SO INCENTIVES WORKSHOP

Longer Term SO Incentives
A generator perspective

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Do we need an SO Incentive Scheme anyway?

- Ofgem's core role
- What did NG do differently without an SOIS?
- What did Ofgem learn from a year of extra data?
- International benchmarks?

Why a long term scheme?

- What takes more than 1 year and less than 5?
  - New infrastructure build outages?
  - Long-term constraint contracts?
- What do NG know about fuel price curve?
  - Can they deliver price stability?
  - Can they deliver volume predictability?
  - Can they deliver cost predictability?

What don’t we want?

- Heavy-handed Regulatory interventions
  - IAEs
  - EU one-size harmonised reorganisations
- Losses incentives?

What do we want?

- Improved transparency
  - P217
  - P219, P220
  - Ofgem commentary to Ops Forum
- Rewards related to cost of inputs, not consequences
- Better Performance Measures
  - Replace NIA by a better measure of SO performance efficiency

What do we want?

- The Incentivised Balancing Costs (IBC) could be calculated:
  - against the difference between CSOBM actions that NGET actually took, and
  - those actions that it could have taken, which can be represented by a price calculated under an ex-post unconstrained schedule (EPUS).
  - The difference between CSOBM and EPUS NIA is a measure of efficiency of system operation

What do we want?

A - System long

CSOBM **-£9k**

NIRP 0.5 multiplier, so NIA is **-£4.7k**

CSOBM reduced by NIA to **-£4.3k**

Under EPUS NIA would be **-£7.4k**

Inefficiency represented by (CSOBM – EPUS NIA = **-£1,6k**)

B - System short

CSOBM **£44.1k**

NIRP inflated by 2.5, so NIA is **£32.7k**

CSOBM reduced by NIA to **£11.4k**

Under EPUS NIA would be **£14.1k**

Inefficiency represented by (CSOBM – EPUS NIA = **£30k**)

Example	A - LONG	B - Short
IMB	242	-246
SP (1/04/2006)	18	20
CSOBM	-£9,011	£44,133
NIRP	£19.4	£132.9
EPUS_SSP	£30.6	
EPUS_SBP		£63.4
BPA		£6.1
EPUS_SBP_NO_BPA		£57.3
NIA	-£4,697	£32,754
SO Incentive calc	-£4,314	£11,378
EPUS_NIA	-£7,425	£14,123
CSOBM - EPUS NIA	-£1,586	£30,009

What do we want?

- The SO incentive scheme would need to recognise this inefficiency in setting the IBC value
- An adjustment would be required to the EPUS to provide a fair target
  - Performance will always be negative as NGET is operating an imperfect system
- The adjustment could be a:
  - fixed cost agreed ex-ante
  - % premium/discount applied to the EPUS (although not of the same magnitude currently used in the NIA)