



Promoting choice and value
for all gas and electricity customers

SO incentives from 2013

23 February 2012

Context

- We published a consultation on the principles and policy for SO regulation on 31 January
- The document set out our views at a high level on regulation of the SO from 1 April 2013
- The consultation period will run for eight weeks and responses should be emailed to soincentives@ofgem.gov.uk
- If you have any questions on SO regulation following this meeting please contact mathieu.pearson@ofgem.gov.uk or lisa.martin@ofgem.gov.uk

Objectives for SO and TO regulation

- Overall objectives for SO and TO are very similar, therefore propose common approach to regulation

RIIO-T1

1. To play a full role in the delivery of a sustainable energy sector.
2. To do so in a way that delivers value for money for existing and future consumers.

SO2013

1. To play a full and active role in the delivery of a sustainable energy sector (integrated with the EU market).
2. To operate electricity and gas systems at value for money for existing and future consumers.

Common principles for monopoly regulation

Aligned objectives

SOs and TOs face similar challenges and uncertainties meeting these objectives

What we mean by “SO”?

SO core responsibilities
(covered by SO incentives)

- Delivery of reliable and economical system operations - e.g. system balancing and constraint management

SO additional responsibilities
(mostly not covered by current SO incentives, some addressed by RIIO:T1)

- Wide range of additional responsibilities include:
 - facilitating connections,
 - system planning (with TOs)
 - charging
 - providing information to the market

SOs and TOs' roles overlap in a number of areas

- Boundaries between SO and TO not always clear
- SOs & TOs have joint responsibility in a number of areas

What do we want SO to do?

Take a proactive approach, e.g. in connections, demand side response etc

Anticipate future developments and facilitate a smooth transition to a sustainable energy sector

Deliver long term value for money in system operations

Overview of SO regulatory framework from April 2013

- Principles, policy and objectives set for 8 years
 - Some incentive schemes may be set for shorter periods but overarching approach will not change
- Output incentive schemes
 - The SO regulatory frameworks will be outputs led
 - We have set out what outputs the SOs will be held to account to deliver and how we will incentivise them
- Cost incentive schemes
 - The SOs will be incentivised to deliver outputs at long term value for money through cost incentive schemes with associated cost targets
- SO-TO interactions
 - The frameworks will encourage the SOs to work with the TOs to identify behavioural changes that could result in overall lower costs of output delivery for consumers
 - The framework will promote transparency of interactions between SOs and TOs

SO role: the known unknowns

- The role of the SO in EMR
 - In the technical update published by DECC has indicated the SO will be the body responsible for delivery of FIT CfDs and capacity mechanism
 - DECC has announced the launch of a joint DECC/Ofgem project on the conflicts of interest and synergies between the new and existing SO functions and other National Grid businesses, this work may have implications for SO incentives
- Ofgem's mandate to review gas security of supply may lead to changes to the role of the gas SO
- Potential changes to the SO role from conclusion of joint DECC/Ofgem co-ordination project
- All of these issues require substantial work during 2012 and conclusions may not be clear in time to incorporate in SO 2013 proposals
- In cases of significant change, regulatory framework will need to be able to adapt accordingly

The background features a large, semi-transparent white arrow pointing from the left towards the right. Behind the arrow, there is a composite image: on the left, a perspective view of solar panels under a bright sky; on the right, a close-up of a white, spiral-shaped object, possibly a piece of machinery or a decorative element, with a warm, golden light. The overall color palette is soft, with blues, whites, and warm yellows.

Appendix: SO incentives from 2013

2 February 2012

Electricity SO outputs

Balanced system

Demand meets supply recognising network conditions.
Frequency is maintained

Connections

Timely completion of applications in accordance with connections process

Stakeholders satisfied

Satisfaction of stakeholders: generators, those seeking connection, large users, suppliers, other TSOs and aggregators

Provision of information

Provide timely information on key issues relevant to market

Safety

Compliance with health and safety standards and voltage is maintained at +/- 5% for 400kV, +/-10% for 275kV and 132kV

