

Balancing Services Incentive Scheme

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nationalgrid

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Agenda

- ◆ Background
- ◆ Consultation Report
 - ◆ Responses
 - ◆ Updated forecast & scheme design
 - ◆ Latest discussions
- ◆ Constraints
 - ◆ Detailed breakdown
 - ◆ Work to minimise costs
 - ◆ Proposals for further information transparency
- ◆ Next Steps

What is the Balancing Services Incentive Scheme?

- ◆ Internal
 - ◆ Covers the internal operating costs of System Operation
 - ◆ Staff costs
 - ◆ IT costs
 - ◆ Circa £108m for 2009/10
- ◆ External
 - ◆ Covers the external operating costs of System Operation
 - ◆ Constraint management, reserve, reactive power, etc
 - ◆ Net Imbalance Adjustment correction £256m
 - ◆ Circa £469m for 2009/10

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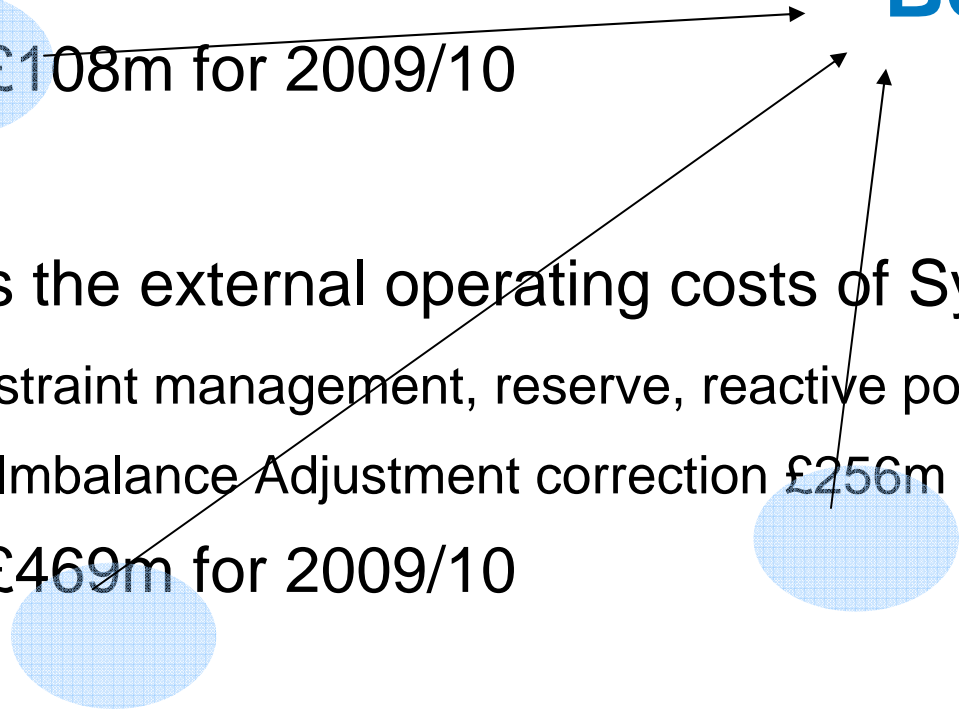
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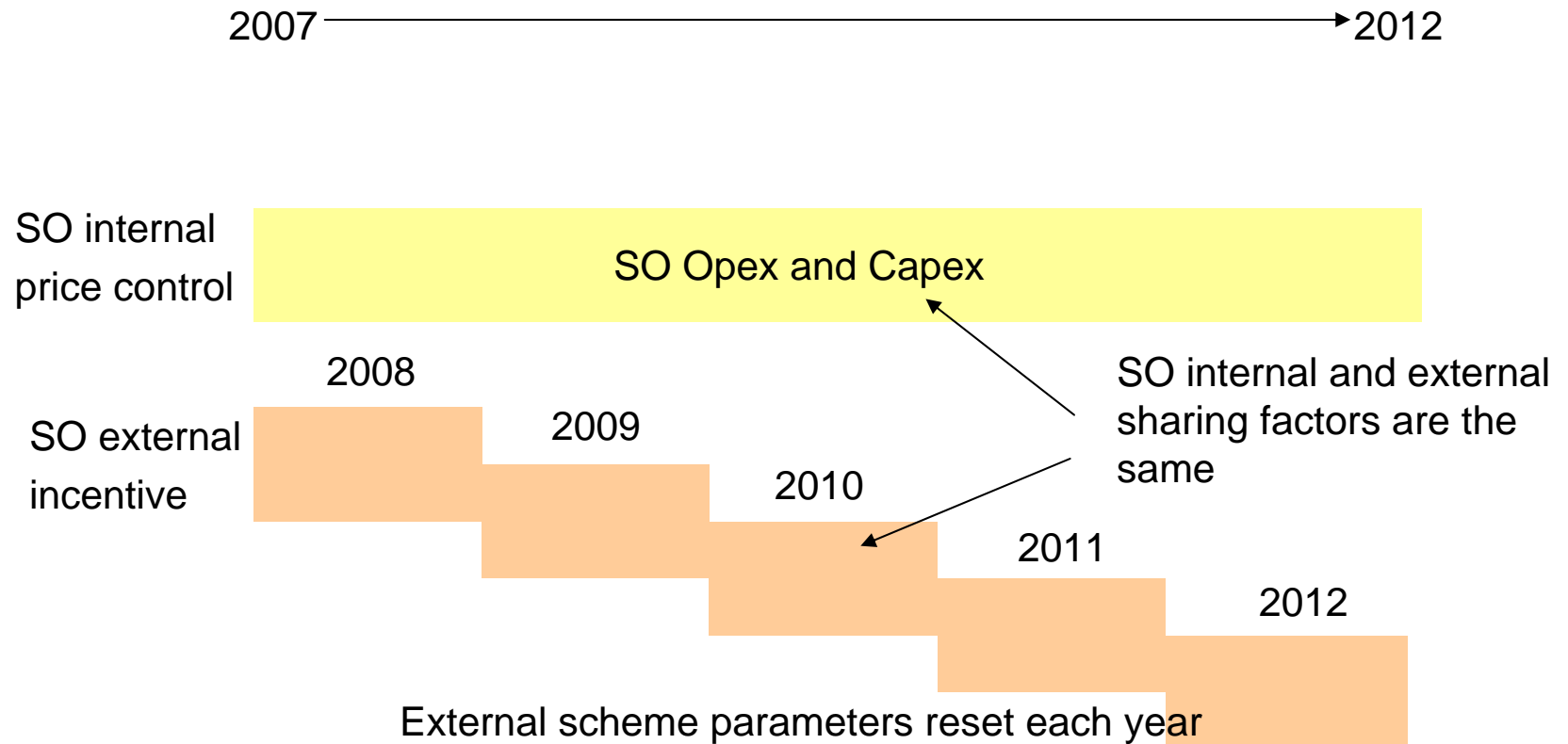
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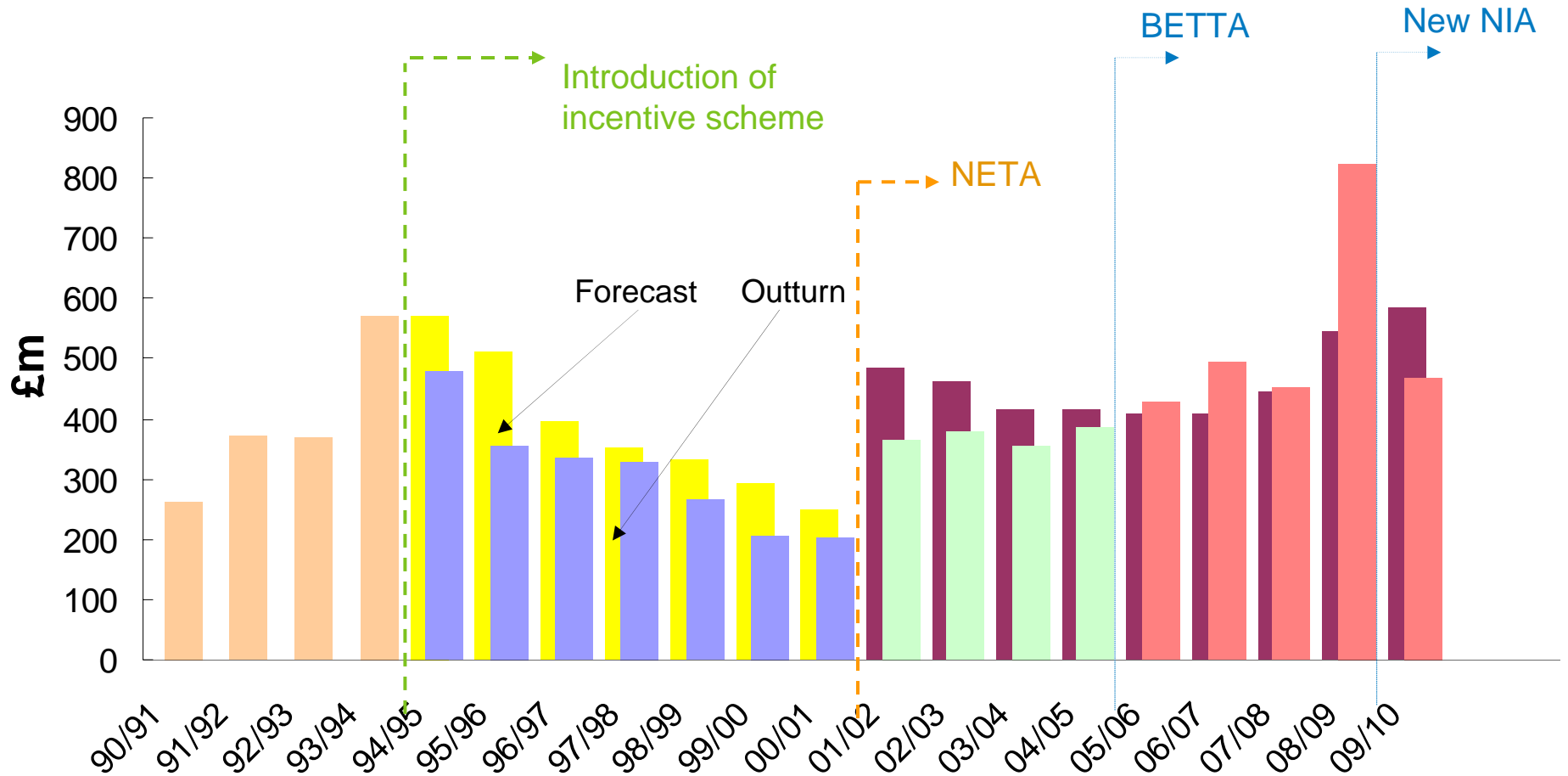
BSUoS £833m



