

To:  
Generators, Shippers, Suppliers, Customers,  
Transmission and Transportation System Owners and  
other Interested Parties

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Dear Colleague,

## **National Grid Electricity Transmission – System Operator (SO) Incentives from April 2011**

On 5 July 2010 Ofgem published a report<sup>1</sup> setting out its preliminary conclusions following phase 1 of the electricity SO incentives review; the aim of which is to develop a more effective electricity SO incentive scheme covering two or more years.

National Grid supports the aims of the electricity SO incentives review and is in broad agreement with the phase 1 preliminary conclusions as set out in Ofgem's report. Having identified and prioritised the work to be undertaken during phase 2 of the review, we are now in the process of developing our proposals.

### **Model development**

We acknowledge the conclusions reached by Frontier Economics with regard to our current modelling approach. In accordance with their recommendations, we intend to update our approach to modelling the Energy components of BSIS costs so that it better facilitates a move to multi-year incentives.

To allow us to improve our approach to modelling Constraints in line with Frontier's conclusions we are looking to procure a model from a third-party. Our requirements for the model will be specified to fully reflect our needs, although recognising that the timeframe associated with the delivery of such a model may be significant, we will be looking for potential vendors to identify which elements of the requirement they would be able to deliver to support the implementation of a multi-year incentive scheme from 1st April 2011.

This approach aims to reflect the fact that an 'off the shelf' system might provide a workable means of helping deliver a multi-year incentive from next April, whilst recognising that further development work may be necessary to provide all that we require from an enduring solution. To cover the risk that procurement of a workable solution is not achievable, a contingency approach is proposed, which

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<sup>1</sup><http://www.ofgem.gov.uk/Markets/WhIMkts/EffSystemOps/SystOpIncent/Documents1/Phase%201%20recomendations%20doc%204.pdf>

involves the internal development of an interim solution to generation dispatch and constraint modelling. This approach will be progressed in conjunction with the formal procurement process.

### **Interaction with wider work**

We recognise the importance of ensuring, as far as possible, co-ordination with the work being done through TPCR5 and RPI-X@20 and the benefits this could deliver for longer-term incentive schemes. We note Ofgem's reference to improvements in SO/TO interactions and its alignment with the work we have done in this area following our informal consultation<sup>2,3</sup> last year. We will continue to pursue developments in this area.

### **Next steps**

Ofgem's report provides us with clear recommendations to improve our incentive scheme design and modelling. We are now developing the detail to support those recommendations, which will be assessed under phase 3 of the SO incentives review process and form the basis of our Initial Proposals for an SO incentive scheme starting on 1<sup>st</sup> April 2011.

We expect to be in a position to publish our Initial Proposals for consultation in the autumn, however if you have views you would like to express in relation to the phase 2 work, we would be happy to hear them. Please get in touch using the contact details below.

Yours sincerely,



Mark Ripley  
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National Grid

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<sup>2</sup> <http://www.nationalgrid.com/NR/rdonlyres/FB4A9925-15AB-462A-B516-33543A44B460/37082/PotentialEnhancedElectricityTransmissionOwnerIncen.pdf>

<sup>3</sup> [http://www.nationalgrid.com/NR/rdonlyres/33E9E2A1-2C2F-4E31-9704-C23987EB34F4/41079/SO\\_TO\\_Web\\_Summary\\_Issue1.pdf](http://www.nationalgrid.com/NR/rdonlyres/33E9E2A1-2C2F-4E31-9704-C23987EB34F4/41079/SO_TO_Web_Summary_Issue1.pdf)

## Contact us:

To register your interest in receiving future communications on this consultation process please email: [SOIncentives@uk.ngrid.com](mailto:SOIncentives@uk.ngrid.com)

### On the web:

Our dedicated web pages for this process are available at the following addresses:

Electricity SO Incentives: <http://www.nationalgrid.com/uk/Electricity/soincentives/>

Gas SO Incentives: <http://www.nationalgrid.com/uk/Gas/soincentives/>

### Talk to us:

#### Electricity

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