracy** and **maintain strength of incentive**



Current BSIS Consultation (2)

- Five written responses received from industry participants



Models and Incentive Targets

- The model is used to allocate balancing costs post event
- Model inputs should be as **transparent** and **accurate** as possible...
-Whilst maintaining an incentive on us to reduce costs
- Our contracting and strategy teams continue to seek innovative solutions

Application of current BSIS amendments to future longer term schemes under RII0



Future SO Incentives under RII0

Scheme	NGET Proposals	Ofgem Proposals
Balancing Services Incentive Scheme (BSIS)	<ul style="list-style-type: none"> • Energy, constraints, Black Start & Transmission Losses • 8 year framework • 2+2+4 year phases 	<ul style="list-style-type: none"> • Removal of BSIS • Possible alternative approach to incentivisation
Black Start	<ul style="list-style-type: none"> • Bundled within BSIS • Annualised target based on new entrant cost – discounted for existing contracts 	<ul style="list-style-type: none"> • Possible standalone financial Black Start incentive • Broadly in line with our proposal
Transmission Losses	<ul style="list-style-type: none"> • Bundled within BSIS • Target comprises ex post and ex ante elements 	<ul style="list-style-type: none"> • No financial incentive on transmission losses • Reputational incentive to report volume of losses
Renewable Generation Forecasting	<ul style="list-style-type: none"> • A new 4+4 years incentive • Incentivises improvements to accuracy of day ahead forecast 	<ul style="list-style-type: none"> • A new 2 year incentive • Broadly in line with our proposal

Summary

- Current BSIS consultation report published by 19 August
- Our response to Ofgem's Initial Proposals will be published on our website (www.nationalgrid.com/uk/Electricity/soincentives)
- We would welcome further discussion:
katharine.clench@nationalgrid.com