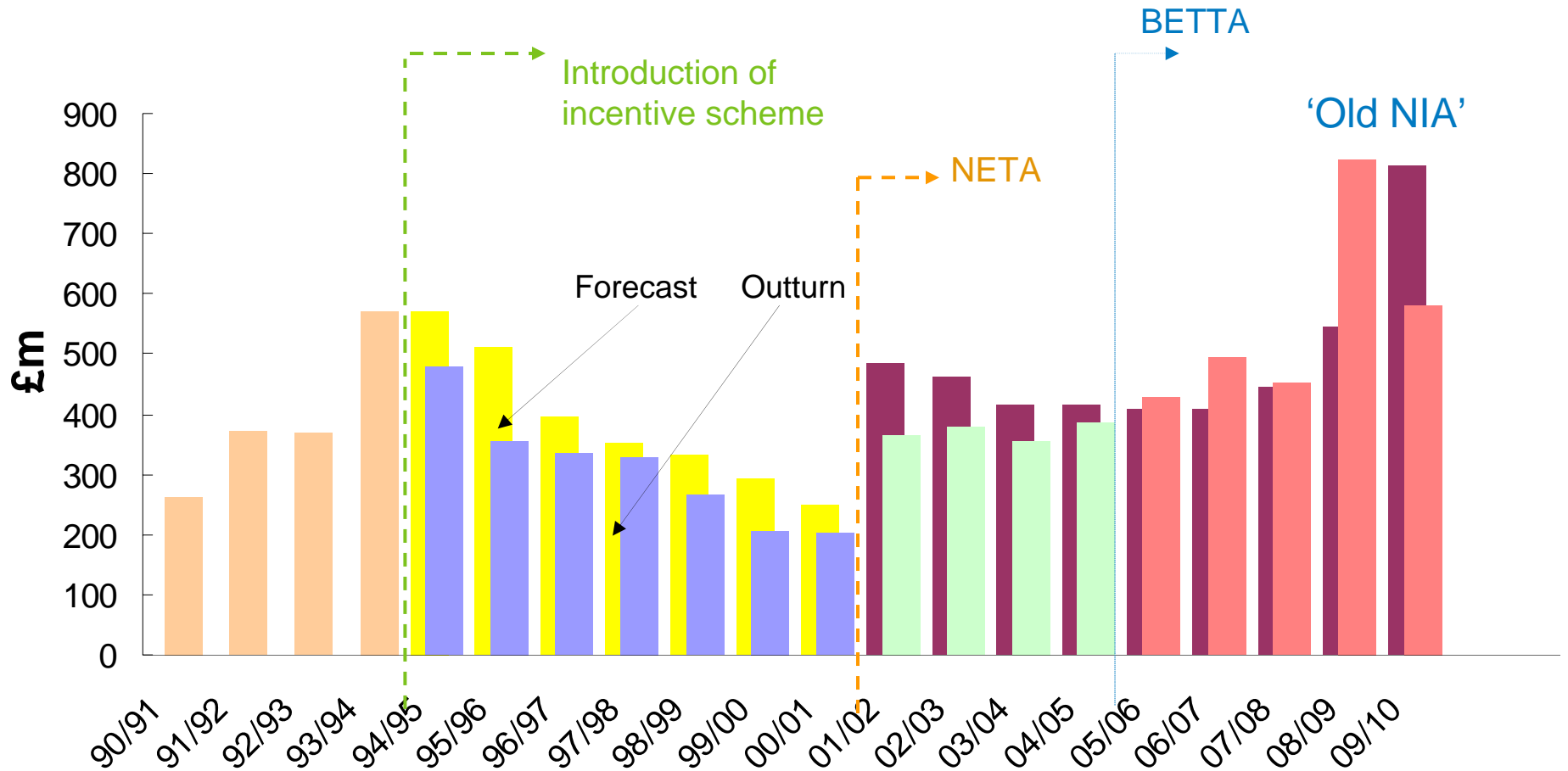
Current SO / TO incentive arrangements



Electricity SO External Incentive Scheme



Electricity SO External Incentive Scheme



This year's process

Roles and responsibilities

- National Grid to consult on initial proposals
- Ofgem to scrutinise National Grid proposals
- Ofgem to publish final proposals

Progress to date

- Ofgem set priorities: 28th May
- Mini consultations: Summer 2009
- Publication of initial proposals: 5th November
- Publication of consultation report: 15th January



Ofgem final proposals: February 2009

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Consultation responses

- ◆ Initial proposals consultation closed 16th December
 - ◆ 9 formal responses received
 - ◆ Met with 3 parties
 - ◆ Presented a summary of our consultation at the Operational Forum & Small suppliers forum
- ◆ Updated proposals in report developed from comments received

