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Electricity SO Incentives Review

Part 1 – The proposed new approach to incentivisation
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Where are we in the SO Incentives Review process?

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Review of current modelling approach (Ofgem-led with consultancy support)

Development by NGET of revised forecasting methodology based on recommendations from Phase 1

Examination of NGET's proposed methodology, including models and modelling approach

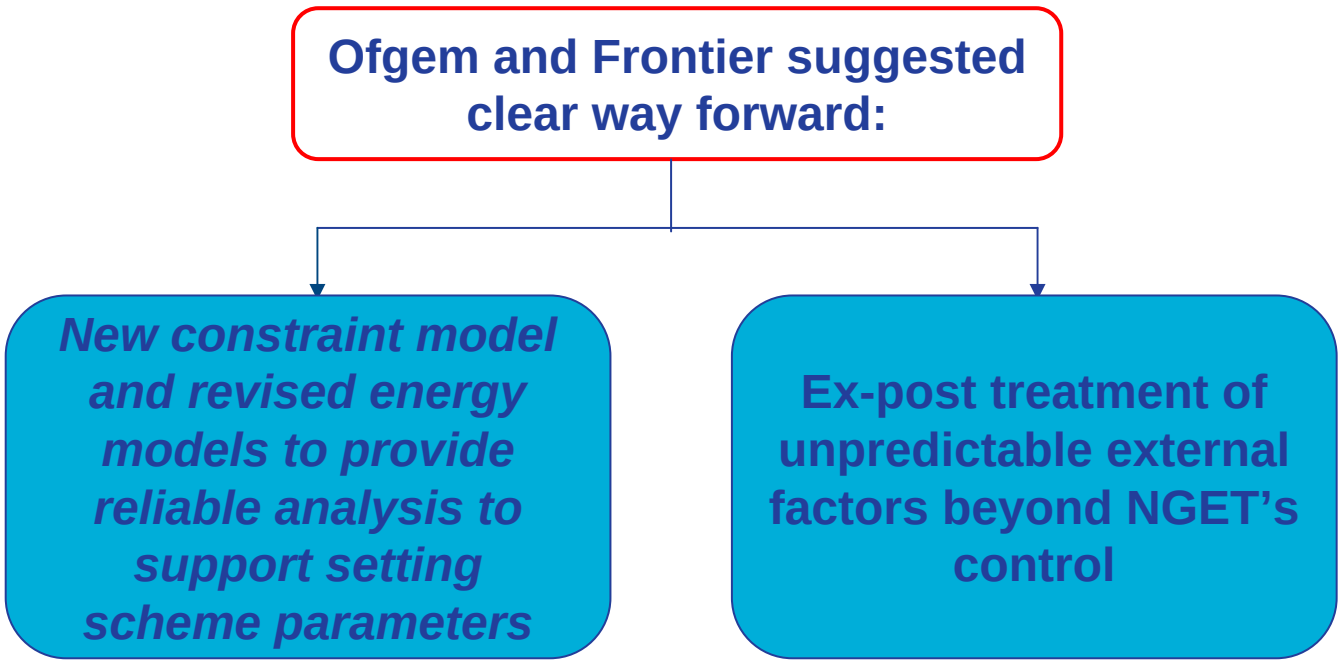
Phase 1 (6 weeks) | **Phase 2 (15 weeks)** | **Phase 3 (8 weeks)**

- ***Split in two parts***
- ***8th Nov energy***
- ***6th Dec constraints***

Summary of Phase 1 key findings

Aim: **Multi-year scheme**:

- Promote system operation efficiency
- Reduce regulatory and industry burden



Evolution of the proposed incentivisation approach

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	Current	*Proposed*
Target IBC	*Ex-ante*	*Ex-ante forecast updated ex-post*
Adjustments to Target IBC	*Two ex-post adjusters*	*Multiple ex-post adjustments*
Adjustments to out-turn costs	*Ex-post NIA*	*None*
BSUoS Charges	*Ex-ante forecast*	*Ex-ante forecast*

Phase 2 - Treatment of model inputs

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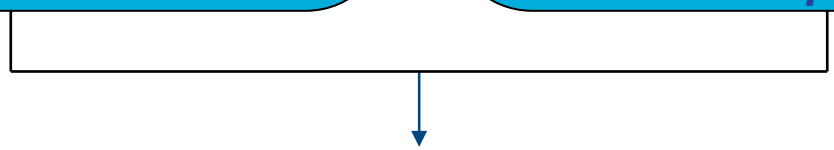
Ability to forecast:

Based on:
- ***Availability of data***
- ***Volatility of data***
- ***Applicability of historic data trend analysis***

Ability to control:

Using:
- ***BM***
- ***Trades***
- ***Balancing Services contracts***
- ***Transmission planning/ operation***
- ***Changes to operating policy***
- ***Information provision***



High
Medium

Ex-ante treatment — ***Suitable for incentivisation***

Low
None

Ex-post treatment — ***Unsuitable for incentivisation***

Phase 2 - BSIS drivers

Generation availability	*Predominantly ex-ante*
Generation running	*Predominantly ex post*
Demand levels	*Predominantly ex-ante*
Demand volatility	*Predominantly ex-ante*
Transmission availability	*Predominantly ex-ante*
Transmission capability	*Predominantly ex-ante*

New scheme structure

We believe the proposed approach will remove volatility and allow for a return to sharper scheme parameters: