



Consultation on Shallow Incentive Proposal

Conclusions Report

31 October 2017

Introduction

National Grid has closed the August/September consultation window for the System Operator Incentive Plan 2017/18.

The incentives included in the scope of this review are Demand Forecasting (D-2 to D-5), Maintenance and Greenhouse Gas Emissions. The proposal document described the latest position regarding the operating environment against which the incentives are set, and highlighted how this has been considered in our proposals for the next incentive period.

Industry parties were given the opportunity to comment on two consultations (June 2017 and August/September 2017), firstly on the fundamentals of the incentive review and secondly on the detailed mechanisms behind how we propose to drive efficiencies and help to facilitate the gas market from 2018/19 to 2020/21 through incentives.

This document incorporates the formal comments from the second shallow consultation window. Comments from the first consultation window were addressed in the document submission for the second consultation.

One response was received during the August/September consultation window from Energy UK, trade association for the UK energy industry representing over 90 suppliers and generators of electricity and gas in the UK.

Responses

Demand Forecasting D-2 to D-5

Previous feedback from industry respondents report that the use of the D-2 to D-5 forecast differs greatly between shippers and that some smaller shippers and trading companies rely heavily on the National Grid forecasts. A cross-section of industry respondents also expressed an interest in additional forecasts such as a month-ahead forecast.

Energy UK cited that its members view the D-1 forecast as the more important of the two forecasts and that the D-2 to D-5 forecast is not widely used amongst their members but should the incentive be continued then the current methodology and targets are fit for purpose given the increasing volatility. Some respondents to the first consultation from large companies prefer to forecast in house and use the National Grid forecast to validate their own rather than relying solely on the forecast.

Maintenance and Outage Planning

Energy UK welcomed the improved performance that the maintenance incentive has delivered with directly affected parties, largely due to improved working practices and engagement with customers.

Previous respondents, both written and verbal, have overwhelmingly supported the intention to extend the incentive to include more maintenance activities and National Grid has set an ambitious target for itself, which includes an additional 10% alignment of the overall size of the maintenance plan before remuneration.

Greenhouse Gas Emissions

Energy UK are pleased to see progress in this area both with better quantification and understanding of National Grid's asset base and the introduction of National Grid funded innovation projects. Energy UK members support the introduction of a symmetrical incentive as they agree that a downside only incentive does not effectively drive efficient behaviour or provide incentive for significant improvements. Energy UK suggest that now, three years before the next price control, at which time the mechanism will be reviewed once more, is timely to introduce an upside to the incentive.

National Grid would like to thank all industry parties that responded both in the first consultation window and the second. For more information on the incentives please visit <http://www2.nationalgrid.com/uk/industry-information/gas-system-operator-incentives/incentives/>