

The background of the slide features a large, semi-transparent white arrow pointing from the left towards the right. Behind the arrow, there is a faint, artistic image of interlocking mechanical gears, one in shades of blue and another in shades of orange, suggesting a theme of industry or engineering.

# **System Operator (SO) Incentives 1 April 2010/11**

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## Outline

- Gas SO Incentive Schemes 2010 onwards
  - Overview
  - Details
  - The way forward
- Electricity SO Incentive Scheme 2010/11

## Gas SO Incentives 2010 onwards Overview

- Set (mostly) two-year schemes, i.e. residual balancing, demand forecasting, data publication
- Schemes (mostly) based on continuous improvement, i.e. demand forecasting, residual balancing
- Introduction of Special Condition C27: requires NGG to consider the introduction of a gas linepack trading product and the resetting of the “default” gas cash-out price values. NGG is required to undertake this work in consultation with the industry

## Gas SO Incentives 2010/11 onwards Details

	Incentive target	
	2010/11	2011/12
<b>Residual Balancing</b>	LM: 2.8mcm PPM: 2.5%	LM: 2.8mcm PPM: 1.5%
<b>Demand Forecasting</b>	2.85% absolute daily error	2.75% absolute daily error
<b>Environmental</b>	3007 tonnes	-
<b>Data Publication</b>	Availability: 99.3% Timeliness: 90.5% within 10 mins	Availability: 99.3% Timeliness: 90.5% within 10 mins
<b>Operating Margins</b>	No Scheme Currently in place	
<b>NTS Shrinkage</b>	Cost Target based on St Fergus flows and reference price	
<b>UAG</b>	Incentive Target: 2862 GWh	

## Gas SO Incentives 2010/11 onwards

### The way forward

- Going forward
  - Expect NGG to put initial proposals forward for OM and Environmental incentive schemes to be in place from April 2011
  - Ofgem will consider options for the entire Gas scheme from April 2012 (bundling and potential links with price control)
  - Special Condition C27: NGG raised the UNC review group (UNC 291), thus expect NGG and the Industry to develop, *if appropriate*, a gas linepack product and consider “default” cash out prices

## Electricity SO Incentive 2010/11

- Annual bundled scheme in place

	<b>Incentive Target</b>	<b>Deadband</b>	<b>Sharing Factors</b>	<b>Cap/Floor</b>
Scheme	£577.7m	£550m-£605m	15%	£15m

- Introduced licence condition which requires NGET to cooperate with the Authority in undertaking a review of the methodology for developing its forecast



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