

## **Future Electricity System Operator Incentives**

Presentation to the Electricity Operational Forum

**Lewis Heather**  
26/02/2014

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

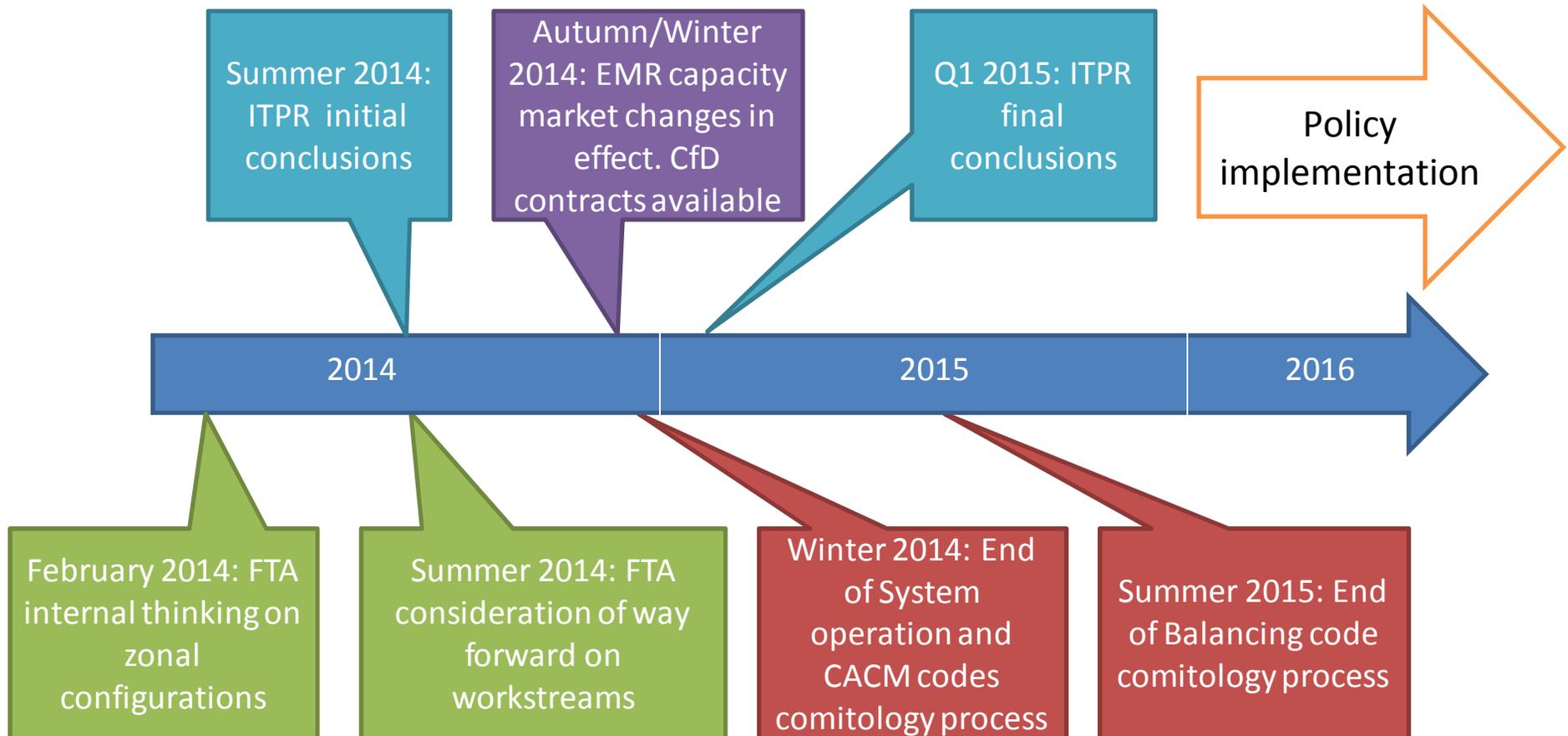
- Growing levels of renewables
- Intensive network investment plans
- Increasing levels of interconnection
- Policy landscape
  - Electricity Market Reform
  - European Network Codes
  - Integrated Transmission Planning and Regulation
  - Future Trading Arrangements

