

# Electricity SO Incentives 2017/18

National Grid BSUoS Charging Circular

12<sup>th</sup> April 2017

This note provides information on how National Grid will apply the Electricity System Operator incentives for 2017. The 2017 incentive scheme is a one year scheme running from 1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2018; the development of the scheme has followed industry consultation by Ofgem who recently published their final proposals<sup>1</sup>. The licence amendments to put the 17/18 scheme into place were published on 6<sup>th</sup> April 2017 and will come into effect on 1<sup>st</sup> June 2017, there are also CUSC modifications<sup>2</sup> underway to make the relevant changes to the CUSC to support the implementation and these will be in place by 1<sup>st</sup> June 2017.

This costs referenced in this note are not an increase in charges to BSUoS customers but simply a different treatment.

## Key Information

- The incentive performances element of the scheme will not start to be billed until 1<sup>st</sup> June 2017. The 2017/18 Balancing Services Incentive Scheme (BSIS) consists of a Cap and floor of +/-10m and a sharing factor of 10%.
- The scheme also includes a backstop provision (within the wider 10m cap/floor) where if the target for any month is outside two standard deviations from historical costs, the incentive payment for that month is either zero or the floor of the scheme. The application of the backstop and how it may affect the target is conditional on a number of additional factors including determination from Ofgem so this provision will be applied (if applicable) on the RF (Reconciliation Final) run.
- Black Start costs are removed from the incentive element of the scheme and are subject to an end of year efficiency check with a possible disallowance under the scheme of up to 10% of total Black Start costs. The recovery of these Black Start costs will start from 1<sup>st</sup> April 2017 in the non-incentivised portion of BSUoS (Balancing Servicing Use of System) charges with reconciliation on the RF run.
- Black Start costs consist of contract costs but will also consist of testing costs in form of Bid-Offer acceptances, feasibility costs and warming/hot standby instructions. These testing costs will also be removed from the incentivised component of BSIS and recovered from the non-incentivised component. If a Black Start station incurs costs for reasons other than Black Start then these non-Black Start costs will not be removed from the BSIS component. Where a station incurs costs that are for both Black Start and other reasons an assessment will be made as to the Black Start element and only this element will be removed from the incentivised costs.
- Any values transferred from BSIS to non-BSIS recovery will be allocated to each settlement period using the energy volume factor (Settlement Period Total Adjustment Energy Volume (MWh)/Total Daily Adjusted Energy MWh)
- The 1<sup>st</sup> April 2017 SF invoice will be issued on 27<sup>th</sup> April 2017.
- Black Start costs for 2017/18 are estimated to be in the region of £45m.

<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/final-proposals-electricity-system-operator-incentives-april-2017>

<sup>2</sup> <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/CUSC/Modifications/CMP278/>

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- The full details of the 2017 incentives can be found in the Ofgem document at the reference at the bottom of page 1, however for convenience a summary from the document is reproduced in appendix 1.

## Background

BSUoS (Balancing Services Use of System) is the cost billed to customers (generators, demand and supplier BMUs) to recover the costs that the System Operator (SO) incurs in balancing the system. Typically the SO has an incentive scheme agreed with Ofgem to encourage costs to be kept to a minimum; this incentive works by the SO keeping a share of the any reduction in costs (vs a target value) or paying a share of the increased costs (vs a target value). The payment to or from any incentive scheme is itself recovered via BSUoS.

For 2017/18 the incentive scheme is a one year scheme running from 1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2018 with a Cap and floor of +/- 10m and a sharing factor of 10%. This means that if BSUoS costs for the year are £100m less than the target value then the SO would receive an incentive payment of 10% of the saving (£10m) or conversely if costs were £100m greater than the target then a payment of 10% would be made by the SO towards these costs (£10m). If the saving or cost increase (vs target) is greater than £100m then the Cap or floor of +/- £10m would be reached; the SO profit or loss from the scheme is limited to +/- £10m.

In previous years Black Start costs were included within the calculation of incentive payments due to or from National Grid. This year the costs have been removed from the incentive calculations and are pass-through. Whilst they will not impact the incentive scheme there is an end of year efficiency check by Ofgem which could result in National Grid having to pay up to 10% of the costs if they are deemed to have been inefficiently incurred. Black Start costs for 2017/18 are estimated to be in the region of £45m and if this was the outturn value National Grid could potentially pay back up to £4.5m of these costs (if deemed inefficiently incurred).

The recovery of Black Start costs for 2017/18 will happen via the BSUoS invoice as previous years. To meet the requirements of the 17/18 scheme these costs will be removed from the incentive calculation element of BSUoS and be added to the non-incentive element of BSUoS with the total recovery of the costs the same. These costs when recovering on the non-incentivised component will be smeared by settlement period demand. Any reconciliation required will be carried out on the RF run. The start date for this movement from incentivised costs to non-incentivised costs will be 1<sup>st</sup> April 2017.