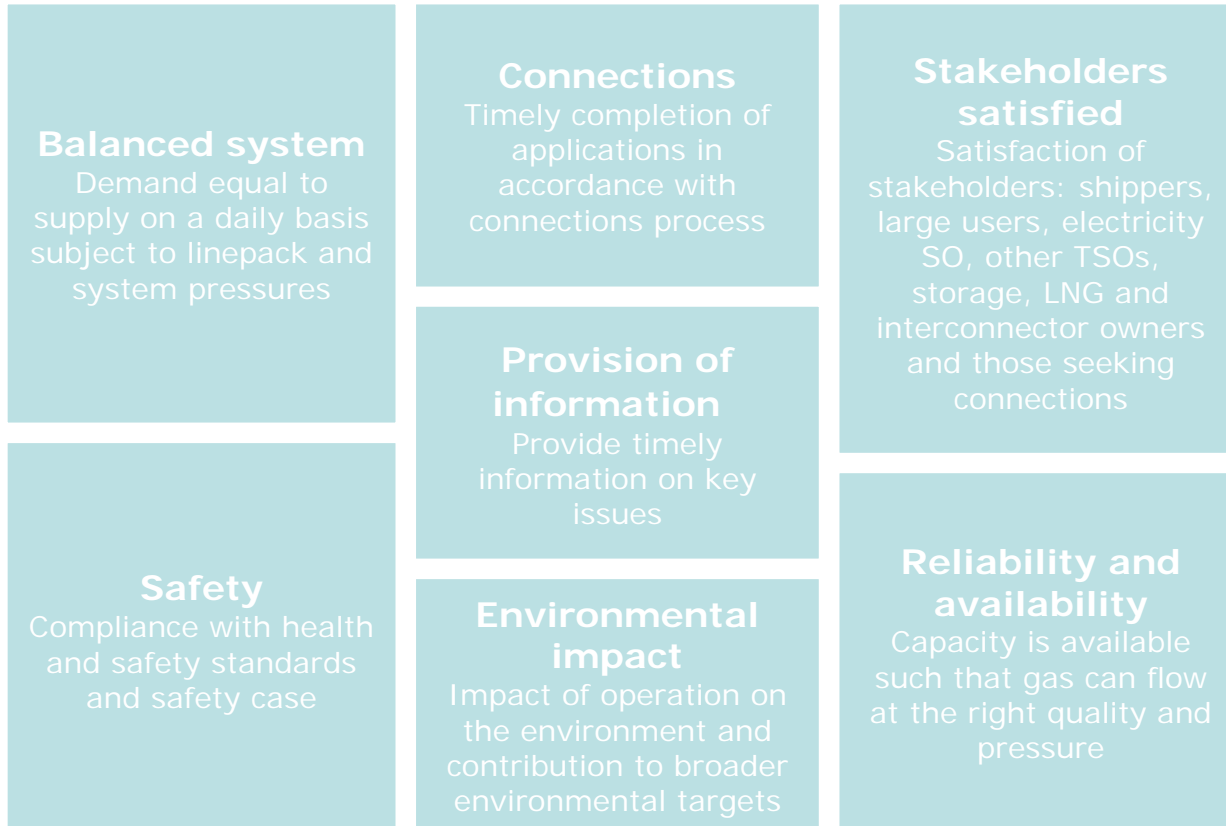
Environmental impact

Impact of operation on the environment and contribution to broader environmental targets

Reliability and availability

Ensuring that the network is available and is developed in a safe, co-ordinated and sustainable manner

