

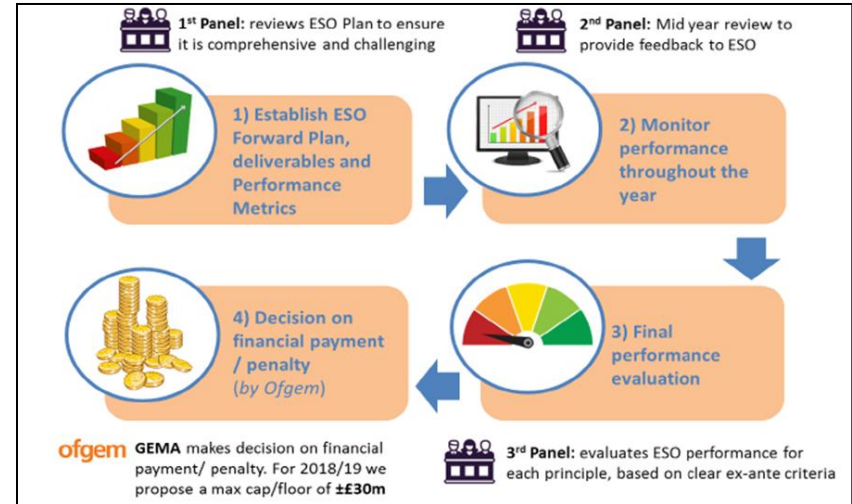
Consequential changes to facilitate the 2018-2021 ESO Incentive Scheme Modification Proposal

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Recap

- The ESO regulatory and incentive framework for 2018-21 has been revamped
- There is now a **single evaluative incentive** covering all of the ESO's activities
- This is worth \pm £30m per year
- There is no more BSIS

Annual Process



Performance criteria

- Evidence of delivered benefits
- Evidence of future benefits / longer term initiatives
- Wider stakeholder evidence
- Plan delivery
- Performance metrics and justifications

Reason for Change

- New Incentive framework has gone live (1st April 2018).
 - Reflecting Licence changes that have already been agreed.
 - New special Licence Condition 4M.
- Change to how external incentive scheme payment element is generated.
- Move from a mechanistic approach to an evaluative approach.

Ofgem's Decision

- On 28th March Ofgem published their consultation decision letter.
- Going ahead with changes consulted on with minor typographical changes.
- Suggested NG change not appropriate at this time.
 - Reconciliation – BSUoS volatility.
 - License should allow for an adjustment in relevant year t+1.
 - Ofgem are happy to work on this with the ESO and industry to determine method for future years..

The Proposal

External BSUoS Charge for each Settlement Period (BSUoS_{EXT}_{jd})

14.30.6 The External BSUoS Charges for each Settlement Period (BSUoS_{EXT}_{jd}) are calculated by taking each Settlement Period System Operator BM Cash Flow (CSOBM_j) and Balancing Service Variable Contract Cost (BSCCV_j) and allocating the daily elements on a MWh basis across each Settlement Period in a day.

[Need to amend equation below from $Inc\text{payext}_d$ to $Inc\text{PayEXT}_t$ and remove LBS and FIIR terms]

$$\begin{aligned}
 & \text{BSUoS}_{EXT\,jd} = \text{CSOBM}_{jd} + \text{BSCCV}_{jd} \\
 & + [\text{Inc}\text{payEXT}_d - \text{BSCCA}_d + \text{ET}_d - \text{OM}_d - \text{FIIR}_d + \text{BSC}_d + \text{SOTOC}_d + \text{LBS}_d] \\
 & * \left\{ \left| \sum^+ (\text{QMBSUoS}_{j\,d} * \text{TLM}_{j\,d}) \right| + \left| \sum^- (\text{QMBSUoS}_{j\,d} * \text{TLM}_{j\,d}) \right| \right\} / \\
 & \sum_{j\,d} \left\{ \left| \sum^+ (\text{QMBSUoS}_{j\,d} * \text{TLM}_{j\,d}) \right| + \left| \sum^- (\text{QMBSUoS}_{j\,d} * \text{TLM}_{j\,d}) \right| \right\}]
 \end{aligned}$$

The Proposal

External Incentive Payment (IncPayExt_t)

- 14.30.7 IncPayExt_t is the external incentive payment for the Current Financial Year. This amount of this will be determined in line with Transmission Licence Special Condition 4M.
- 14.30.8 For Financial Year 2018/19 IncPayExt_d is calculated by dividing IncPayExt_t for Financial Year 2018/19 by the amount of days remaining within the current incentive scheme year. IncPayExt_d will be evenly spread and then apportioned by volume as per the current process (14.30.2).

- Remove original 14.30.7 to 14.30.13 and removal of section 14.32.
- Update acronyms in 14.31.8
- Removal of section 14.32 (worked example)

Recommendation

- Recommend **straight to Code Admin Consultation:**
 - Confirmation from Ofgem on actual changes.
 - [National Grid Circular document](#)
 - Reduction in scope of CUSC Change (no change to reconciliation process)

Thank You



Proposed Timetable: CMP299



CUSC Panel – 27 April 2018
Code Administration

Code Administrator Proposed Progression

- The Panel is asked to agree:
 - Whether CMP299 should be progressed:
 - immediately to Code Administrator Consultation with Authority decision

Proposed Timetable

Early-mid May 2018	Code Administration Consultation issued to the Industry
June 2018	Draft Final Modification Report presented to Panel
June 2018	Modification Panel Recommendation Vote
July 2018	Final Modification Report issued to the Authority
August 2018	Authority Decision
September 2018	Final text implemented in CUSC (10 working days following decision)