

SO Incentives For 1 April 09

Demand Side Working Group

16 July 2008

SO incentives for 1 April 2008

- ◆ National Grid led the consultation on and development of SO Incentive Initial Proposals
- ◆ National Grid have consulted on Initial Proposals for a back-dated methane incentive. Ofgem issued Final Proposals 3 July 2008

SO Incentives for 1 April 2009

- ◆ National Grid leading Initial Proposals process
- ◆ Considering key issues for shallow incentives that expire 31st March 2009
- ◆ Earlier start to allow more time to review SO behaviours and to develop more innovative proposals

Process Overview

25 th June	Industry Workshop
July to Sept	'Mini' consultations on specific issues
Early Nov	Gas and Electricity SO Incentive Initial Proposals issued with consultation closing before Christmas
Jan	Consultation Report and recommendations issued
Jan onwards	Ofgem lead on development of final proposals, consultation and licence changes

Gas - Shrinkage

- ◆ Should we have separate incentives for separate components of shrinkage?
- ◆ What is the right balance between target setting and procurement strategies?
- ◆ How do we develop an incentive reference price for electric drive compressors?

Gas - Operating Margins

- ◆ Should the incentive remain as 'total cost' incentive?
- ◆ How can the incentive be structured to drive innovation and promote the aims of the contestability work?
- ◆ At what point should the incentive structure be adapted to introduce a means of sharing potential upsides and downsides with the industry?

Gas – Residual Balancing

- ◆ What behaviours do the current incentives drive?
- ◆ Are these the right behaviours?
- ◆ What are the different incentive structures and ways of unlocking potential additional value to the community?

Electricity Incentive development

- ◆ Aim to address industry priorities
- ◆ Our belief is that these are:
 - ◆ Costs are minimised
 - ◆ Costs are predictable
 - ◆ Costs are transparent
 - ◆ Any other. . . . ?

Electricity Incentive development priorities

- ◆ Analyse drivers for increase in Transmission Losses
- ◆ Develop indexation methodology to drive incentive target
- ◆ Develop proposal for fixed price BSUoS
- ◆ Investigate constraint costs
- ◆ Consider benefits to a change in incentive year
- ◆ Any others ?

Industry Engagement

- ◆ Workshop Slides are published on our website
- ◆ Future communications including the mini-consultations will be published on our website and a link circulated to the SO Incentives distribution list
- ◆ Bilateral meetings available for 1 to 1 discussions

How do the Demand Side Working Group want to be engaged / kept informed of developments?

Our Contact Details

- ◆ SO Incentives webpages:

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

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

- ◆ To register your interest in receiving future SO communications please email: SOIncentives@uk.ngrid.com

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