Gas SO outputs

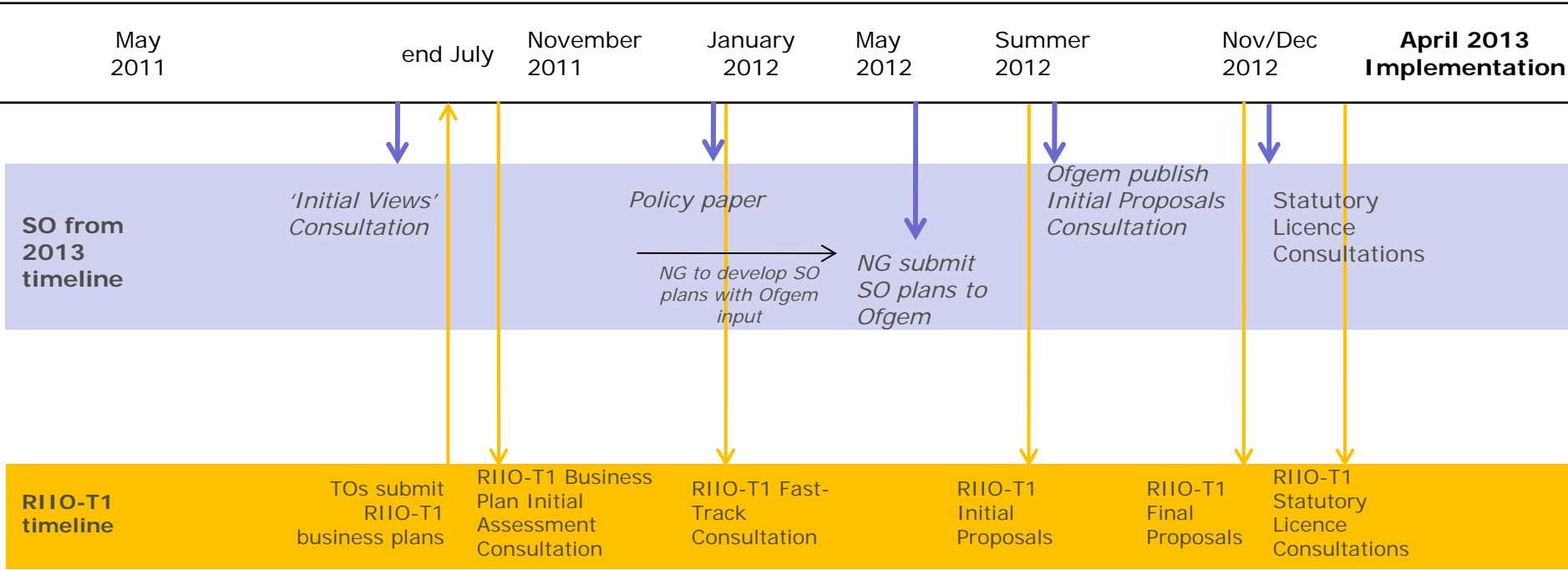


Cost Schemes

Electricity		
	Scheme length	Cost target methodology
Total balancing costs (bundled)	4+4	As per now, with refinements of cost drivers and modelling

Gas		
	Scheme length	Cost target methodology
Shrinkage cost (bundled)	8 years	As now, volume forecast multiplied by reference prices
OM cost (bundled, with utilisation costs potentially carved out above a certain value)	8 years	To be determined, e.g. target could reflect past tender prices for OM with an efficiency factor applied
Potential Balancing cost	To be determined	

Timeline





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System Operator Incentives 2013 - 2021



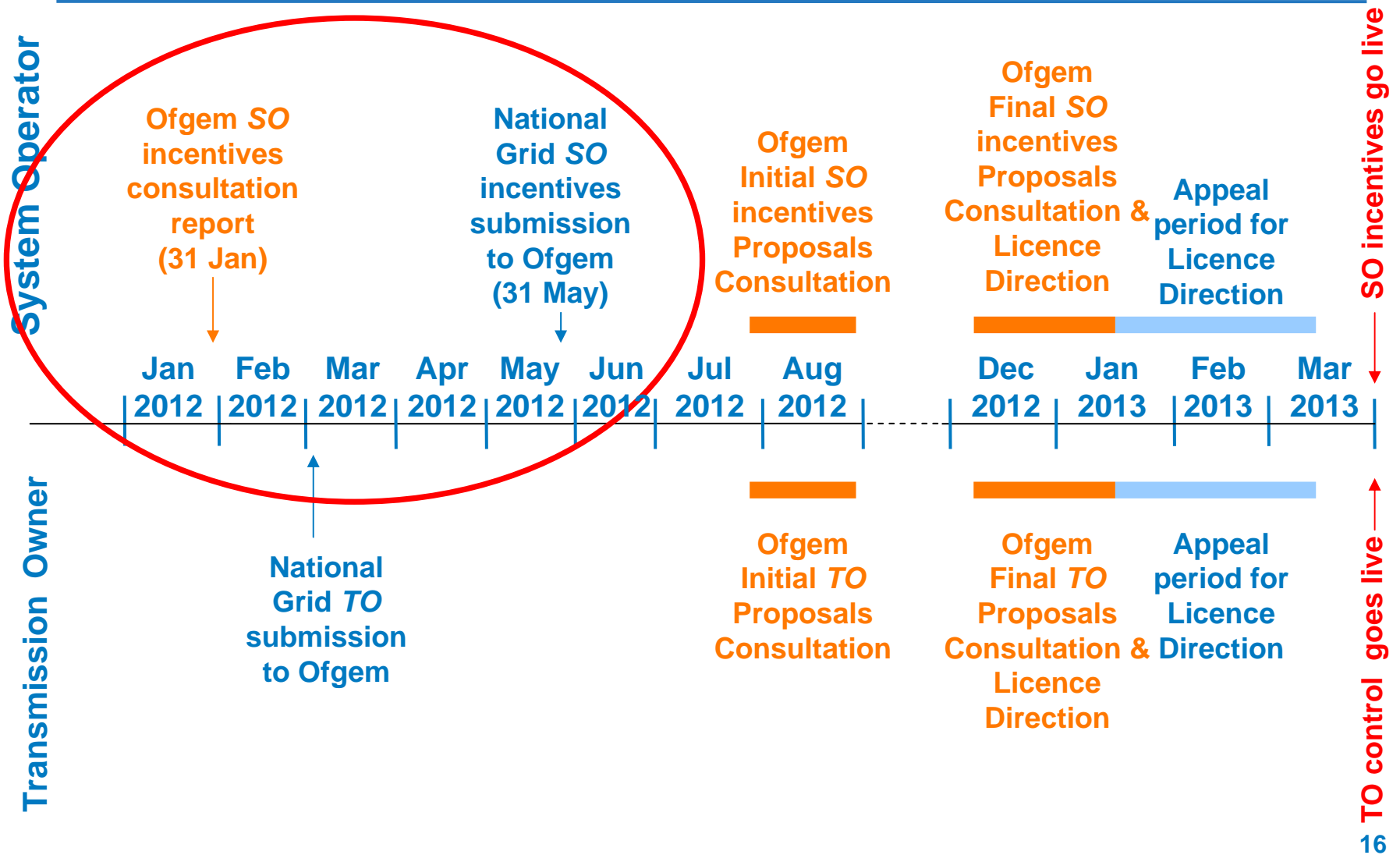
Mike Thorne – SO Incentives Development Manager
Electricity Operational Forum – February 2012

