

Overview of SO Incentives Workshop

6th August 2008

Agenda

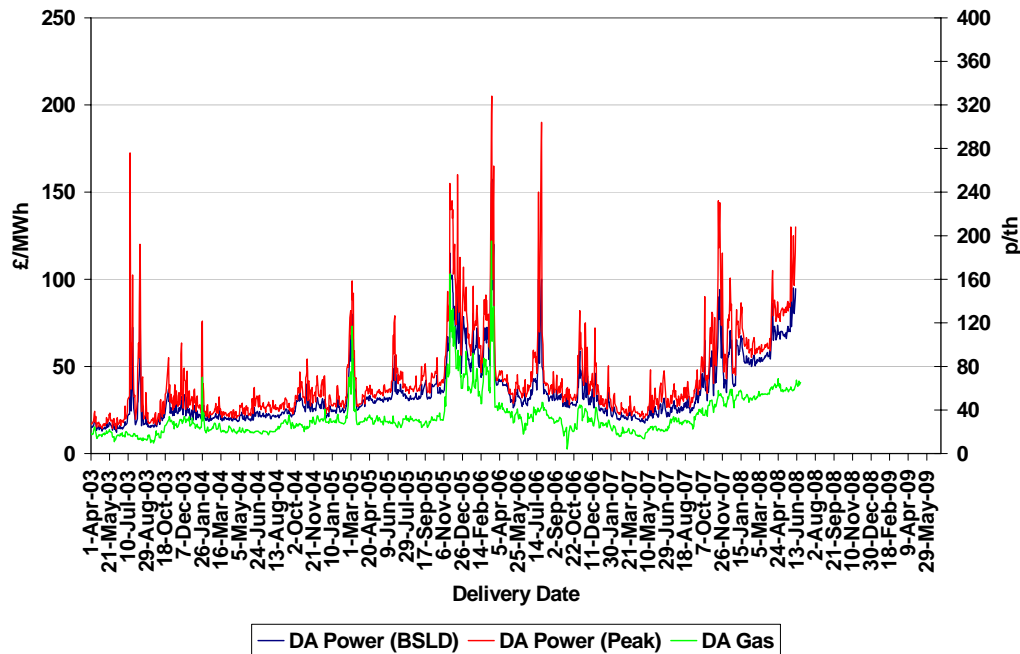
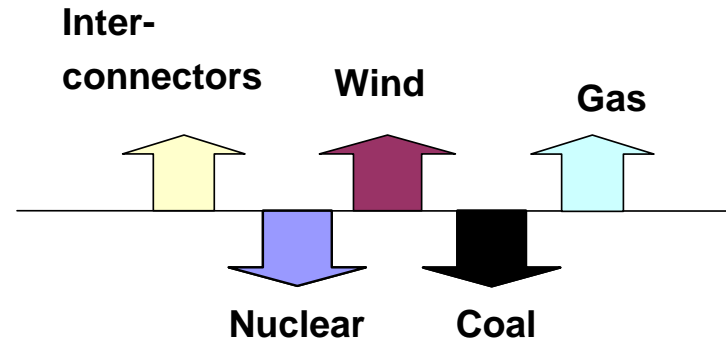
- ◆ Outline of workshop
 - ◆ Current scheme
 - ◆ Transmission losses
 - ◆ Indexation development
 - ◆ Fixed price BSUoS
 - ◆ Other priorities
- ◆ Feedback received
- ◆ Timetable / Next Steps

