

SO Incentive Development for 2010

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Key challenges for this year

Bundled vs unbundled schemes

Longer term schemes

Gas

- ◆ Explore options for new incentives around maintenance and environmental performance
- ◆ Explore possible options to re-incentivise Operating Margins
- ◆ Ensuring information on incentive performance is provided in an accessible, transparent manner

Electricity

- ◆ Develop indexation
- ◆ Handling of differential in risk profiles of the BSIS components
- ◆ Differentiating incentive periods of the BSIS components
- ◆ Implementation of Transmission Access and the SO / TO incentives
- ◆ Increased information provision

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Timetable

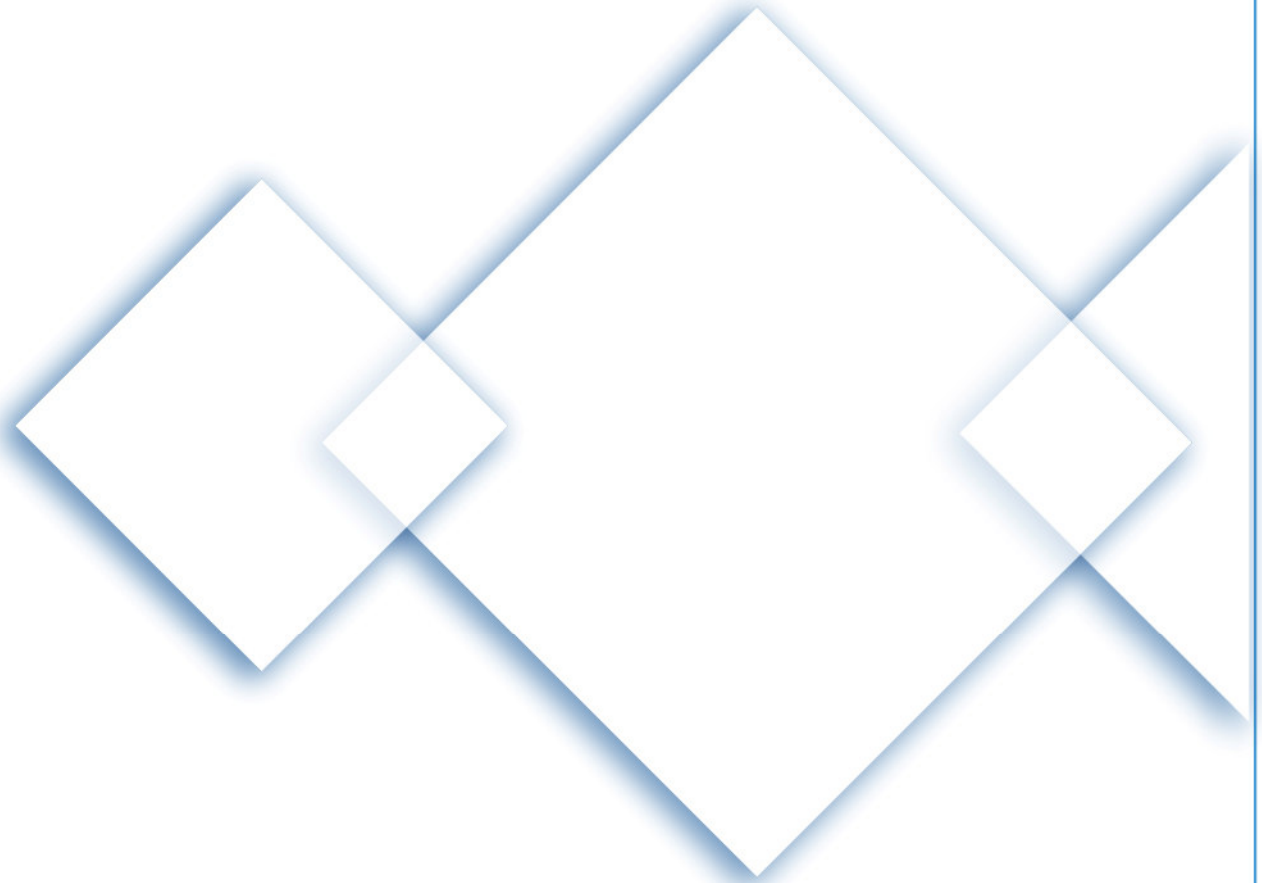
June/July 2009	Initial industry consultation/ engagement
July/August 2009	Publication of mini consultation documents
October 2009	Publication of initial proposals
November 2009	Industry event
November 2009	Ofgem to provide initial comments
December 2009	Initial Proposals consultation period closes
Early 2010	Ofgem consultation on final proposals
April 2010	Scheme go live

