

# Incentive Scheme

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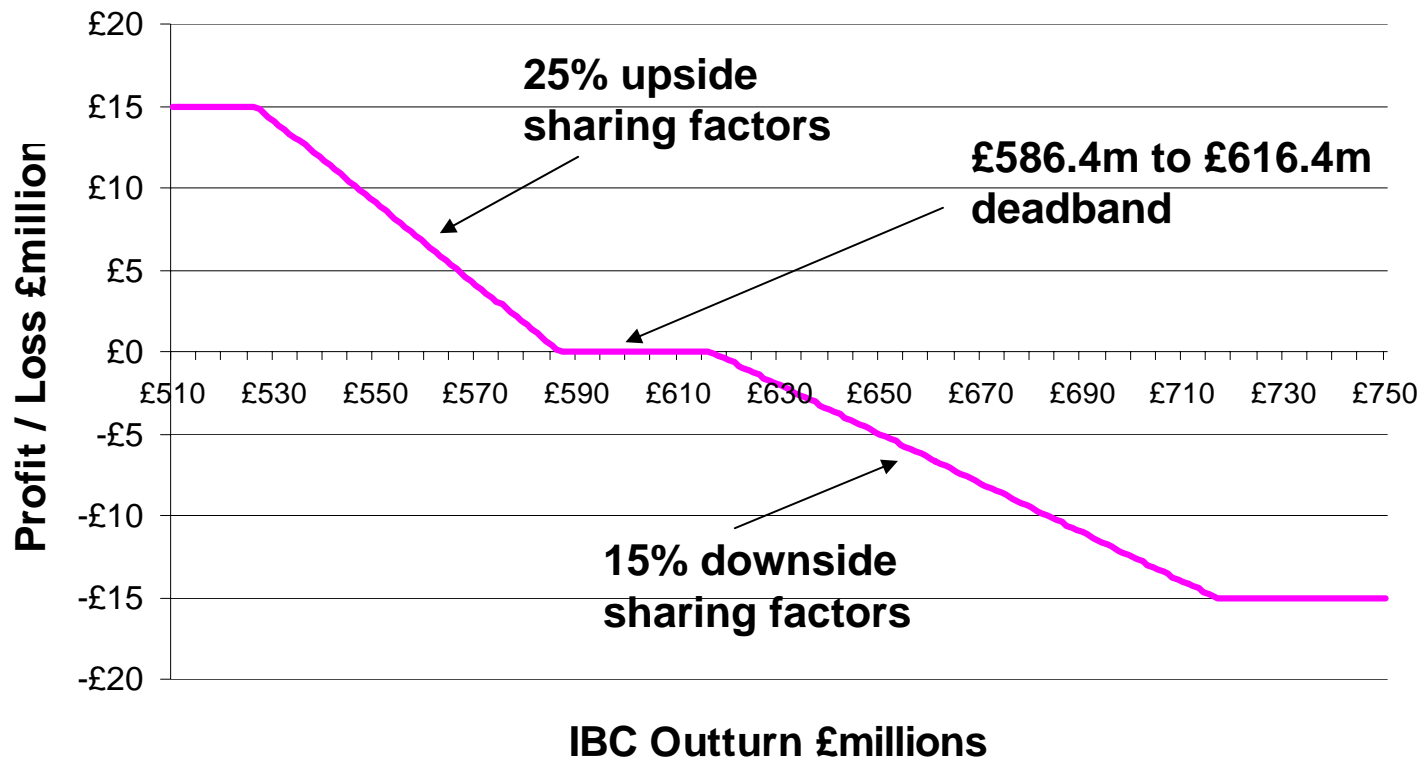


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# 2009/10 Incentive Scheme Parameters