Outline of Workshop

Background

- ◆ Changing Generation mix

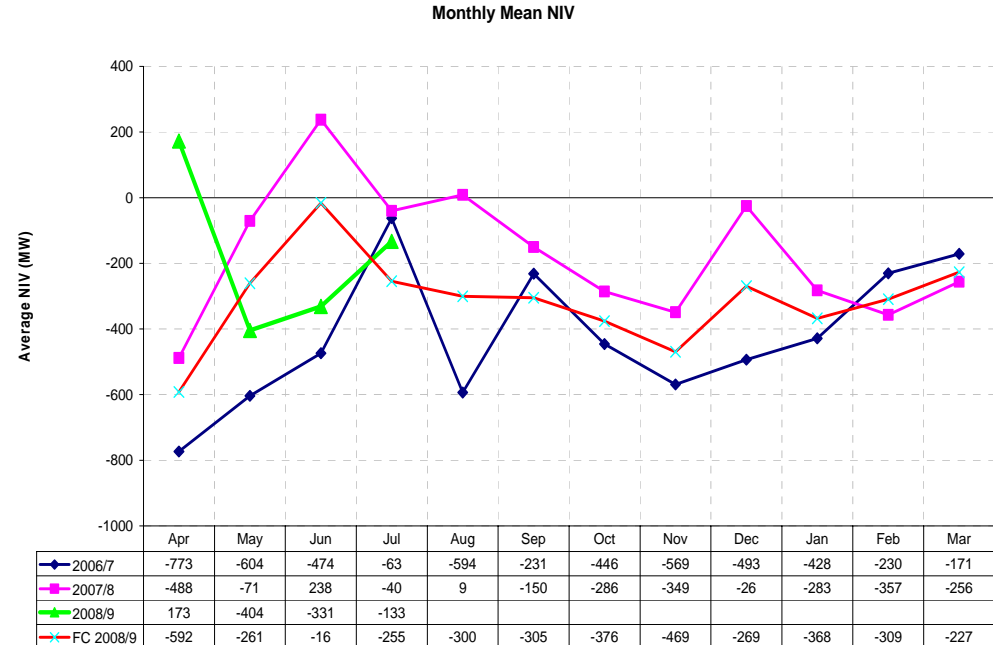
Changing generation patterns



- ◆ Power price volatility

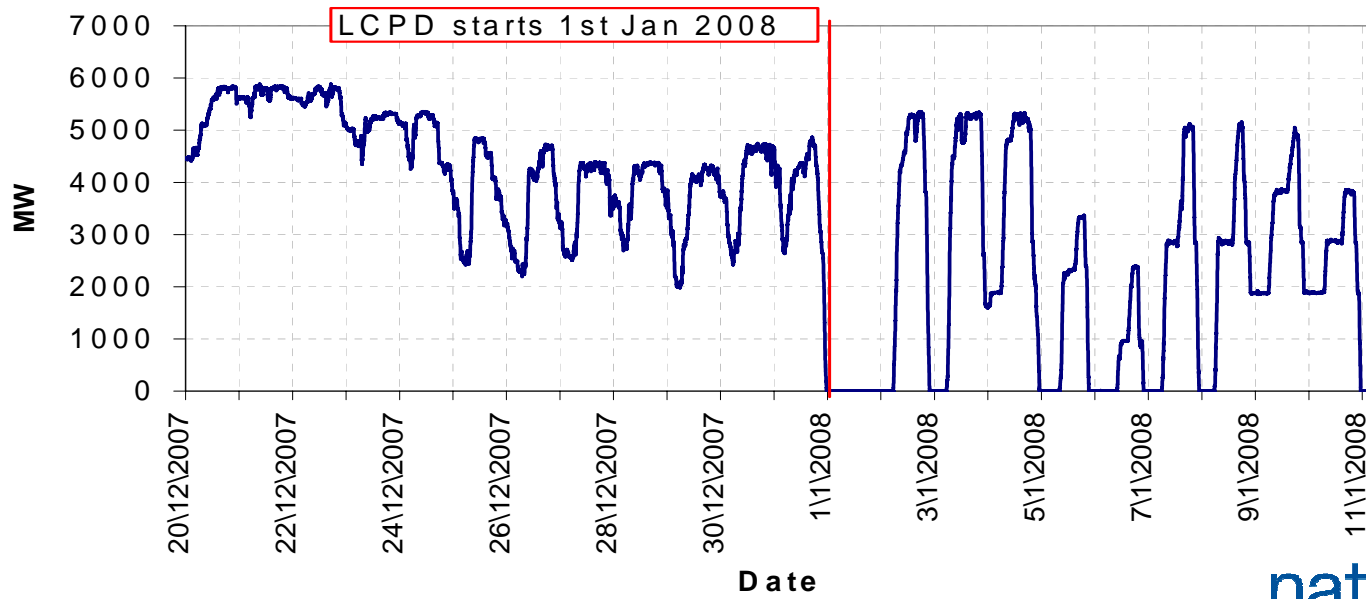
Background

- ◆ NIV volatility
 - ◆ Month ahead unpredictable!
 - ◆ Year on Year changes?
 - ◆ Impacts on NIA



