

Future Electricity System Operator Incentives

Presentation to the Electricity Operational Forum

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ofgem



Current incentives

Balancing services incentive scheme (BSIS)

Financial incentive on system operator costs of system balancing and constraint management

Apply to costs of around £850 million per year

£25 million cap and collar

+

Wind generation
forecasting incentive:
£250k monthly cap and
floor

Transmission losses
reporting requirement

SO innovation roll-out
mechanism:
Up to £10 million of
funding

Model development
licence condition

Need for incentive review

Driver 1: Changing market and policy landscape

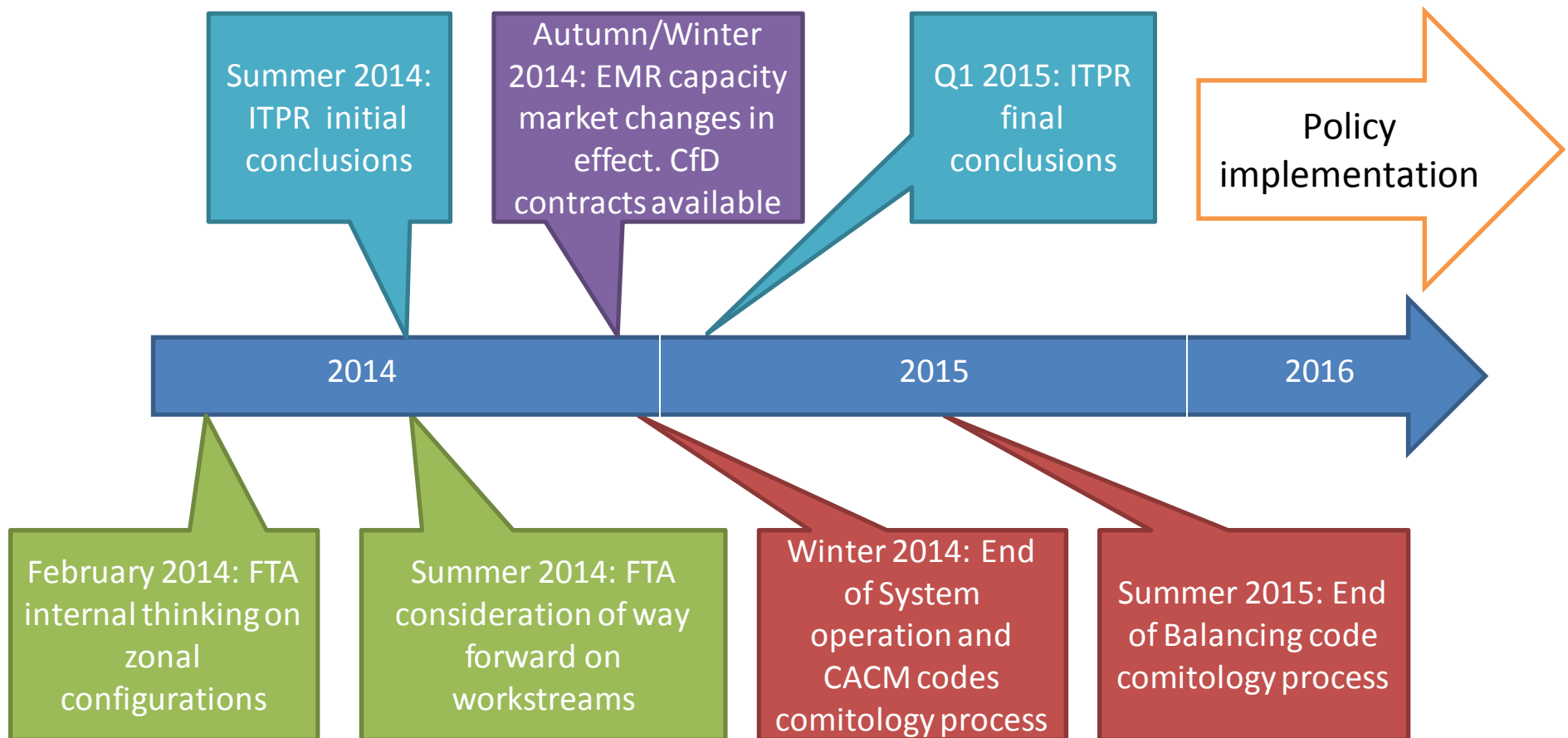
- Growing levels of renewables
- Intensive network investment plans
- Increasing levels of interconnection
- Policy landscape
 - Electricity Market Reform
 - European Network Codes
 - Integrated Transmission Planning and Regulation
 - Future Trading Arrangements