## 2009/10 BSIS Adjusted Target



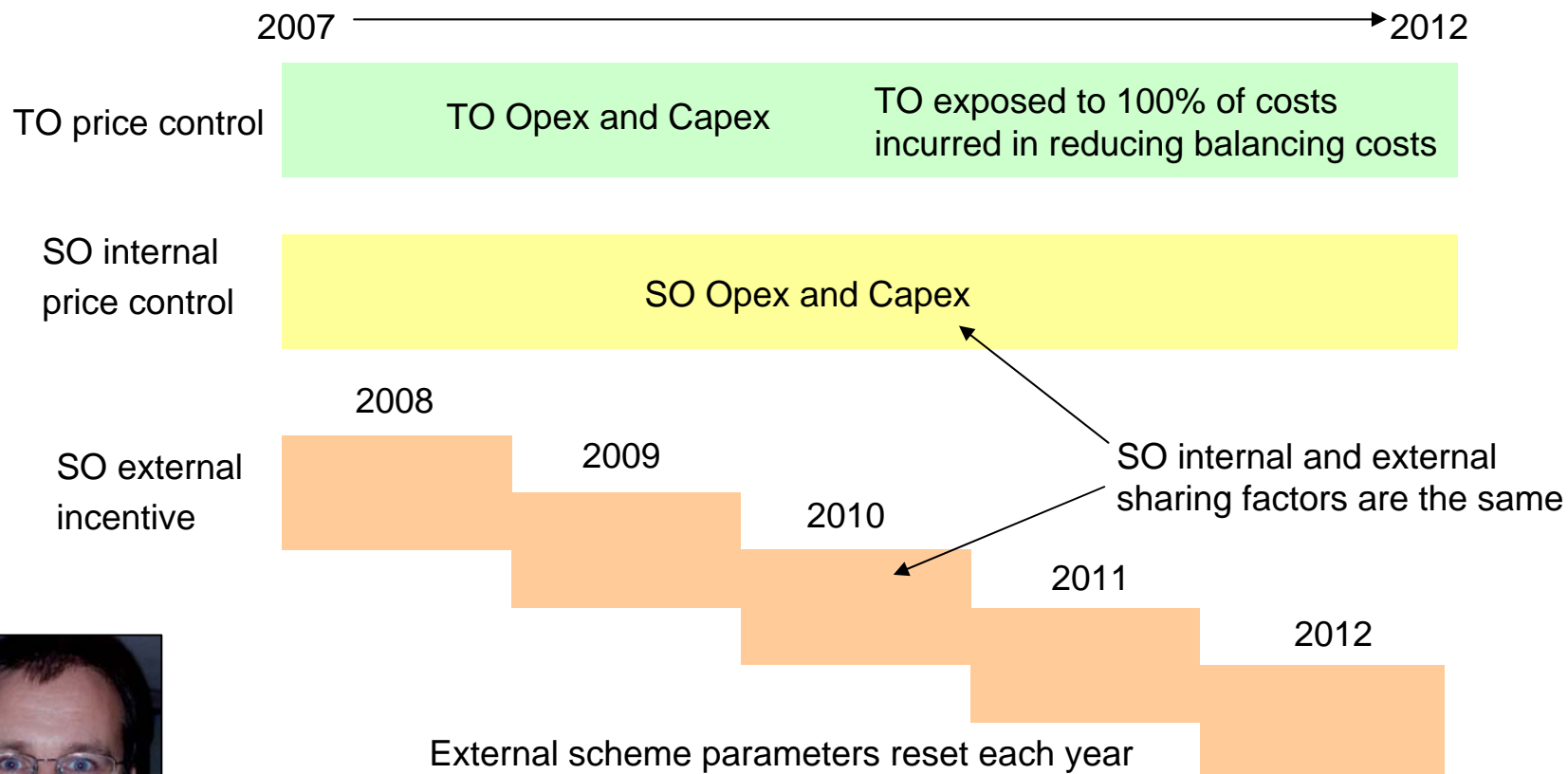
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# Current SO / TO incentive arrangements



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# Aims for

## Bundled vs unbundled schemes

### Longer term schemes

- ◆ Electricity
  - ◆ Develop indexation
  - ◆ Handling of differential in risk profiles of the BSIS components
  - ◆ Differentiating incentive periods of the BSIS components



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# Balancing Services excluding constraints