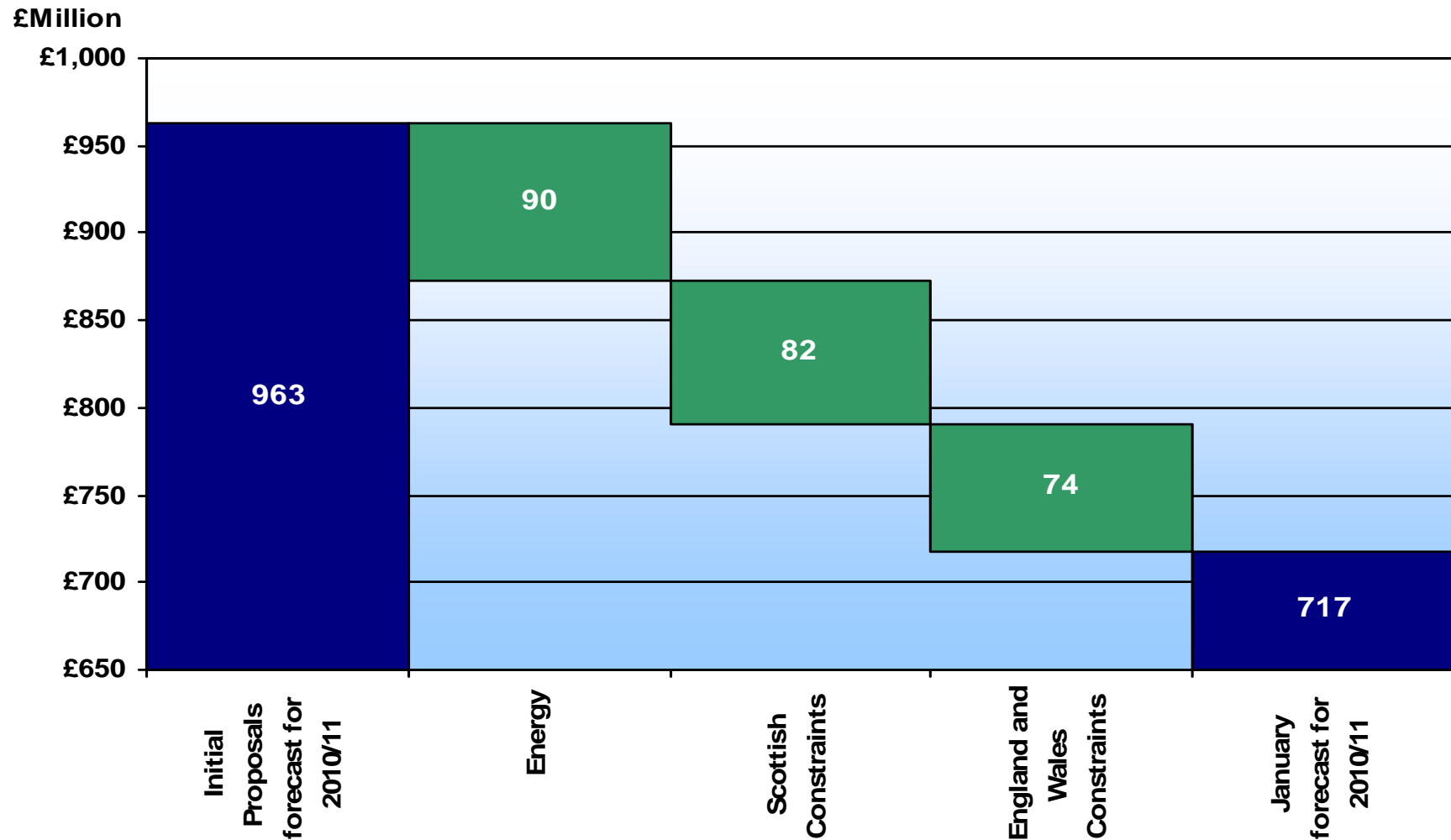
Consultation responses

- ◆ Forecast
 - ◆ General agreement that the assumptions were reasonable
 - ◆ Specific points included Net Imbalance Volume assumption and level of wind connecting
 - ◆ Overall forecast seemed high when compared to 2009/10
 - ◆ Concern with the increase in constraint costs
- ◆ Scheme Design
 - ◆ Support for a fully bundled scheme
 - ◆ Limited support for multi-year deal
 - ◆ Development of parameters need further justification

Forecast for 2010/11 & 2011/12

Forecast	2010/11	2011/12
Constraints	£322m	£463m
Remaining components	£395m	£422m
Central Incentive Forecast	£717m	£885m
Total BSUoS costs	~£1053m	~£1248m
BSUoS costs (£/MWh)	~£1.62/MWh	~£1.92/MWh

Initial Proposals v Latest Forecast for 2010/11



Forecast changes

- ◆ Forecast model improvements and developments
- ◆ Lower forecast volumes for margin
- ◆ Longer market length
- ◆ Price changes
- ◆ Latest generation data

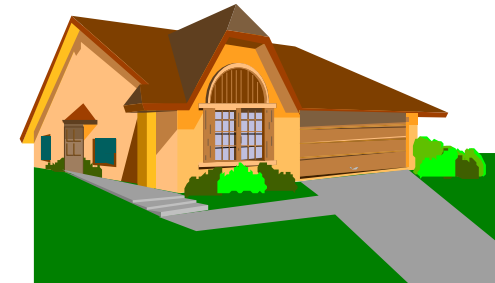
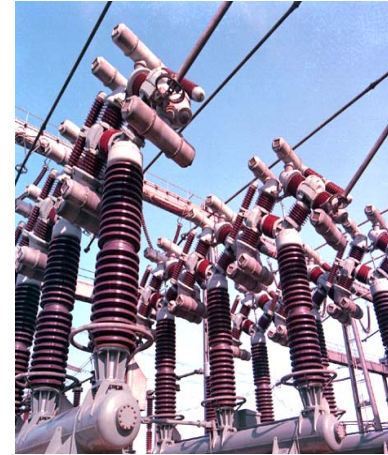
Latest discussions

