

System Operator Incentives Development Update



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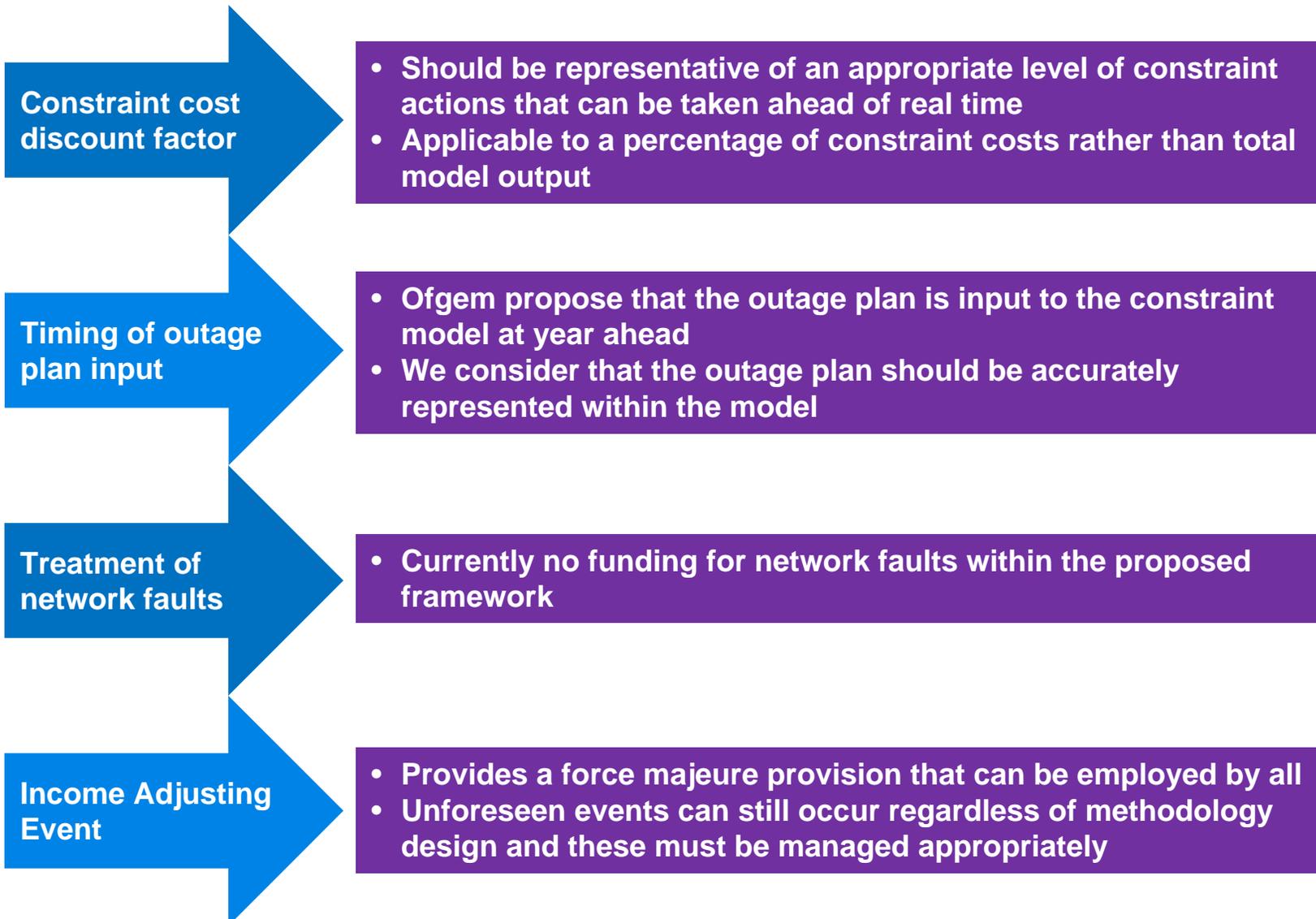
Overview

- Summary of Ofgem's latest set of proposals
- Key points from NGET response
 - An incentive framework is important, however a number of key points need to be addressed
 - We must continue to develop the modelling methodology
- Proposed timeline to implementation
- Ongoing modelling work
- Summary and next steps