Driver 2: Ensuring optimal incentives to deliver for industry and consumers

- Ensure incentives target right behaviours
- Incentivising the SO to work with and deliver for a wider stakeholder group:
 - Demand side response providers
 - Europe and interconnectors
 - Renewable generators
 - Transmission owners
 - Innovative service and technology providers

In our final proposals document we said that we would consider timing of policy developments in deciding on the most appropriate timing for a review

Relevant policy timings



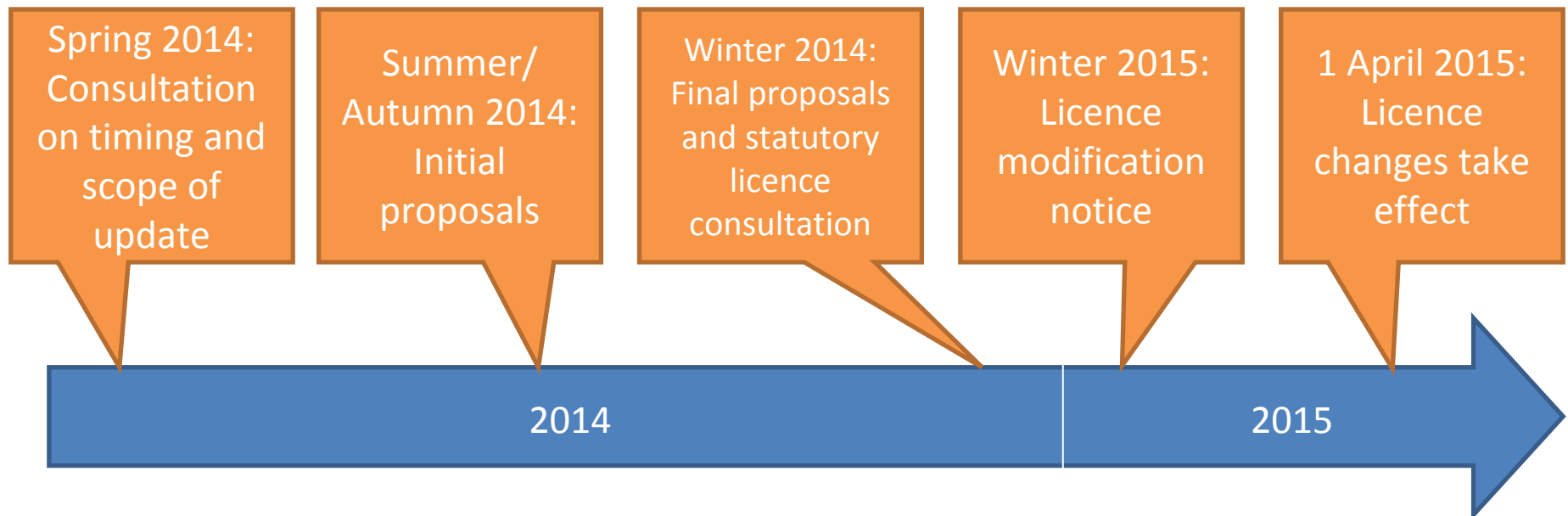
We propose to extend the core framework of the current scheme to allow the time to properly consider emerging policy in our review of future SO regulation