National Grid would like to engage with the industry at all stages of the process

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Development of mini consultations

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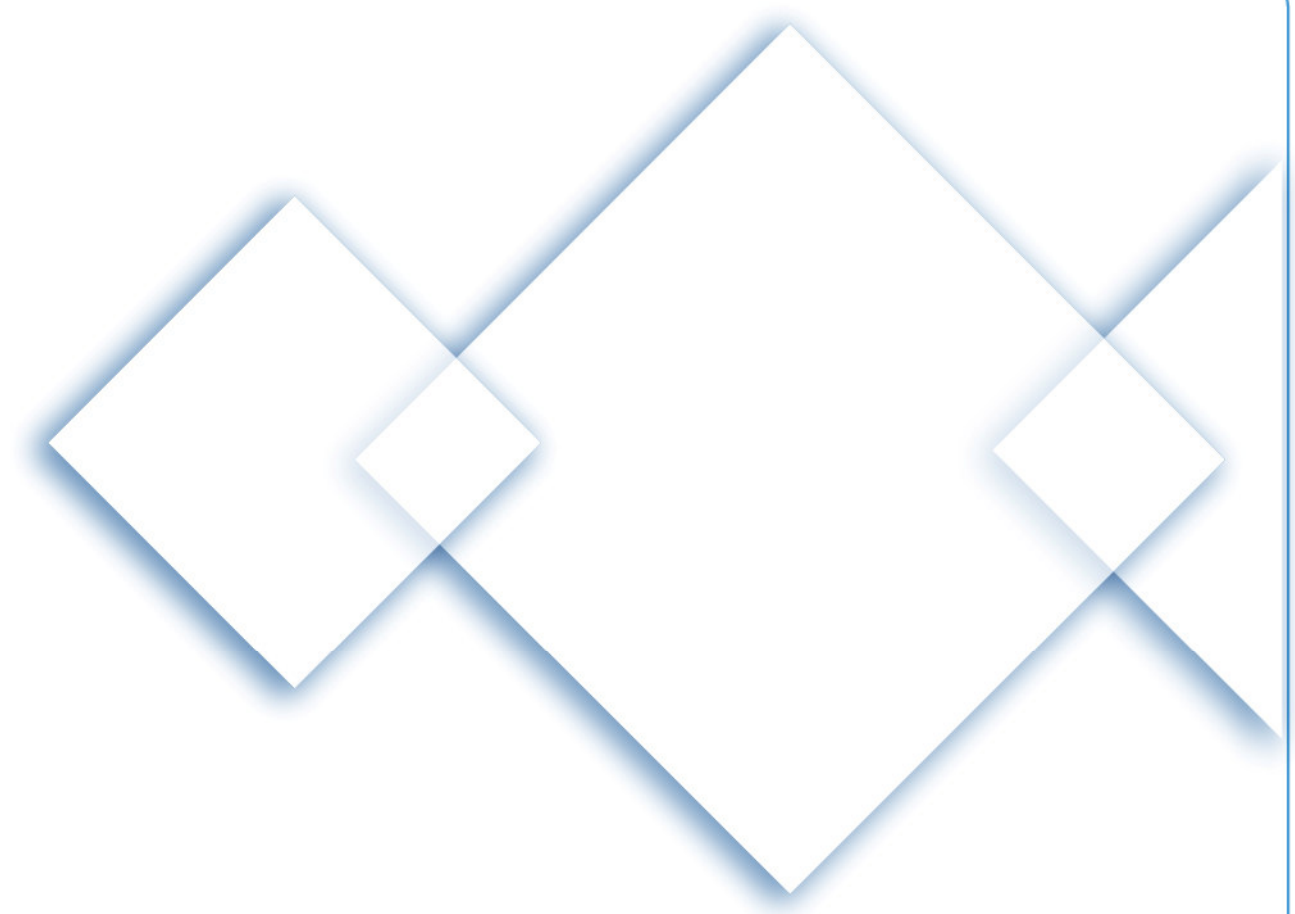
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Mini consultations