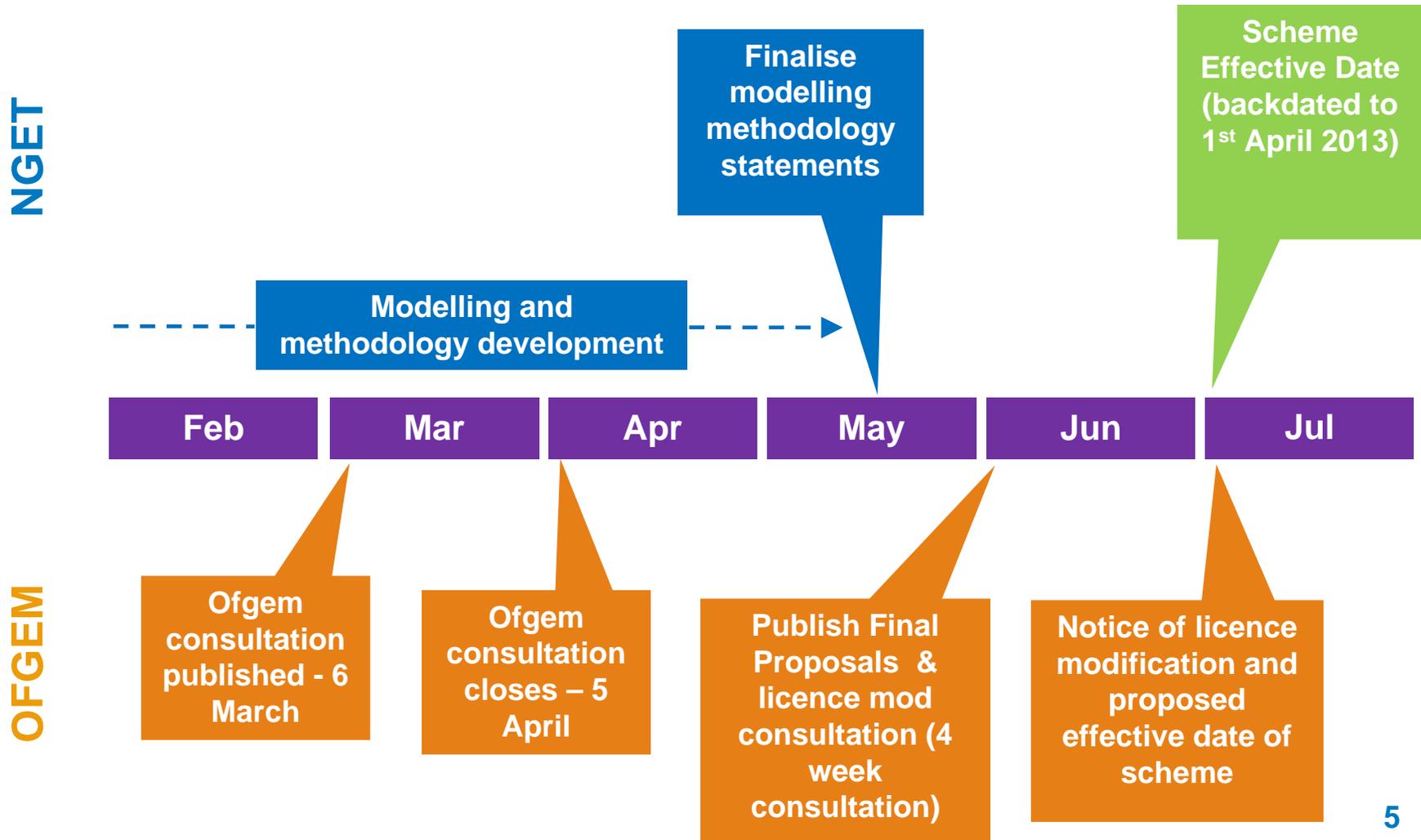
Ofgem Proposals (6 March)

Scheme	Ofgem Proposals
Balancing Services Incentive Scheme (BSIS)	<ul style="list-style-type: none"> • 2 year scheme (2013-15) • Cap/collar of £25m per annum, 25% sharing factor • Modelled targets for constraints and energy • Possible retrospective application from 1st April 2013 • Question posed on removal of Income Adjusting Event provision
Black Start	<ul style="list-style-type: none"> • Question whether the 2011-13 approach to setting a target would be appropriate given proposal for a further two year BSIS
Renewable Generation Forecasting	<ul style="list-style-type: none"> • A new 2 year financial incentive on day ahead wind forecasting error (seasonal targets) • Cap/collar of £250k per month – cap at 0% error and collar at 2 times target
Discretionary Reward Scheme	<ul style="list-style-type: none"> • Possible scheme to run alongside BSIS to encourage longer term innovation by the SO • Cap of £10m per annum