Framework extension

We propose continuing improvements to the incentives to update the scheme framework:

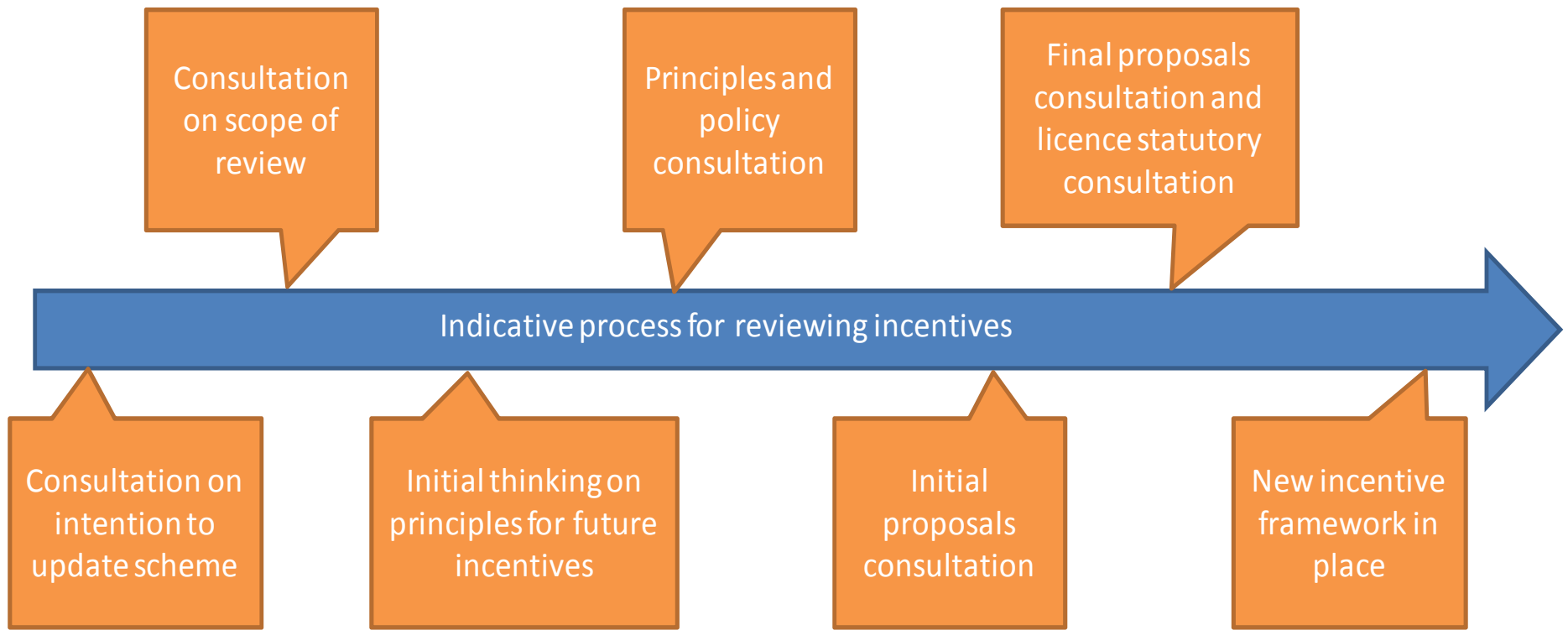
- Continuing model and model transparency improvements;
- Development of additional incentives; and
- Considering the need for, and merits of, financial tools for SO-TO outage planning

We intend to follow this process for updating the incentives:



Indicative process for review

We plan to consult with stakeholders extensively when developing future SO schemes:



Extension of the current framework will allow us to align with policy developments and consult fully with stakeholders when reviewing and developing future schemes

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We work effectively with, but independently of, government, the energy industry and other stakeholders. We do so within a legal framework determined by the UK government and the European Union.

Q&A

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