Document	Topics
1	Reactive power, transmission losses and black start
2	Energy (e.g. Reserve and Response)
3	Constraints

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Reactive Power

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Reactive power – main cost drivers

The main drivers for reactive power costs are:

- ◆ Reactive default price (linked to power price & RPI)
- ◆ Level of flows across the transmission system
- ◆ Reactive Demand
- ◆ Commercial Reactive Power contracts
- ◆ Reactive power dispatch

Reactive power – main cost drivers

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Controllable by the SO

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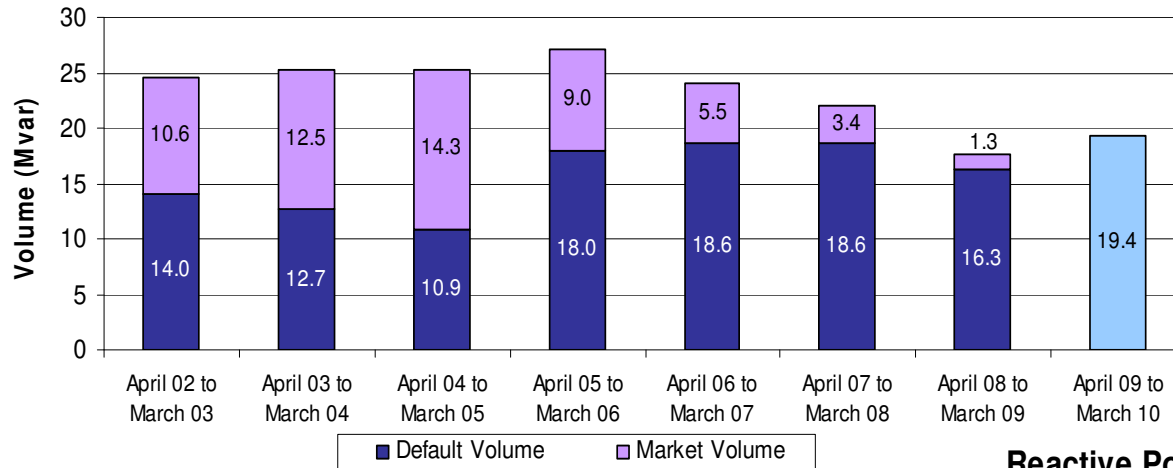
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Reactive Power – cost drivers