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# Price Assumptions

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**Power and fuel prices**

**RPI**

**Contracts**



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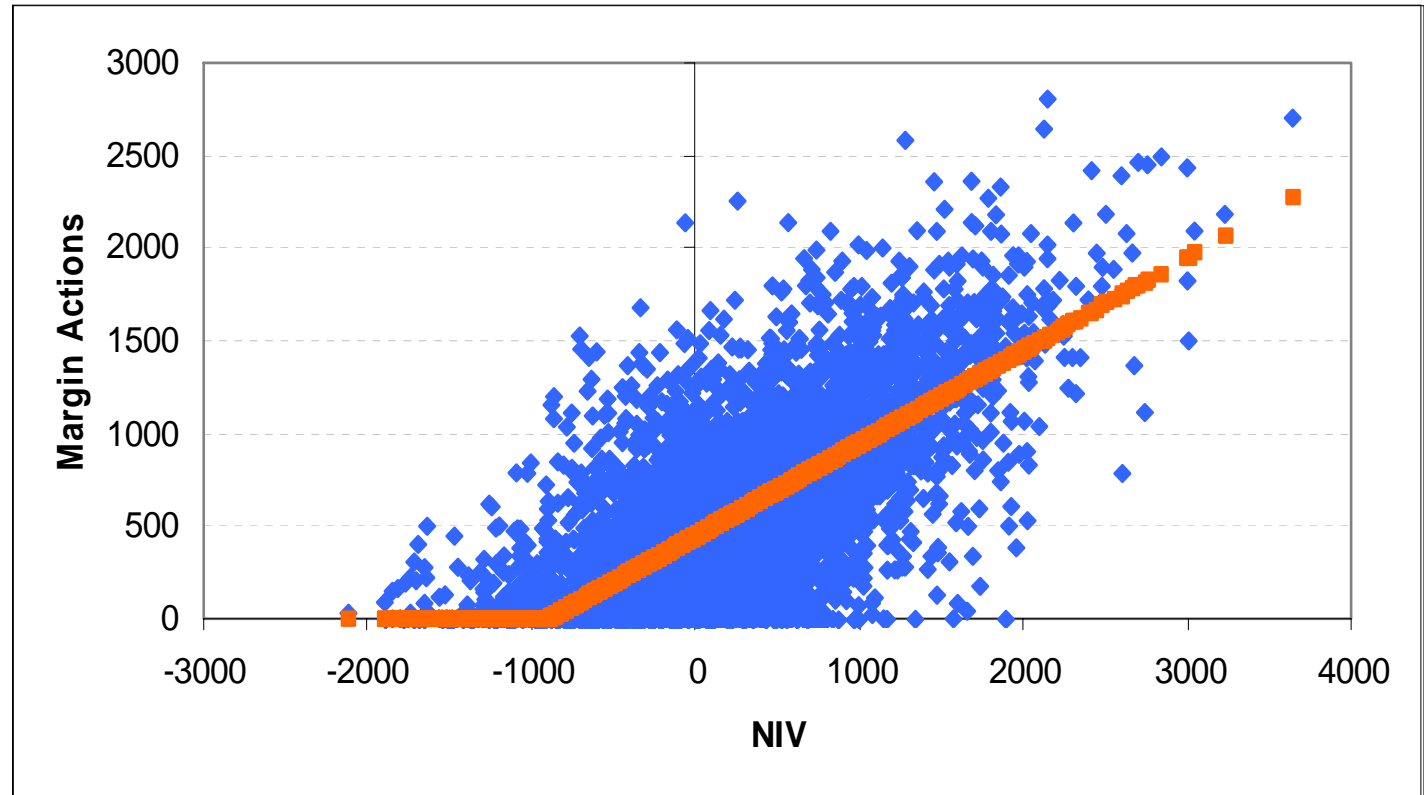
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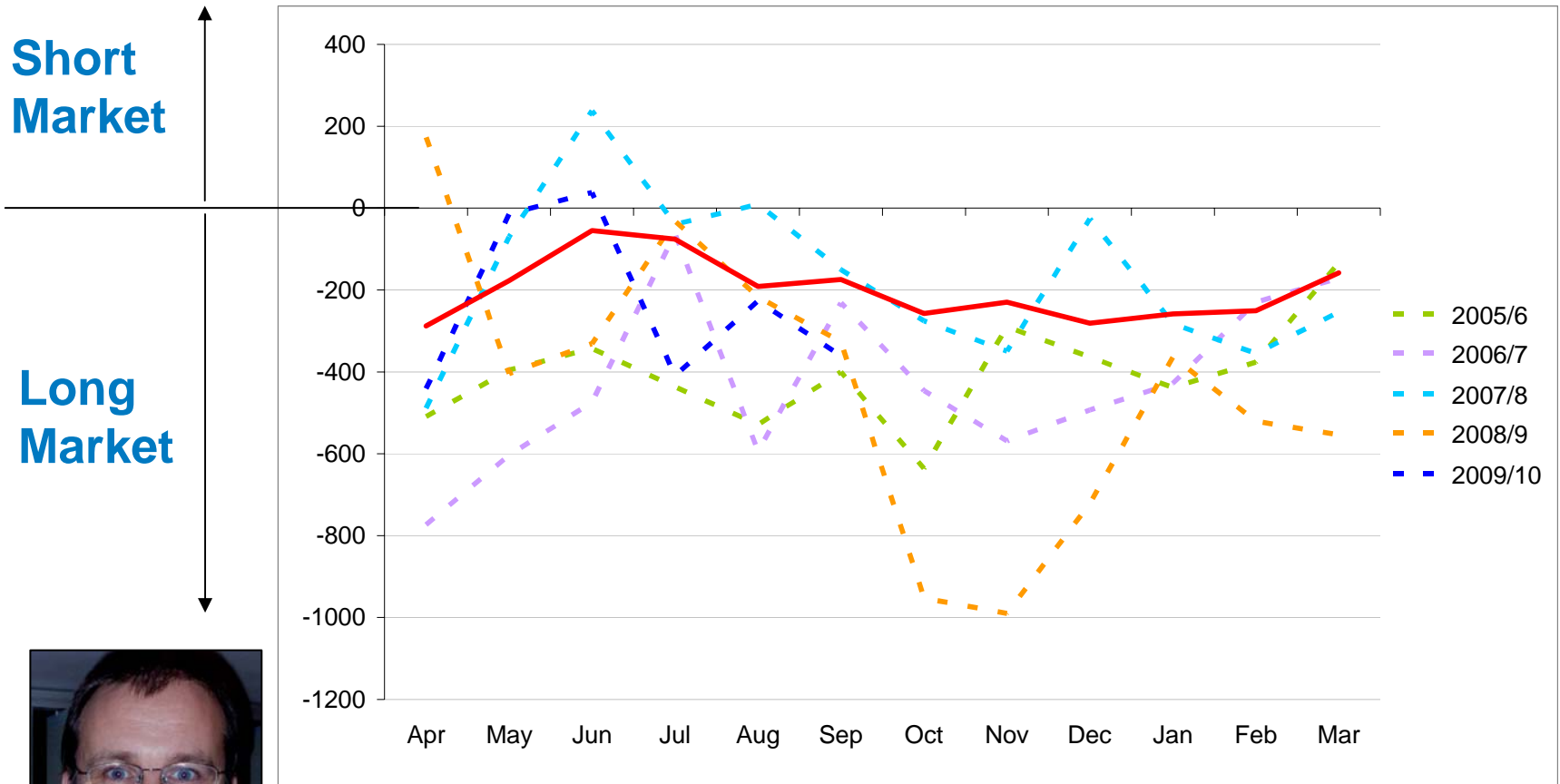
# Volume assumptions

- ◆ Market length impacts volume of margin actions



- ◆ Increase in volume of constrained margin plant
- ◆ Changes to availability of non-BM service providers