Different Scheme Development Process

- Recent years
 - National Grid Initial Proposals consultation
 - National Grid submits report to Ofgem
 - Ofgem Final Proposals consultation

- This year under the RIIO framework
 - Ofgem policy and principles consultation Closes 27/3
 - National Grid submits a “well justified plan” By 31/5
 - To be informed by stakeholder engagement Feb – April
 - Ofgem Initial and Final Proposals consultations From July

Timescales for RIIO SO consultations



Key Principles of Future Incentives

- National Grid is incentivised against factors it can reasonably control or forecast
 - Reduce scope for windfall gains & losses
- Decarbonise energy at minimum cost to end consumers
- Strong interaction with NGET's RIIO-T1 plan
 - e.g. similar incentive parameters as the TOs
- Greater SO interaction with all TOs
 - Including payment by SO to TOs to “change their behaviour”
- Possible future interaction with gas system operator

Types of Incentive Schemes Post 2013

- SO core responsibilities – reliable & economic operations
 - Cost incentives: e.g. BSIS
- SO additional responsibilities
 - Output driven financial incentives: e.g. Transmission losses
 - Reputational incentives e.g. publish and report information

Cost	Financial	Reputational
Balancing Services Incentive Scheme	Stakeholder Satisfaction	Environmental – Broad Targets
	Information Provision – Renewable Generation	Balanced System – report frequency deviations & innovation in balancing solutions
	Environmental – Transmission Losses	Reliability and Availability – processes & SO-TO interaction

Extending Incentives to 2021

- Working closely with Ofgem up to 31 May submission
- Current BSIS is a flavour of things to come
- Practicalities of getting the data and modeling right
 - Ongoing modeling developments
 - Operational issues already highlighted today
- Industry concern expressed in 2011 about moving to this current two-year scheme
 - We need to hear your views now about an 8 year framework

SO/TO Interaction

- Need to help TOs deliver their capital plans...
- ... but keep combined SO & TO costs to a minimum
- Optimising use of current assets in short/medium term
 - Greater coordination with all TOs
 - Proposed payment mechanism from SO to TOs
- Affected by firmness of generator outage plans?

- Longer term Ofgem project to review the role of the SO in planning and designing TO networks

Electricity SO to Gas SO Interaction

- Wind intermittency expected to change gas plant behaviour
 - gas-fired generation and gas storage
- Potential for one SO's actions to affect the other
 - e.g. BM action could lead to a gas network constraint

- We will need to consider appropriate and proportionate ESO/GSO interaction going forward

Next Steps

- Stakeholder engagement:
 - Industry workshop - TODAY after lunch
 - Customer connection seminars –
 - London – 14th March
 - Glasgow – 22nd March
 - Dedicated SO Incentives (Gas & Electricity) session
 - end of March (date TBC)
- All details and material on our website:
<http://www.nationalgrid.com/uk/Electricity/soincentives/IndustryWork/>
- Please get in touch:
 - katharine.clench@uk.ngrid.com (Senior Regulatory Analyst)
 - mike.thorne@uk.ngrid.com (SO Incentives Development Manager)

Q&A

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