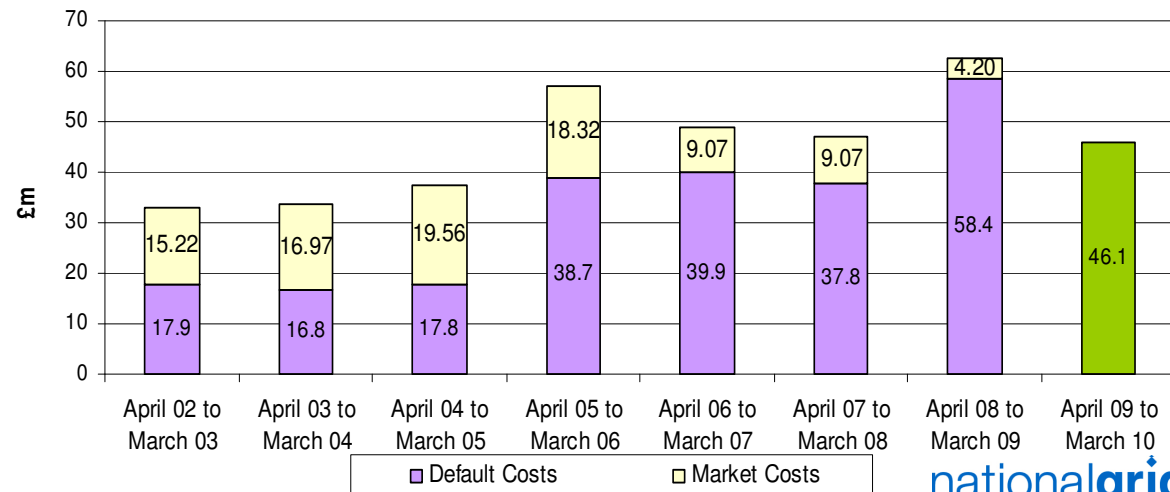
Reactive Power Volumes



Volumes decreased in 2008/09

Costs increased in 2008/09

Reactive Power Costs

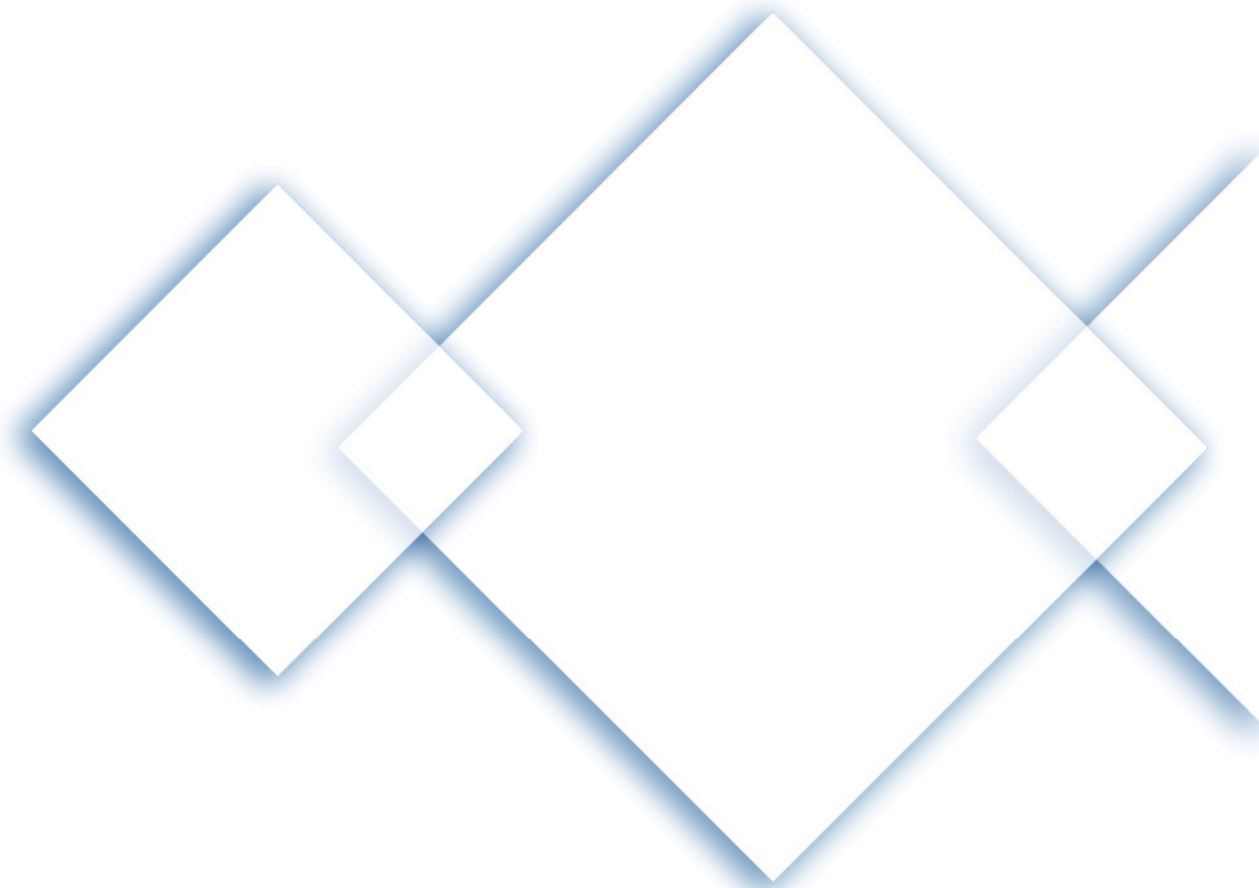


Reactive power incentive development

Should reactive power have a separate unbundled incentive?

Consider the development of suitable indexation for elements outside the control of the SO?