## 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



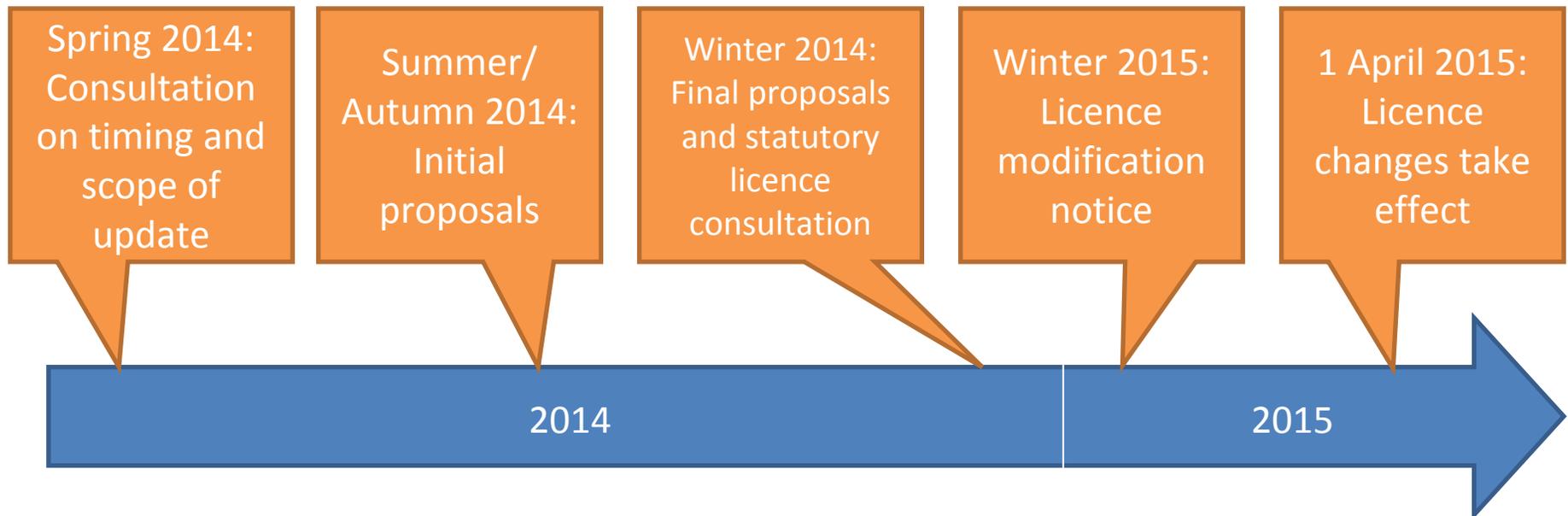
We propose to extend the core framework of the current scheme to allow the time to properly consider emerging policy in our review of future SO regulation

## Framework extension

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

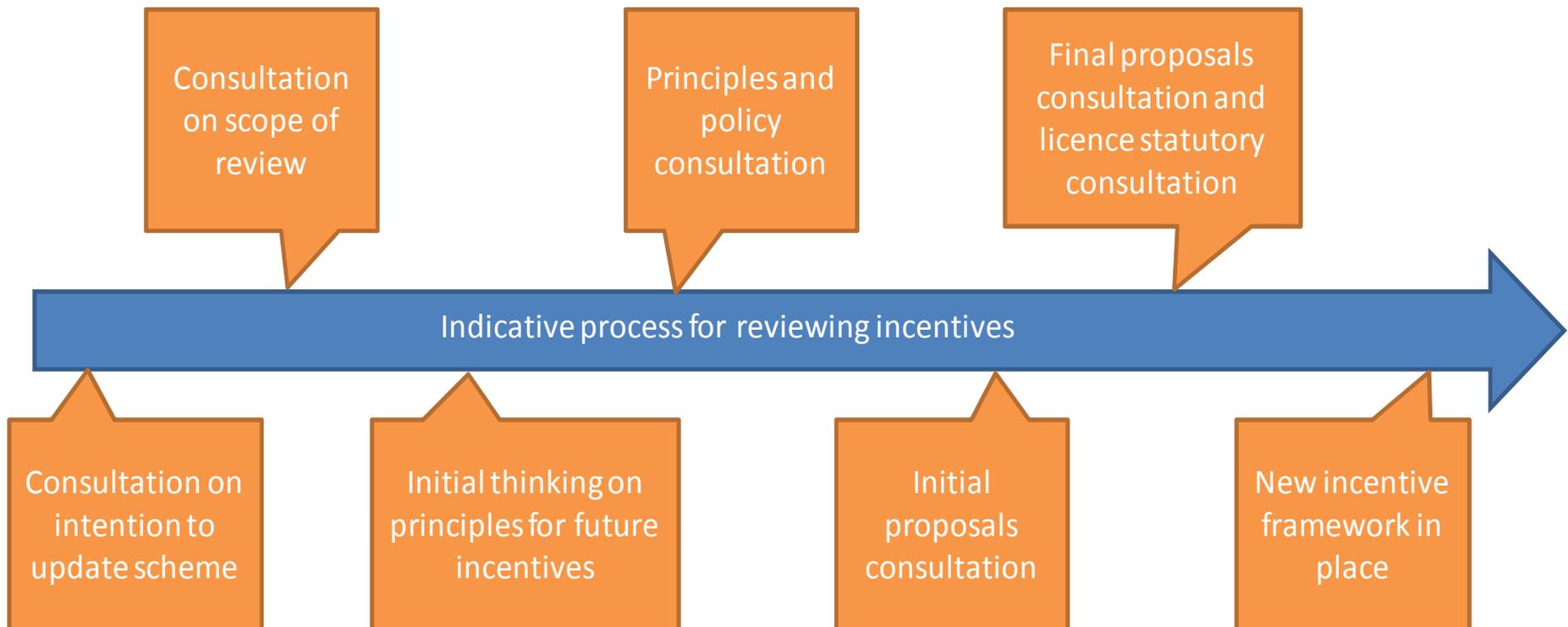
- Continuing model and model transparency improvements;
- Development of additional incentives; and
- Considering the need for, and merits of, financial tools for SO-TO outage planning

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

**Ofgem is the Office of Gas and Electricity Markets.**

**Our priority is to protect and to make a positive difference for all energy consumers. We work to promote value for money, security of supply and sustainability for present and future generations. We do this through the supervision and development of markets, regulation and the delivery of government schemes.**

**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

[lewis.heather@ofgem.gov.uk](mailto:lewis.heather@ofgem.gov.uk)