# Market Length forecast



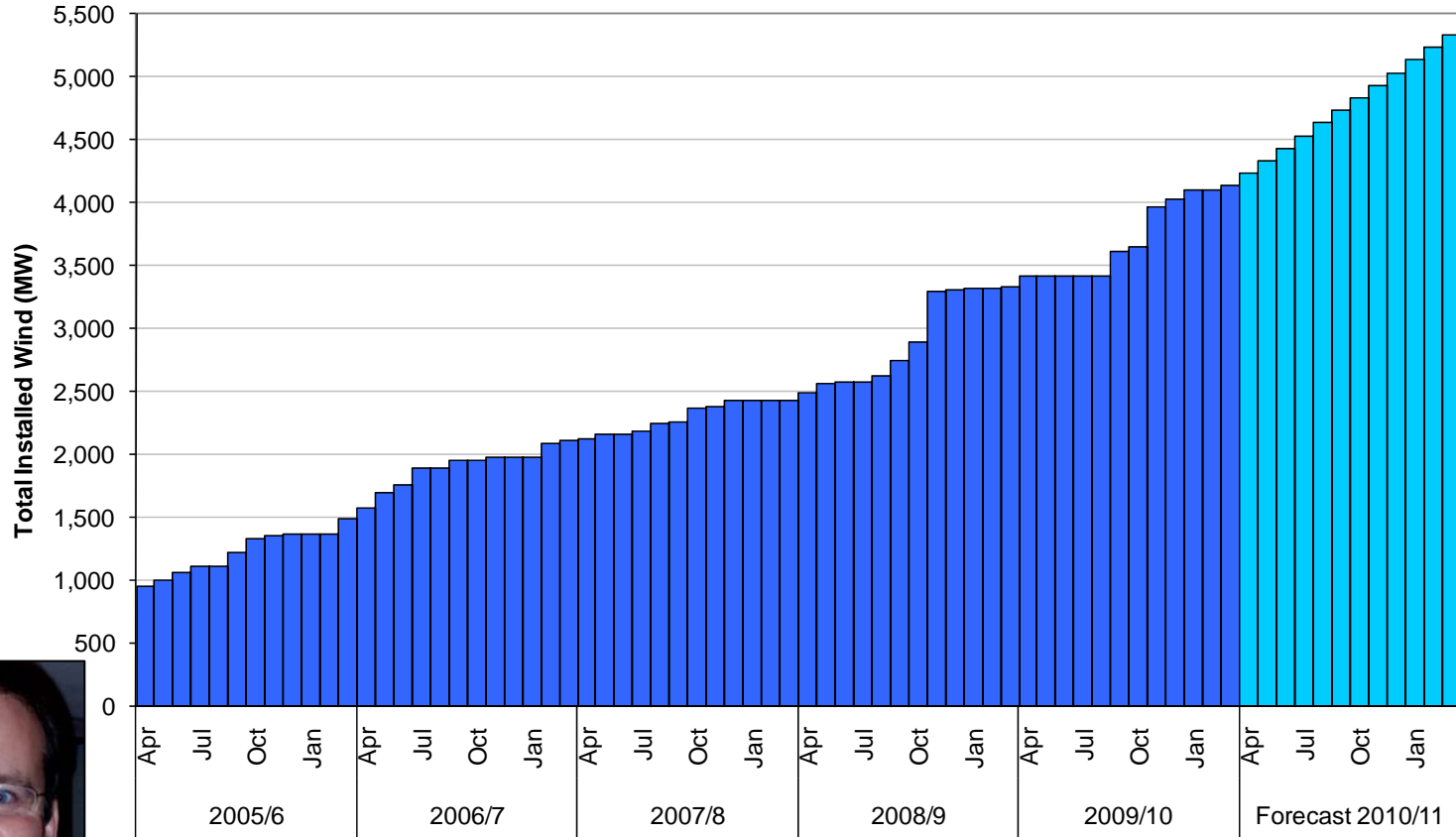
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# Volume of wind generation



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# Constraints



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# Constraint Forecast Assumptions - Price

- ◆ Prices used same as previous
- ◆ Premium put on locational actions
- ◆ Contracting costs in line with historic
- ◆ Wind price at -£450/MWh

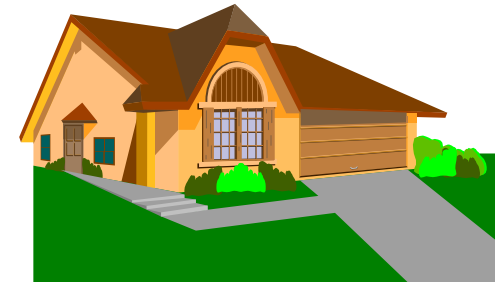


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# Constraint Forecast Assumptions – Volume



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# Forecast for 2010/11 & 2011/12

Forecast	2009/10	2010/11	2011/12
<b>Constraints</b>	£206m	£477m	-
<b>Remaining components</b>	£364m	£485m	£524m
<b>Total Incentive costs</b>	£566m	£916m	-
<b>BSUoS costs</b>	~£900m	~£1360m	-



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# Developing the incentive scheme

- ◆ Incentive scheme design considerations:
  - ◆ risk ranges & controllability
  - ◆ cost forecast
  - ◆ accuracy the second year forecast
  - ◆ range of costs over which the incentive is effective



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# Risk ranges

	Lower range	Mean	Upper range
Constraints cost forecast range	£387.6m 20%	£485.5m	£594.2m 22%
Range of costs excluding constraints	£454.6m 8%	£492.6m	£531.5m 8%



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# Aim - Handling of differential in risk profiles of the BSIS components