The development of a longer term incentive should be considered



Transmission Losses

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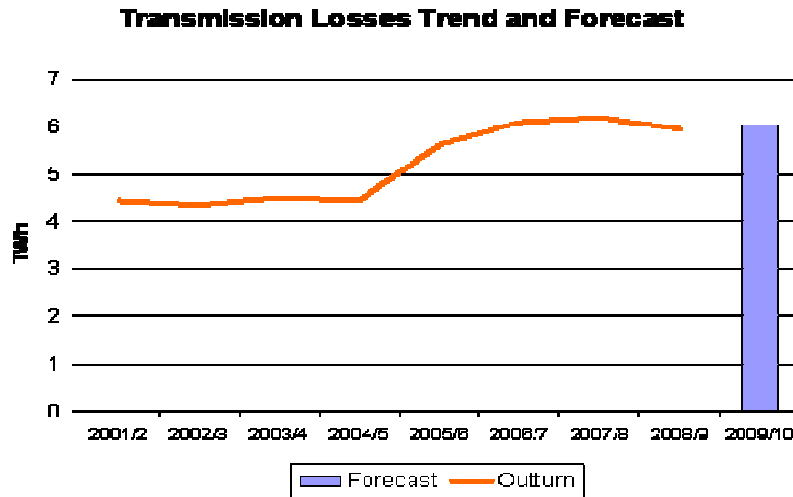
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Transmission Losses

Forecast to be 6.0TWh in 2009/10

Transmission losses are 1.7% of losses

Approximate cost of £300m p.a.



Transmission Losses

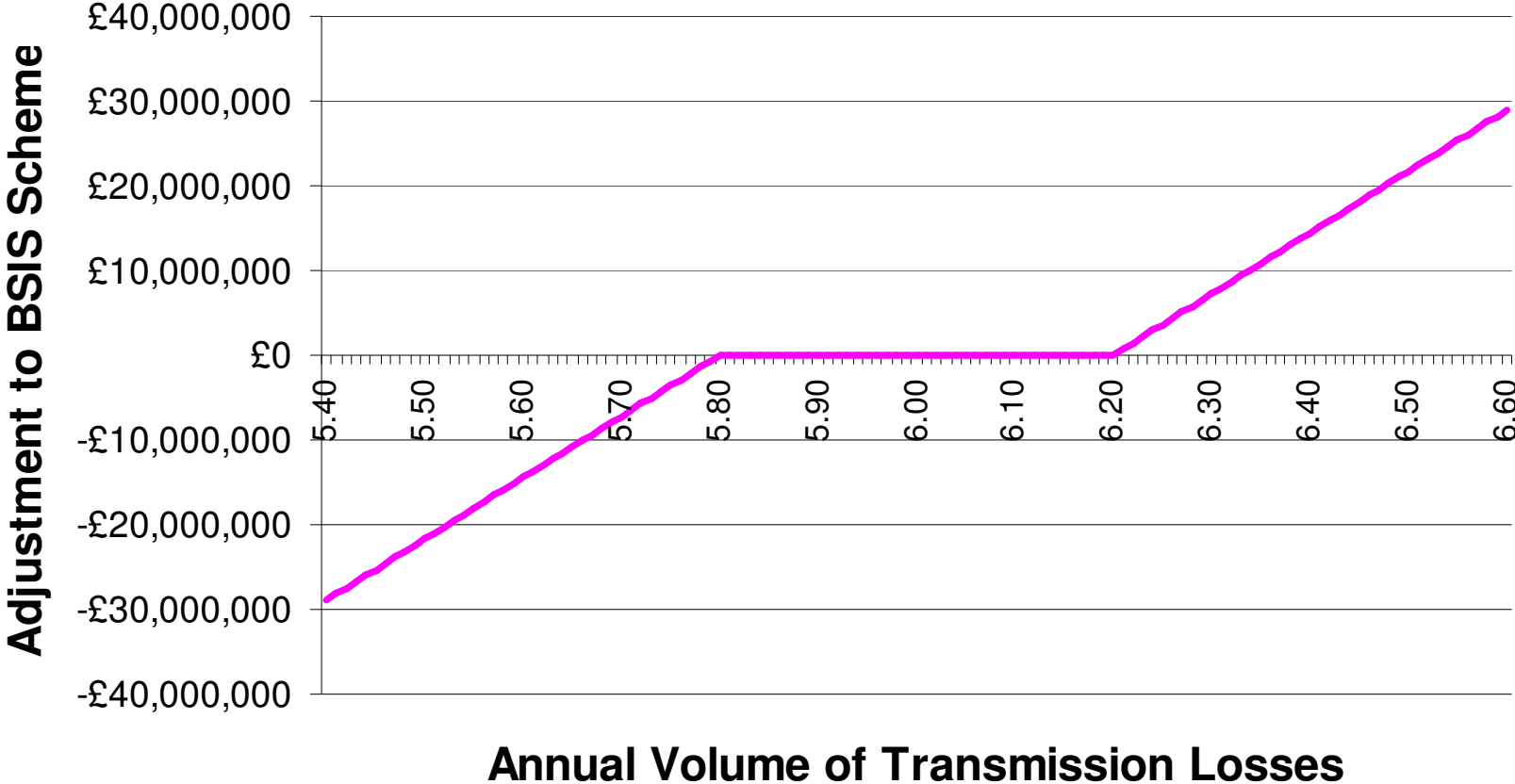
$$\textit{Balancing Incentive} = \textit{CSOBM} + \textit{BSCC} + \textit{TLIC} + \textit{NIA}$$