As the licence changes to support the 2017/18 will not be place until 1<sup>st</sup> June 2017 the incentive element (payment to or from National Grid) of the scheme will not be operational until 1<sup>st</sup> June. If no action was taken then this would mean the whole of incentive payment (due to be paid or recovered) to date would be charged on 1<sup>st</sup> June 2017. The proposal therefore is to begin including the daily incentive payment for 1<sup>st</sup> June 2017 onwards, but to recover the incentive payment (due to be received or paid) accrued for the period 1<sup>st</sup> April to 31<sup>st</sup> May 2017 as a manual charge over the period 1st June 2017 to 30<sup>th</sup> June 2017 i.e. smooth out the incentive recovery over a month to reduce the impact on any individual day.

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**What will be the high level impact on me?** – In practical terms this has limited impact on BSUoS customers, Black Start costs are recoverable as previous years except this year they will not impact the incentive calculations.

**Will there be any change in BSUoS invoice structure or backing data?** – No there will not be any change in the BSUoS process or backing data.

**What will be the impact when the licence changes and the CUSC changes are in place?** We will recover year to date incentive profit /loss over a period of one month utilising the term ET (This is shown on the Balancing Charge report as Daily Balancing Service Adjustment £). Profit computation for 1<sup>st</sup> June 2017 will continue as normal. The reconciliation will happen on the RF invoice as the current process.

**Why is the incentivised (+/- 10m) element not starting until the licence/modifications are in place but the Black Start costs are starting from 1<sup>st</sup> April?** – Black Start costs are recoverable under the current methodologies and recovering through incentivised costs for part of the year and then non-incentivised costs (once the licence/modifications are in place) for the remainder of the year would result in greater variation and a bigger reconciliation at the RF stage and hence it is more pragmatic and accurate to recover via non-incentivised costs for the whole year.

**Why will Black Start stations incur non-Black Start costs (incentivised)** – A station might be issued a BOA, deliver ancillary services outside of Black Start testing or run commercially.

**What will happen for 2018/19** – The arrangements for 18/19 are still under discussion and have not yet been finalised.

## Further Questions?

If you have any queries regarding this issue please contact the BSUoS team using the details below:

Email: [BSUoS.Queries@nationalgrid.com](mailto:BSUoS.Queries@nationalgrid.com)<sup>3</sup>

Tel: 01926 654 613

Website: <http://www2.nationalgrid.com/bsuos/>

<sup>3</sup> Please help us keep our records up to date by informing us of any changes in contact details via the email address

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## Appendix 1

The table below has been reproduced from Ofgems “Final proposals for electricity System Operator incentives from April 2017”<sup>4</sup>. Please note this is only a high level summary of the incentives, additional detail can be found in the source and consultation documents.

Incentive/Regulation area	Summary of policy
<b>Clarification of the economic and efficient obligation in the licence</b>	<ul style="list-style-type: none"> <li>• Introduce a number of clarifications on our baseline expectation of economic, efficient, and co-ordinated to Standard Licence Condition C16;</li> <li>• Publish a guidance document by 1 April 2017 providing a non-exhaustive description of the behaviours we expect in accordance with the licence obligations.</li> </ul>
<b>BSIS</b>	<ul style="list-style-type: none"> <li>• Cap and floor of <math>\pm</math>£10m and sharing factor of 10%;</li> <li>• A backstop provision where, if the target for any month is outside two standard deviations from historical costs, the incentive payment for that month is either zero or the floor of the scheme;</li> <li>• Third-party ex ante and ex post audit of models;</li> <li>• Formalisation of a ‘model inaccuracies’ process giving us more tools to direct NGET to review the models.</li> </ul>
<b>Black Start</b>	<ul style="list-style-type: none"> <li>• Removal from BSIS and introduction of an efficiency check process at year-end;</li> <li>• Requirement to produce a strategy and procurement methodology;</li> <li>• Requirement to publish a report to be published on performance by year-end;</li> <li>• Cap on disallowance under the scheme of 10% of total Black Start costs for the year.</li> </ul>
<b>Forecasting incentives</b>	<ul style="list-style-type: none"> <li>• Amendment to wind generation forecast incentive to reduce potential tendency to over forecast;</li> <li>• Introduce day-ahead, two-days ahead and week-ahead demand forecast incentive on national demand;</li> <li>• Total value of <math>\pm</math>£4m.</li> </ul>
<b>SO-TO</b>	<ul style="list-style-type: none"> <li>• Introduction of SO-TO funding mechanism;</li> <li>• New incentive scheme on consumer savings from using mechanism effectively;</li> <li>• Value of <math>\pm</math>£1m and sharing factor of 10%.</li> </ul>
<b>Transparency, Model Development Licence Condition, System Operation Innovation Roll-out Mechanism</b>	<ul style="list-style-type: none"> <li>• No explicit incentives related to transparency;</li> <li>• Maintaining Model Development Licence Condition;</li> <li>• Removal of SO-IRM from licence given only one year scheme.</li> </ul>

<sup>4</sup> <https://www.ofgem.gov.uk/publications-and-updates/final-proposals-electricity-system-operator-incentives-april-2017>