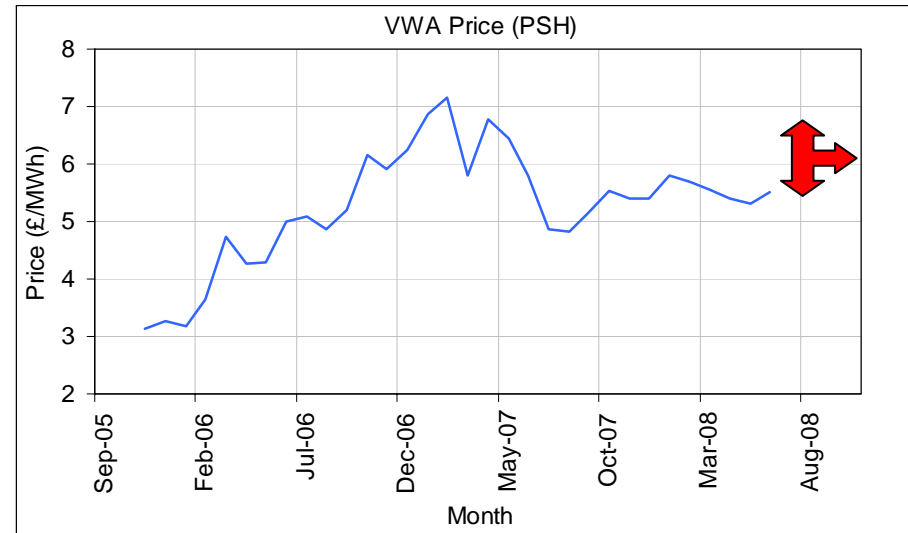
LCPD

- ◆ No change in running patterns of oil plant
- ◆ Change in coal generators running patterns
- ◆ Patterns and prices will change as remaining running hours decrease



Background

- ◆ Response Prices
 - ◆ Prices seem stable
 - ◆ What are the cost drivers?