TLIC = Adjustment for Transmission Losses

Changes in transmission losses outside of the agreed target results in an adjustment to the Balancing Incentive target

Transmission losses – impact of on BSIS

Transmission Losses 2009/10 Incentive



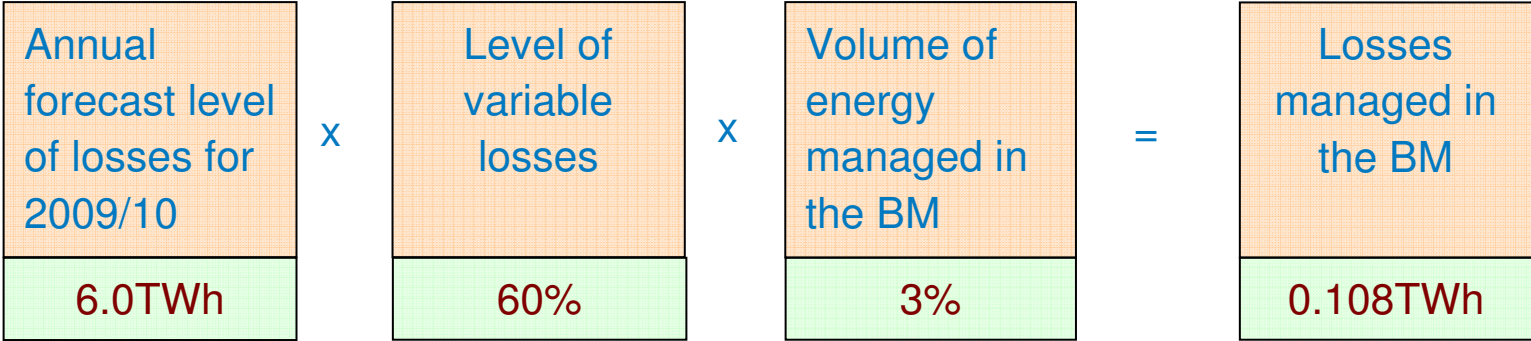
Transmission Losses

Can be split into two pots:

Fixed – losses in transmission equipment due to voltage level and are independent of power flows