- ◆ Could unbundle constraints from the rest of the cost components
  - ◆ Unbundled constraints incentive would have different scheme parameters to the remaining bundled scheme
- ◆ Could represent differential of risk profiles within a fully bundled scheme
  - ◆ For example, introduce limit on the exposure to constraint costs within the bundled scheme



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# Development of Adjustments

- ◆ Currently incentive scheme includes Net Imbalance Adjustment
  - ◆ Adjusts energy costs for changes in Market length and power price
- ◆ Developing Reactive Incentive Adjustment
  - ◆ Adjusts the reactive power price for changes in wholesale power price



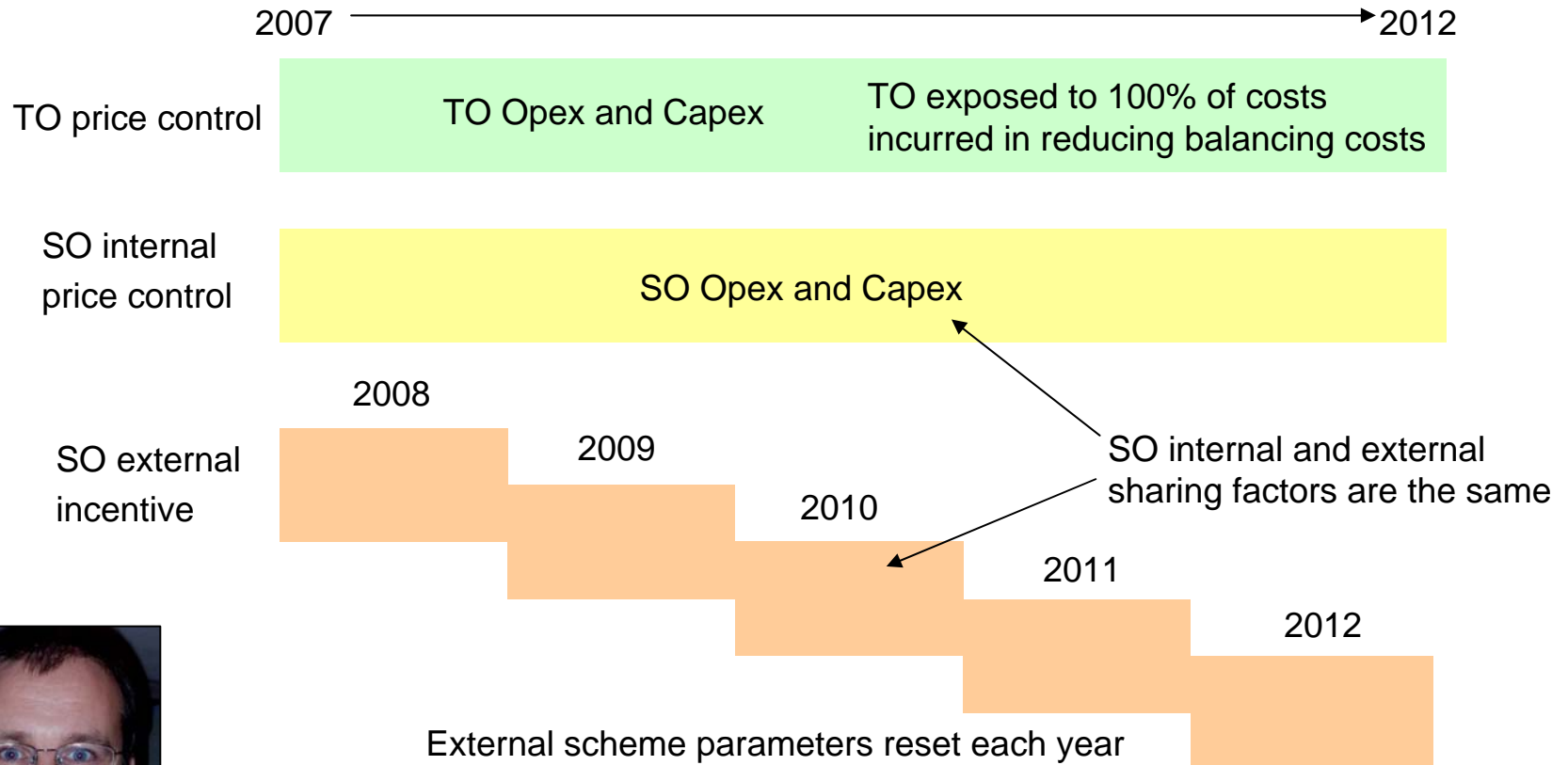
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# Incentive alignment