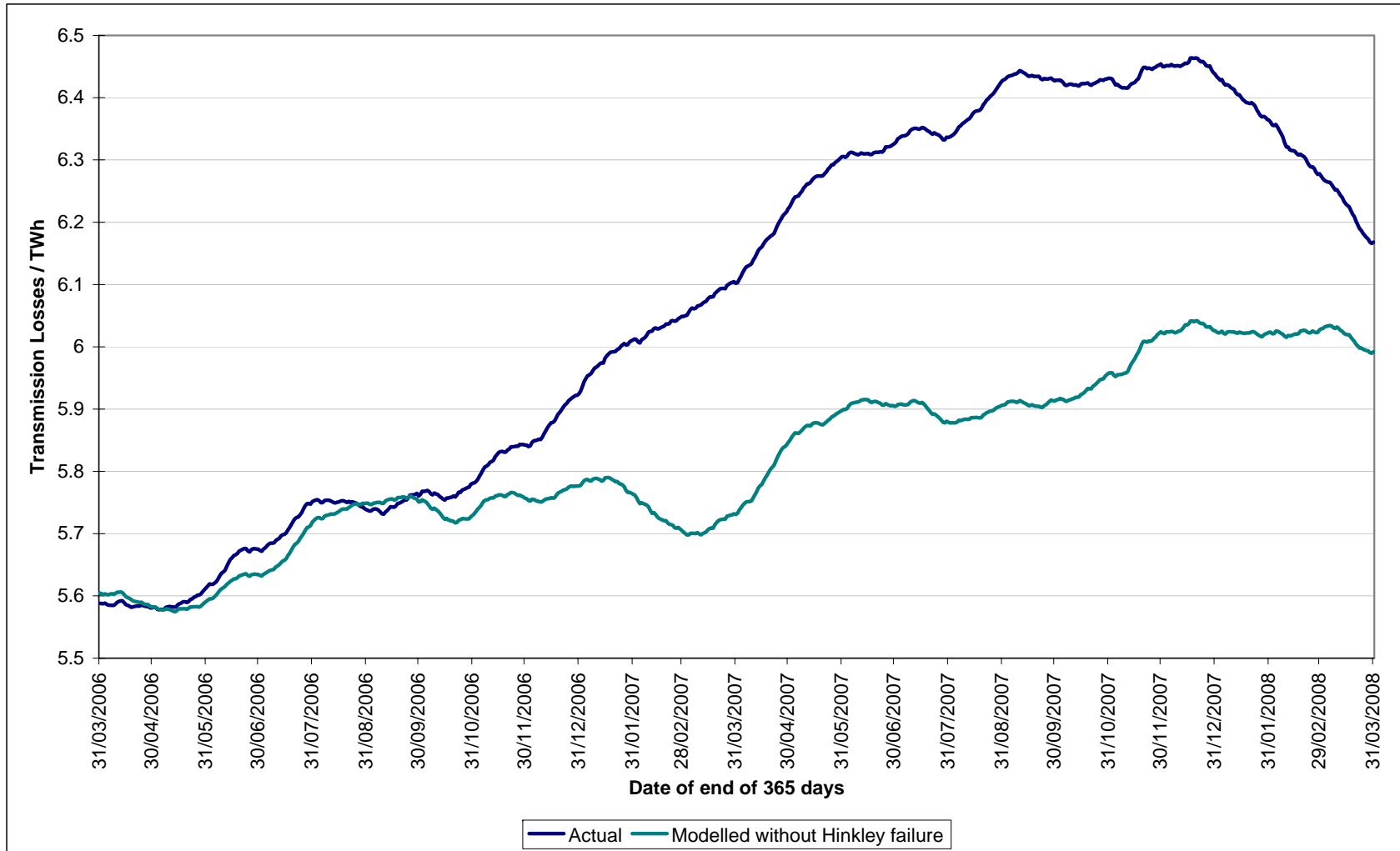


- ◆ Constraints
 - ◆ Changing generation patterns from forecast cause cost volatility
 - ◆ Significant TO investment
 - ◆ Significant costs this year and onwards