Variable – losses in transmission equipment due to level of power flow

Transmission Losses – level of controllability



Transmission Losses – incentive development

Current incentive focuses National Grid on reducing down transmission losses

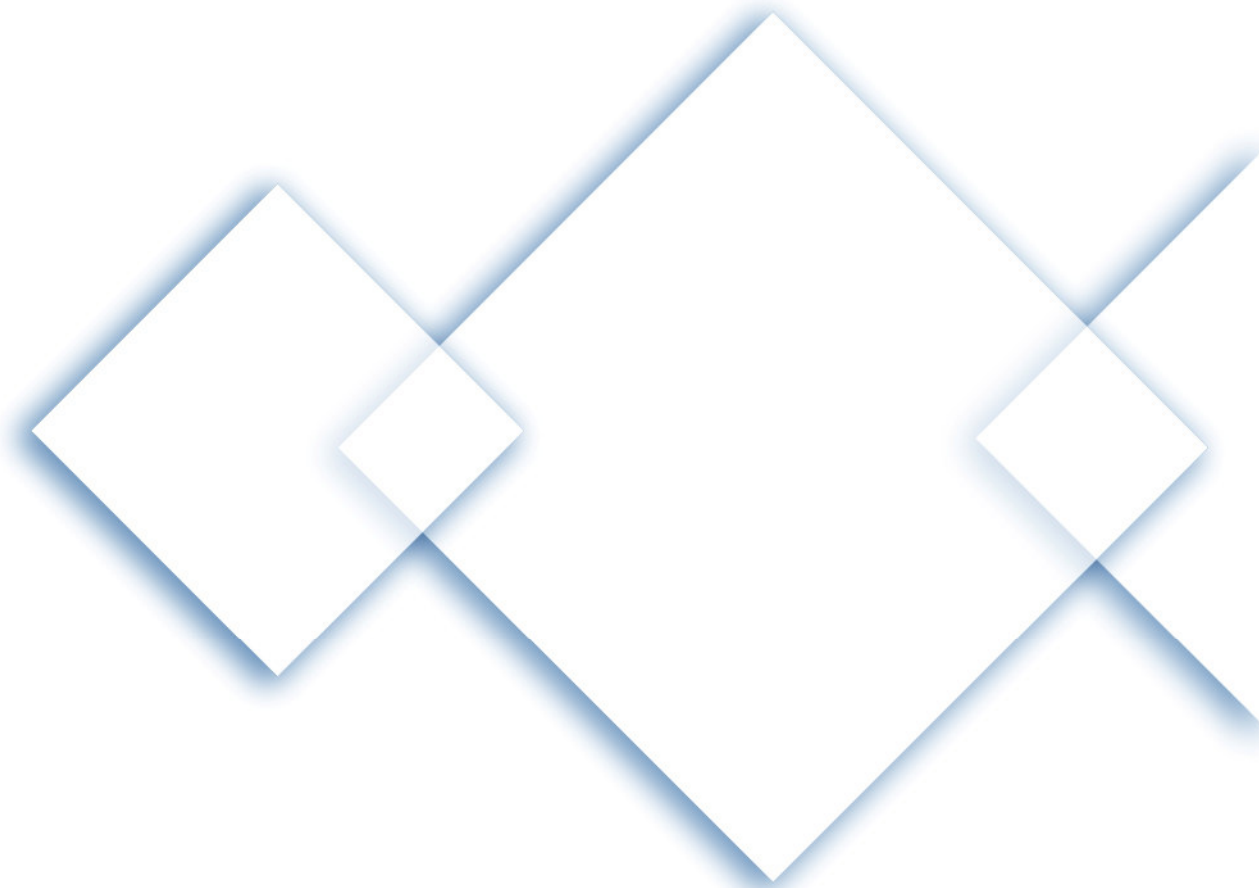
Is the current incentive appropriate?

Are any other types of incentives appropriate?

Two alternative incentive proposals suggested:

forecast incentive

procurement incentive



Black Start

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Black start

Costs are forecast to increase in the next 2 – 10 years

Increase is associated with the closure of stations that currently provide services and the cost of new providers

Impact of changing generation pattern on black start e.g. black start from new technologies such as wind

Black start

Looking to develop the incentive going forward

Views on whether the current incentive arrangements are appropriate

Are there any other incentive formats that could be developed

Two proposals considered:

SO RAB incentive

Develop regional black start market

Summary

Responses due by 2 September 2009

Responses are invaluable in determining industry opinion

**Responses will be used to develop our Initial Proposals
and considered by Ofgem when developing Final
Proposals**

Contact information

Register to receive e-mail notifications

- ◆ soincentives@uk.ngrid.com

SO Incentives area of the National Grid website

- ◆ www.nationalgrid.com/uk/Gas/soincentives/
- ◆ www.nationalgrid.com/uk/electricity/soincentives/

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