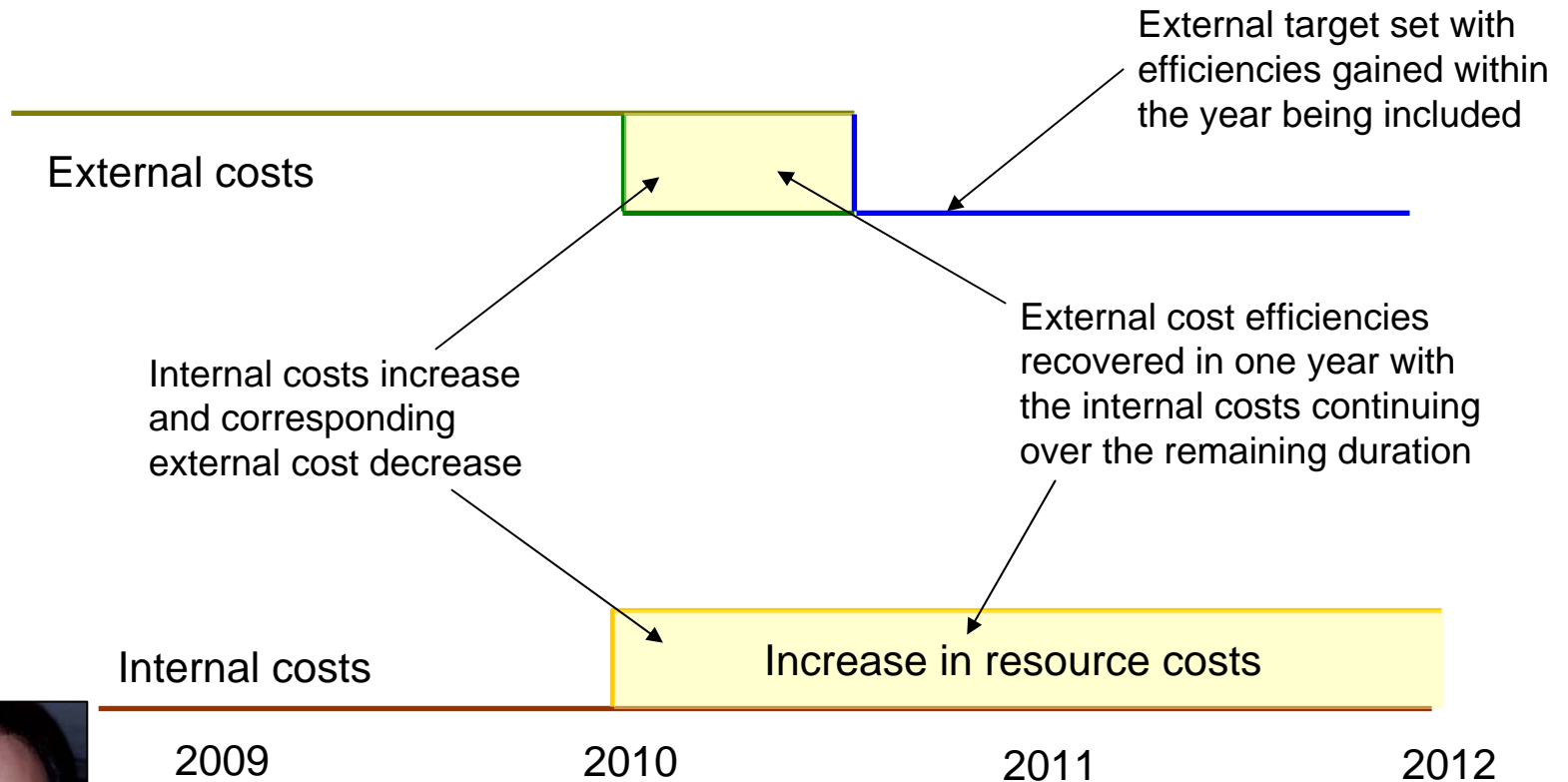
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# Internal / External Incentive Trade Offs



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# Development of a longer term incentives

- ◆ Some of the benefits in implementing longer term schemes are:

“Consider actions that would have longer pay back time”

“More targeted incentive”

“Better alignment of internal and external schemes”

“Reduction in administration burden”



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# National Grid Preferred Scheme

- ◆ National Grid's preferred scheme for implementation on 1st April 2010 is a:
  - ◆ single year unbundled constraints incentive scheme
  - ◆ two year scheme for the remaining bundled cost components with current NIA methodology and reactive power default price adjustment