NGET Views on BSIS Proposals

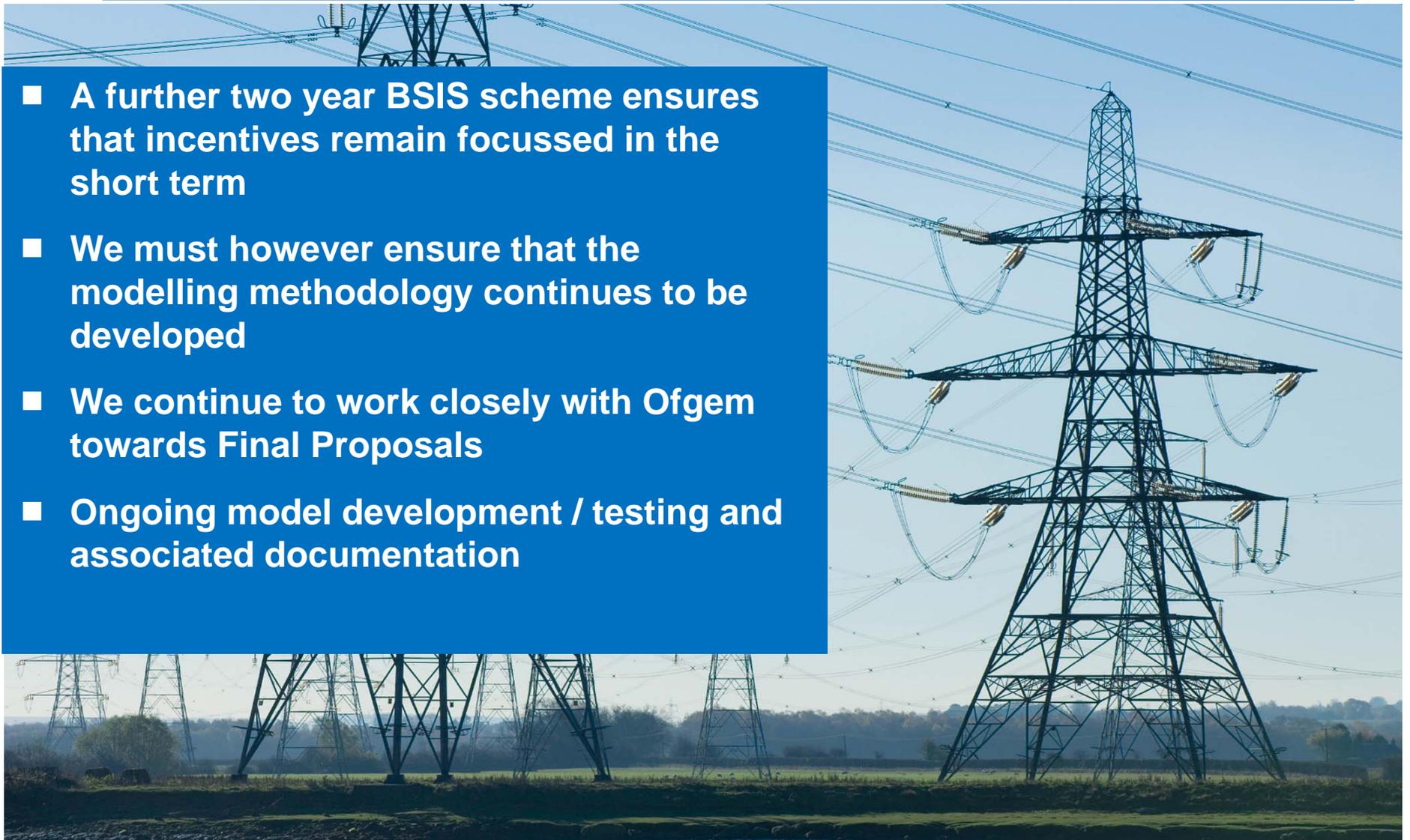


Ofgem Proposed Timeline



Summary and Next Steps

- A further two year BSIS scheme ensures that incentives remain focussed in the short term
- We must however ensure that the modelling methodology continues to be developed
- We continue to work closely with Ofgem towards Final Proposals
- Ongoing model development / testing and associated documentation



Key Information

- Ofgem's consultation document can be found on the Ofgem website (<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=337&refer=Markets/WhlMkts/EffSystemOps/SystOpIncent>)
- Our response to Ofgem's consultation can be found on our website (www.nationalgrid.com/uk/Electricity/soincentives)

We would welcome further discussion:

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Q&A

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