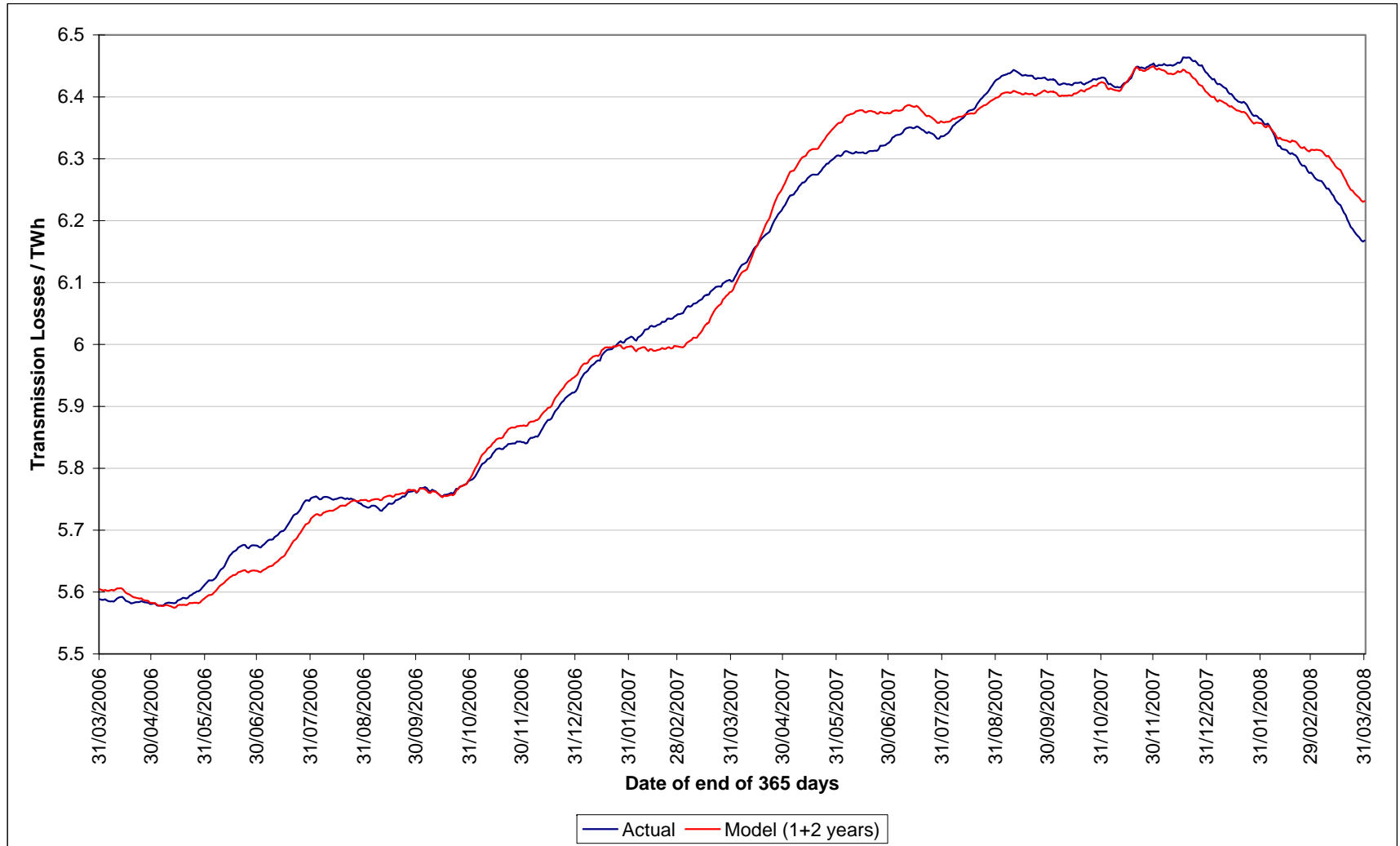
SO perspective

- ◆ Review of current BSIS scheme format is timely
- ◆ SO looks to get rewarded for innovation
- ◆ Do not wish to be penalised for factors that cannot be influenced
- ◆ Looking at options for scheme structures that allow greater targeting of risk/reward for cost control, innovation and investment to areas within our control

Transmission losses



Transmission losses – Actual vs Model



Transmission losses

- ◆ Changes in losses caused primarily by changes in generation pattern
- ◆ Uncertainty in generation and Interconnector flows leads to uncertainty in forecast losses
- ◆ National Grid can influence long term trends in losses through procurement, operation and maintenance of transmission assets; limited influence via SO function
- ◆ Transmission losses forecast for 2008/9 revised from 6.9TWh to 5.9TWh
- ◆ Ofgem currently consulting on a change to the target

Indexation

- ◆ Aim to have effective incentivisation on National Grid
- ◆ Provide improved focus on the elements that are within National Grid's control
- ◆ Remove / reduce windfall gains and losses from changes in market conditions

Proposed Indexation for 2008/9 – Power Price

- ◆ Proposed index adjusted scheme target based on power price
- ◆ Proposed a +/- £2m target change for each £1/MWh change in power price

