

Electricity System Operator Review - Preliminary Conclusions

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Electricity SO Incentive 2010/11

- Annual bundled scheme in place

	Incentive Target	Deadband	Sharing Factors	Cap/Floor
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

Preliminary Conclusions following Phase 1

- Phase 1: Ofgem-led, with consultancy support (Frontier Economics)
 - Ofgem published its Preliminary Conclusions following Phase 1 on 5 July 2010
- Phase 2: Undertaken by NGET based on Phase 1 Preliminary Conclusions
 - 15 weeks duration (~mid October)
- Phase 3: Ofgem-led, with consultancy support
 - Preliminary Conclusions for SO incentive scheme from 1 April 2011 & beyond

Preliminary Conclusions - Incentives Methodology

- Multi-year incentive scheme is inherently difficult
- Proposed methodology: Takes into account the impact of **unpredictable** and **uncontrollable** external factors by adjusting the incentive target at the end of the scheme
- NGET will be less exposed to windfall gains or losses
- Proposed methodology will allow for strengthening incentives on NGET (e.g. reducing deadband, increasing sharing factors)

Preliminary Conclusions - Implication on Modelling and Use of Models

- Energy Models: NGET to take a number of improvements, e.g. forecasting of inputs, relationships between drivers of costs and costs themselves
- Constraints Models: Replace current models with a single fundamental GB wide model
- Models and some of the inputs will be agreed prior to the start of the scheme
- But some of the model inputs would be based on actual outturn numbers
- In essence, use models to adjust for uncontrollable uncertainties



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