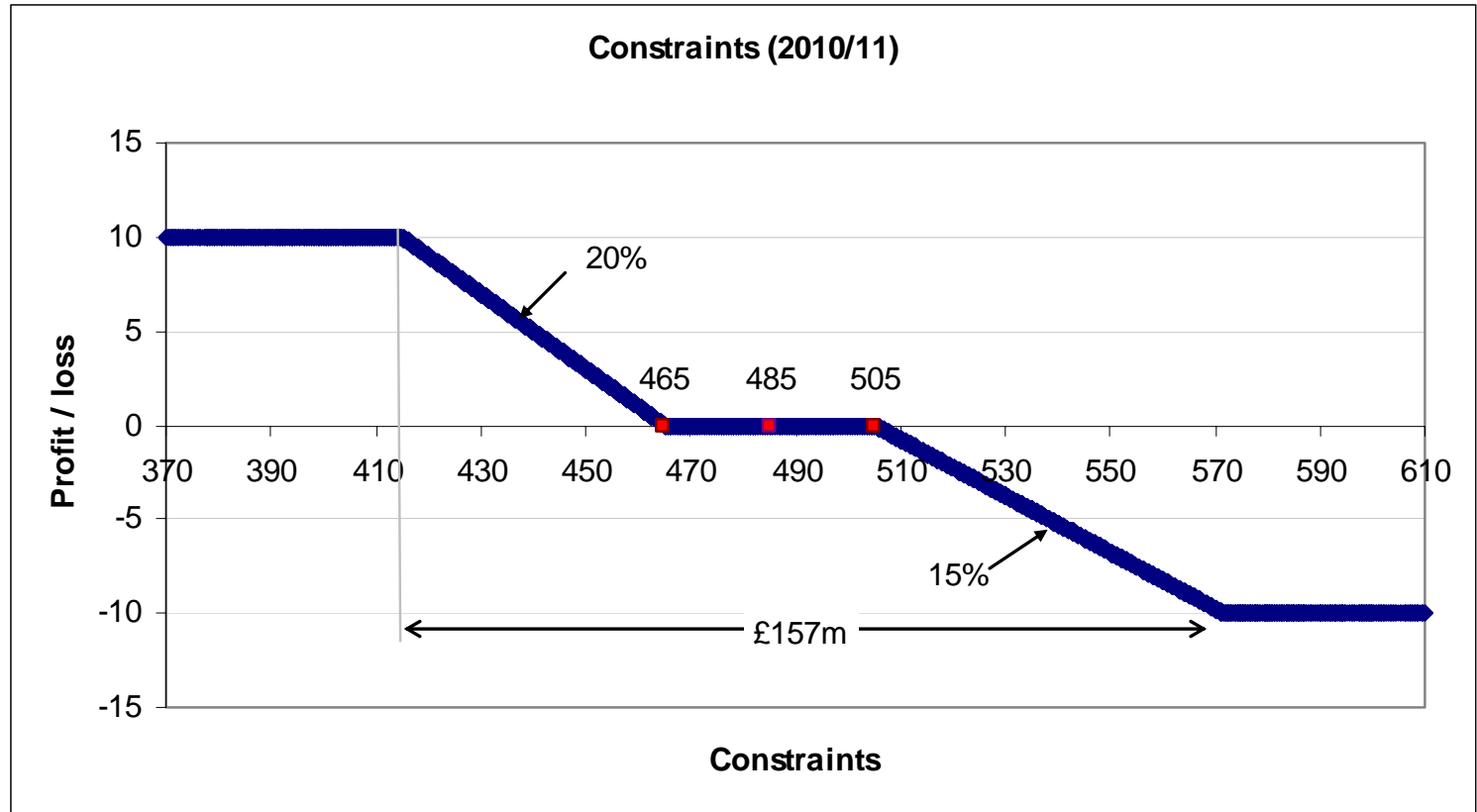
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# Unbundled constraints – Single year for 2010/11



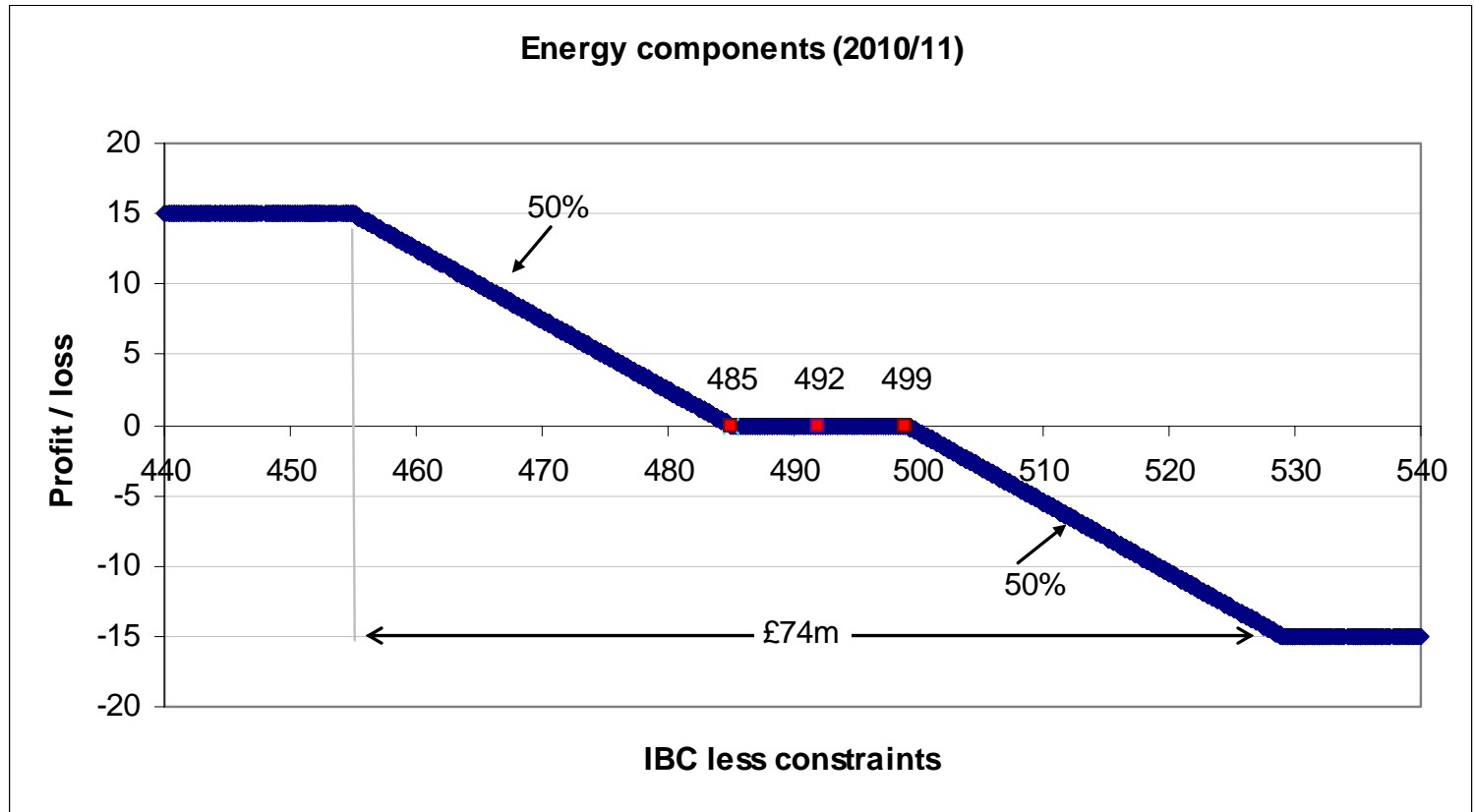
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# Remaining components incentive – Year 1 (2010/11)