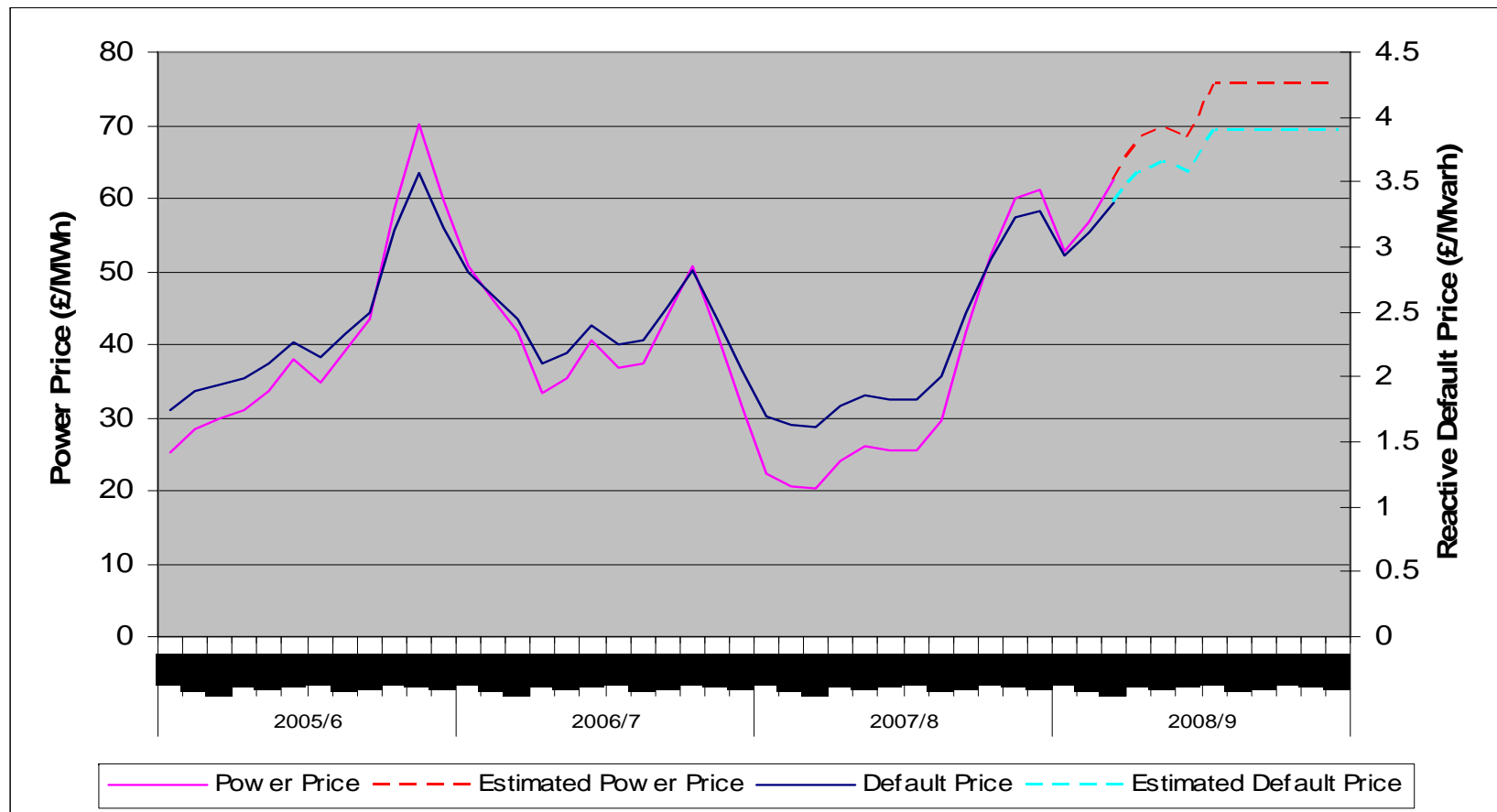
Period	Slope	Average Annual price index value
Reactive Power base level	-	£0.8m per £1/MWh
2006/07	£46k / £1/MWh	£1.7m per £1/MWh
2007/08 to date	£85k / £1/MWh	£3.1m per £1/MWh
All values, April 2006 to date	£64k / £1/MWh	£2.3m per £1/MWh

