

SO Incentives Overview



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Introduction & Framework Overview

- Our SO Incentives proposals for the RII0-T1 period were submitted to Ofgem on 31 May 2012
- We propose an 8 year incentive framework
 - Stakeholder views have been considered
 - Combination of cost and financial incentives
 - Underpinned by the current scheme methodology
 - Designed to promote innovation in the delivery of outputs
 - Appropriate mechanisms for managing risk and uncertainty

Incentive Principles

- Based on the principles set out in Ofgem's principles consultation document published in January 2012

Value

- Promote innovation and delivery of consumer benefit
- Focus incentives on those areas that we can forecast and control as NETSO

Scheme Design

- Parameters proposed to balance risk and reward to consumers and us
- Length of schemes according to level of uncertainty and confidence in target models and data

Risk and Uncertainty

- Uncertainty mechanisms to account for significant changes to operating environment
- Managing risk on behalf of consumers

Incentive Scheme Proposals (1)

Balancing Services Incentive Scheme

Incentive	Scheme Parameters			
Balancing Services Incentive Scheme (BSIS)	Length (years)	Scheme Phase Dates	Annual cap / collar	Annual Sharing Factor
	2	Apr '13 – Mar '15	± £30m	30%
	2	Apr '15 – Mar '17	± £40m	40%
	4	Apr '17 – Mar '21	± £50m	50%

- Comprises Energy, Constraints, Black Start and Transmission Losses components
- Annual parameters reflect growing confidence in models and data
- Alignment with TO achieved in second half of RIIO-T1 period
- Mid-phase process to review models and parameters

Incentive Scheme Proposals (2)

BSIS: Energy and Constraints

- Operational experience of the current scheme (2011-13) coupled with the transition to longer term schemes led to:

Ex ante / Ex post methodology

- 1) Re-examined cost drivers and reviewed methodology
- 2) A small proportion of inputs reassessed as ex post

Cost target models

- 1) Models reviewed and subject to ongoing development
- 2) Known modelling issues rectified
- 3) Review of frequency of inputs
- 4) Proposed annual model 'health check'

Constraint Cost Components

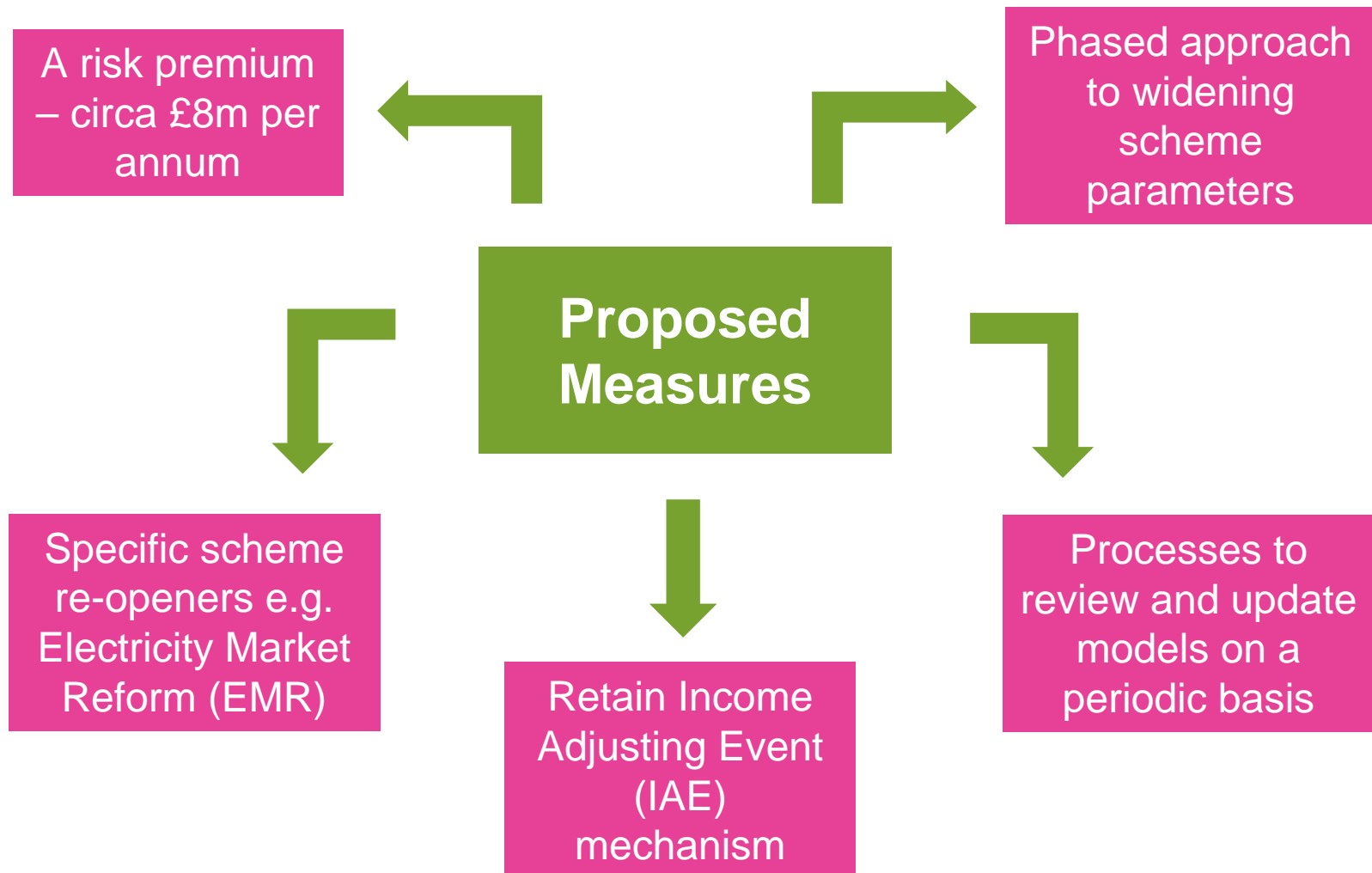
- 1) Constraint discount factor (41%) amended to an uplift factor of 1.33
- 2) Proposal to contractually incentivise relevant non-NGET TOs to reduce constraints

Incentive Scheme Proposals (3)

Remaining components

Incentive	Key Features
BSIS: Black Start	<ul style="list-style-type: none"> • Annualised cost target derived from a number of assumptions for both existing and new Black Start station costs • Cost target comprises ex ante and ex post elements
BSIS: Transmission Losses	<ul style="list-style-type: none"> • Ex ante target based on previous year outturn in accordance with Transmission Loss Factors • 20% sharing factor
Renewable Generation Forecasting	<ul style="list-style-type: none"> • A new financial incentive to reduce day ahead wind forecasting error • Cap / collar \pm £250k per month, 4+4 years with mid point review
Customer & stakeholder satisfaction	<ul style="list-style-type: none"> • Proposed customer and stakeholder satisfaction incentive on National Grid to include the SO role • Value up to +/- 1% of annual revenue • Maximum 0.5% of annual revenue as a discretionary reward

Managing Risk & Uncertainty



Summary & Next Steps

- Our SO Incentives proposals to be published shortly (www.nationalgrid.com/uk/Electricity/soincentives)
- Discussions ongoing with Ofgem over the coming weeks prior to Ofgem's Initial Proposals
- Please get in touch to discuss: soincentives@nationalgrid.com or katharine.clench@nationalgrid.com



Q&A

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