- ◆ Diverging views on assumptions
- ◆ One year scheme

Agenda

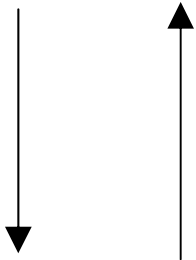
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Constraint Forecast Assumption - Volume



Constraint Forecast Assumption - Price

£/MWh



England & Wales 2009/10 outturn versus 2010/11 forecast

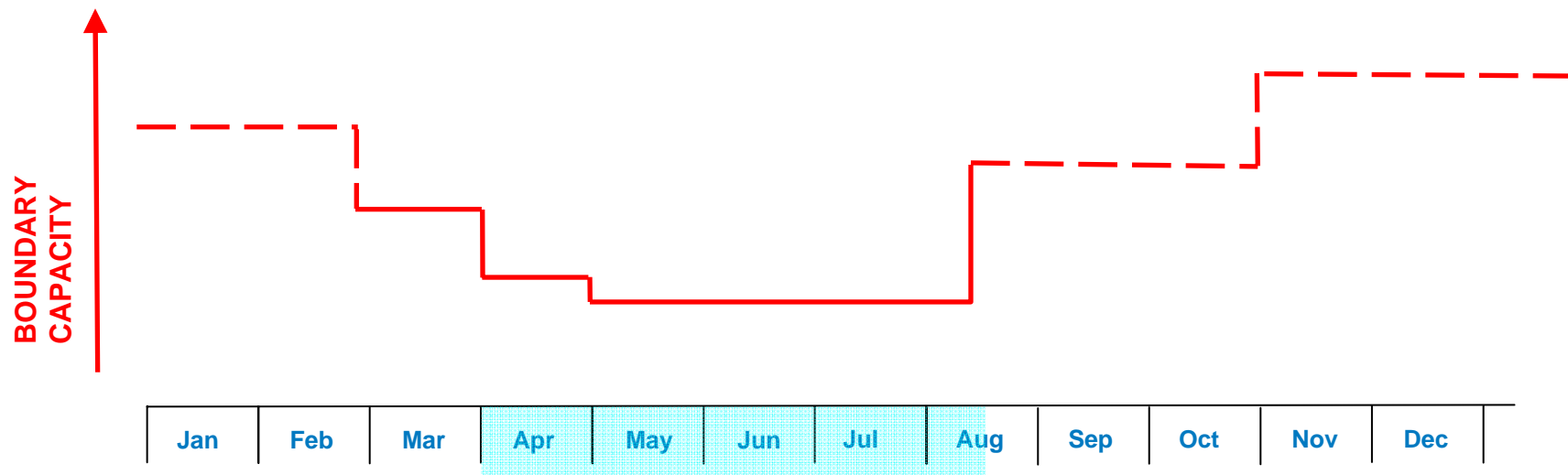
	Latest 2009/10 Forecast	2010/11 Forecast
Total Constraint costs (£m)	30	114
Total Volume (GWh)	4096	5864
Average Price of action (£/MWh)	7.3	19.4

Scotland 2009/10 outturn versus 2010/11 forecast

	Latest 2009/10 Forecast	2010/11 Forecast
Total Constraint costs (£m)	127	208
Total Volume (GWh)	3402	4140
Average Price of action (£/MWh)	37.2	50.3

Managing the 2010 Constraint Costs

- ◆ Competitive tender completed in Scotland
 - ◆ Period 29th March-6th August
 - ◆ Capped output and intertrip contract
 - ◆ Existing intertrip extended at power station



Managing the 2010 Constraint Costs – England & Wales

- ◆ Two existing intertrips – finalising legal terms
- ◆ New intertrips – North West and North East

- ◆ Thames Estuary
 - ◆ ‘On-the-shelf’ contract in place for intertrip
 - ◆ Firming requirements for competitive tender
 - ◆ System Operator heavily involved in design of construction programme
 - ◆ Designed to minimise impact of plan on constraint costs

Information transparency

- Proposals to set up industry group to develop balancing services, including information provision
- Further information to follow

Next Steps

- ◆ Ofgem consultation on final proposals
- ◆ Please also note we have published
 - ◆ Net Imbalance Adjustment assessment open letter
 - ◆ Balancing Services Incentive Scheme Reference Document