Number of outage weeks	Indexed Central Target
Baseline = 8 weeks / year	£509.5m
Forecast = 30 weeks / year	£544m
Outturn = 26 weeks / year	£537.7m

- ◆ Adjusted target based on number of Cheviot outage weeks
- ◆ Each change in outage weeks changes costs by £1.57m – calculated by adjusting outage weeks in the forecast model

Development of indexation for 2009/10

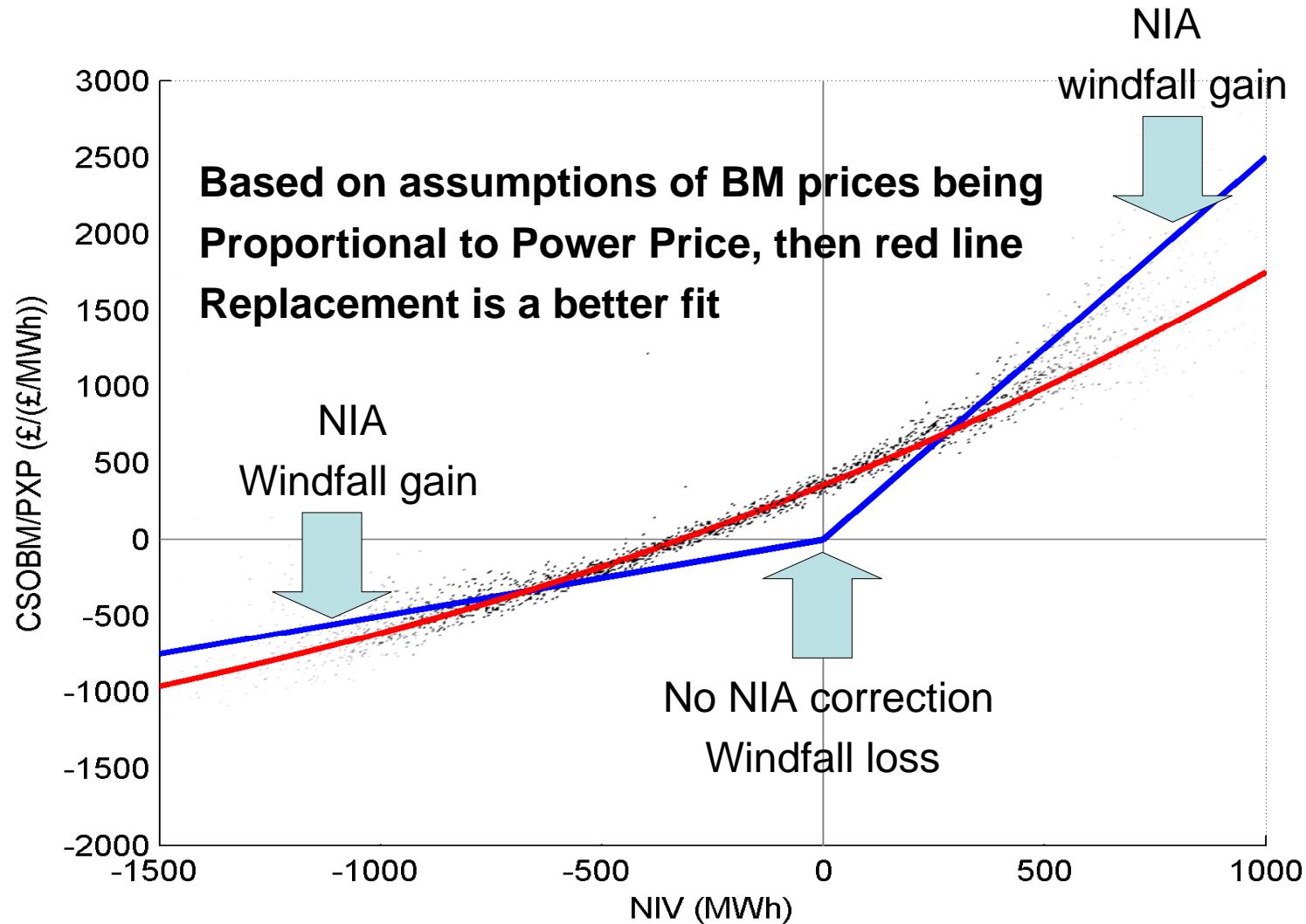
- ◆ The Default Price of reactive is driven by Power Price