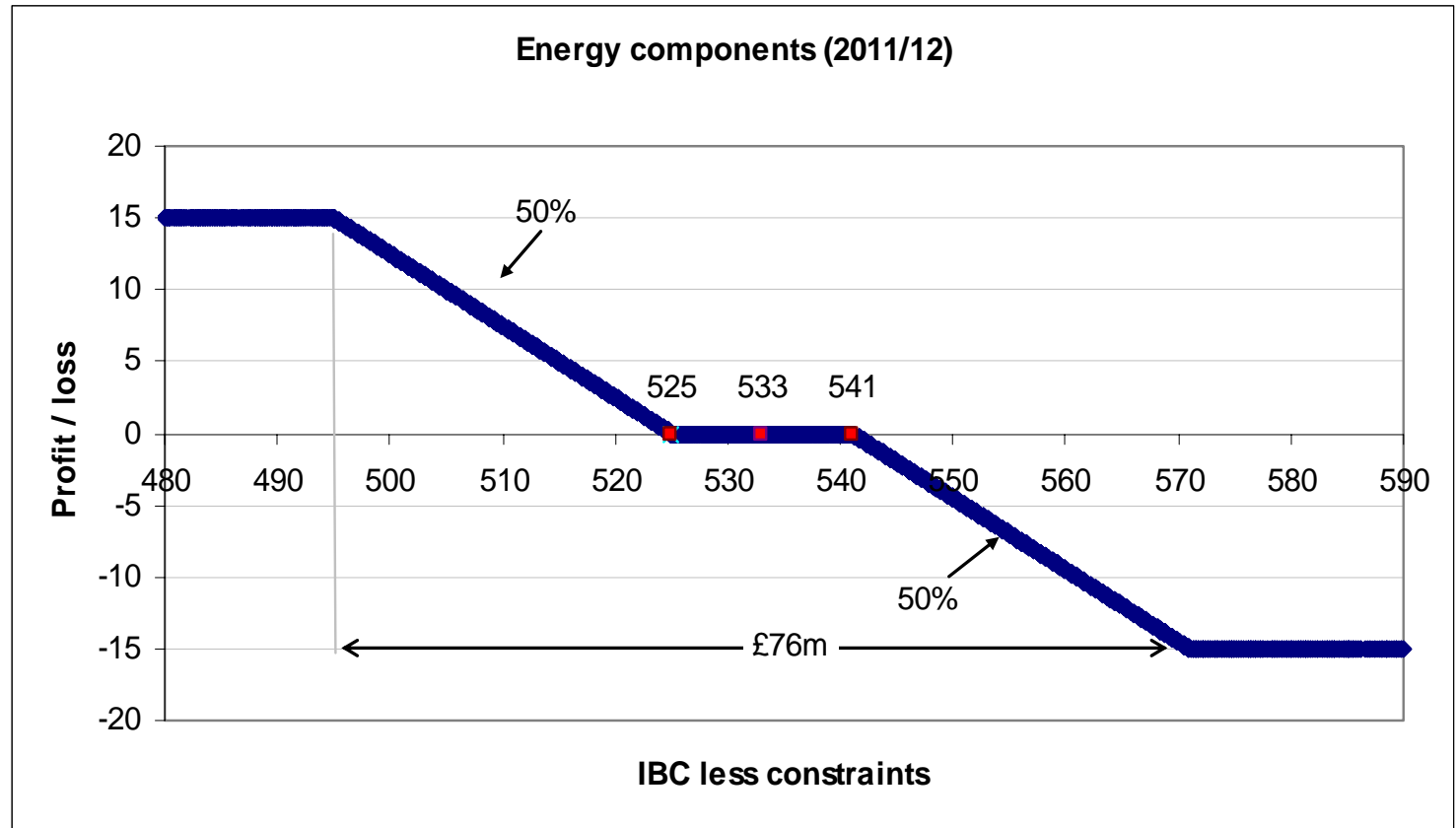
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# Remaining components incentive – Year 2 (2011/12)



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# Additional topics

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- ◆ Fault outages
- ◆ Transmission losses
- ◆ Development of unbundled incentive will impact IS systems
- ◆ Fixed price BSUoS



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# Summary

- ◆ Scheme design
  - ◆ Our preference is for an unbundled constraints incentive due to a different risk profile between constraints and the remaining components
  - ◆ Single year incentive on constraints
  - ◆ Two year incentive on remaining components
  - ◆ Constraint forecast for 2011/12 being developed



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# Ofgem Initial thoughts

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<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=180&refer=Markets/WhIMkts/EffSystemOps/SystOpIncent>



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# Next Steps

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## 16<sup>th</sup> December

January 2010

NIA mini-consultation closes

February 2010

Ofgem consultation on final proposals

April 2010

Scheme go live



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