Development of indexation for 2009/10

- ◆ What is NIA trying to do?
 - ◆ Resolve energy
 - ◆ Cover the increase in balancing costs resulting from changes in NIV
- ◆ Currently does neither accurately
- ◆ Generally over corrects for energy costs

Development of indexation for 2009/10

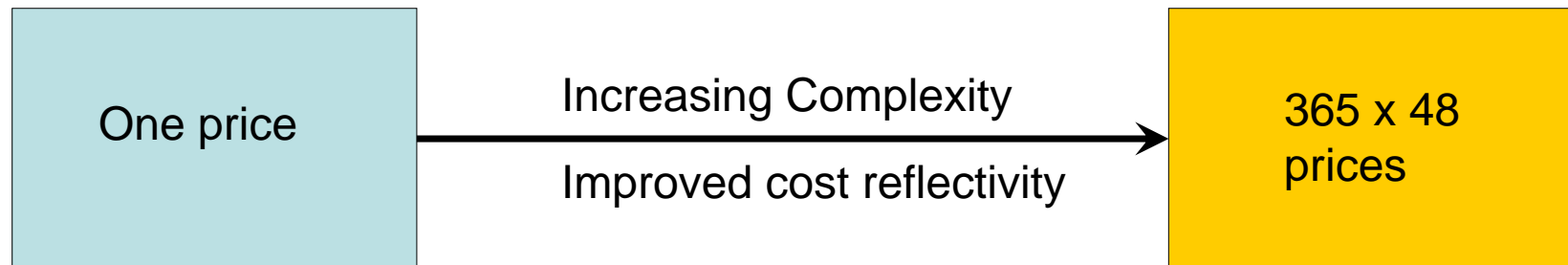


Develop fixed price BSUoS

- ◆ Issues to be addressed
 - ◆ Fixed price BSUoS is non cost reflective
 - ◆ Will over or under recover; need to develop reconciliation methodology
 - ◆ Significant cost risk on the SO
 - ◆ Need to develop profile
 - ◆ How will fixed price BSUoS be levied on Participants?

Proposed BSUoS Profiles

- ◆ Historic profiles could provide basis for deriving fixed price BSUoS prices
- ◆ Develop profile granularity that best suits the industry



Workshop feedback

Feedback

- ◆ All participants found the workshop informative with a good level of engagement
- ◆ Topic participants found most useful was the discussion on fixed price BSUoS
- ◆ Other work suggestions was to consider a green incentive and improved focus on innovation, investment and risk and reward

Indicative timetable

26 June 2008

Industry workshop

August 2008

Mini consultations e.g. indexation

Early November

Initial proposals consultation

January / February 09

Final proposals - Ofgem

1 April 09

New incentives go-live

Next Steps

- ◆ Complete assessment work
- ◆ Work up proposals
- ◆ Develop mini consultations
 - ◆ Due to publish consultations in August
 - ◆ Proposing to publish two consultations
 - ◆ Development of an Indexation methodology
 - ◆ Develop fixed price BSUoS methodology

Our Contact Details

- ◆ Electricity SO Incentives webpage:
<http://www.nationalgrid.com/uk/electricity/>
- ◆ To register your interest in receiving future SO communications please email:
SOIncentives@uk.ngrid.com
- ◆ malcolm.arthur@uk.ngrid.com Tel: 01926 654909
- ◆ duncan.burt@uk.ngrid.com Tel: 01926 656703