

Gas SO incentives review

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12/02/2014

ofgem



- **Aims of the presentation**
- **Background**
- **Objectives of the review**
- **SO performance**
- **Indicative timelines of the review**
- **Questions**

Aims of the presentation

- In this presentation **we aim to:**
 - Explain the incentives that need to be reviewed
 - Present our indicative timeline
 - Express that we are keen to engage with stakeholders on this process, in particular:
 - On the extent to which the actions that are incentivised are generating benefits to consumers?
 - On whether the current framework is fit for purpose?
 - On whether there is any change that could be made to maximise benefits?

Background I

- New gas SO incentives in place from April 2013
- Incentives aligned with RIIO-T1 – 8 year schemes
- However, three newly introduced incentive schemes to be reviewed after 2 or 3 years

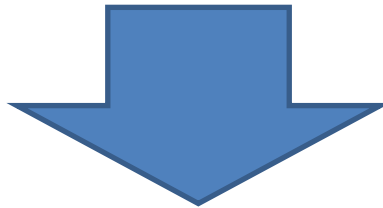
Incentive	Duration	Expiry date
Maintenance (two targets)	2 years	31 March 2015
D-2 to D-5 demand forecasting	2 years	31 March 2015
GHG emissions	3 years	31 March 2016
D-1 demand forecasting	8 years	31 March 2021
Residual balancing	8 years	31 March 2021
Shrinkage	8 years	31 March 2021
Constraint management	8 years	31 March 2021
Unaccounted for Gas	8 years	31 March 2021
Operating Margins	8 years	31 March 2021
Information provision	8 years	31 March 2021

Background II

Scheme	Cap	Floor
Maintenance (two targets)	£1.5m	-£1.5m
D-2 to D-5 demand forecasting	£10m for perfect forecast	-£1m
GHG emissions	£0 (downside only)	No floor
D-1 demand forecasting	£10m for perfect forecast	-£1.5m
Residual balancing	£2m	£-3.5m
Shrinkage	£7m	-£7m
Constraint management	£20m	-£60m
Unaccounted for gas	Reputational incentive	
Operating margins	Reputational incentive	
Information provision	Reputational incentive	

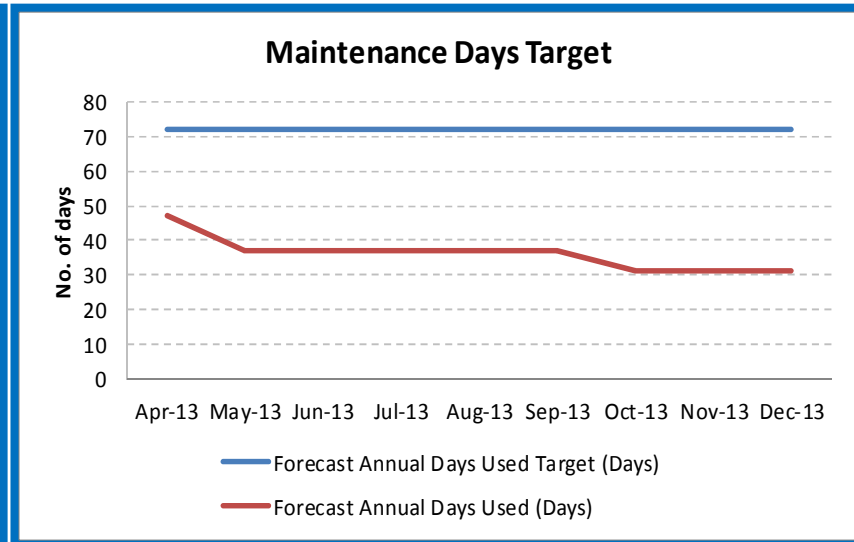
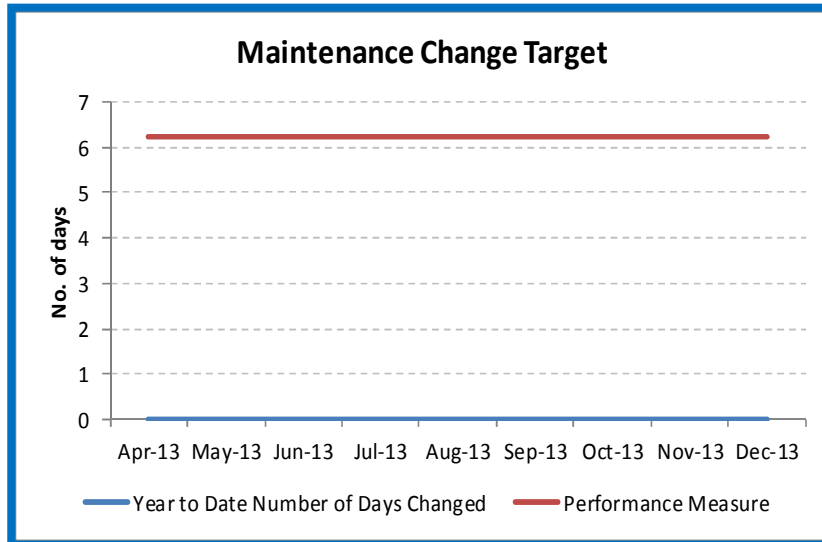
Objectives of the review

1. Do the three incentives target the right behaviours?
2. Have we got the appropriate balance between the targets and the potential for incremental benefits?
3. Should we include anything else under these incentives?



**Decide an appropriate course of action for each
of the three incentives**

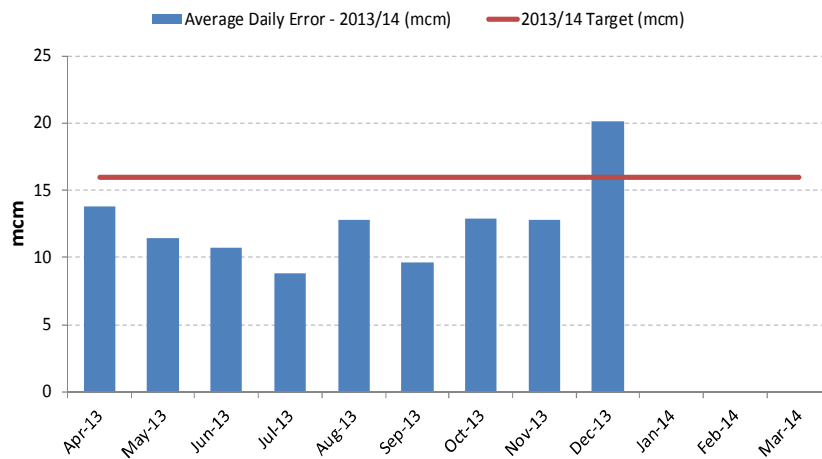
SO performance I



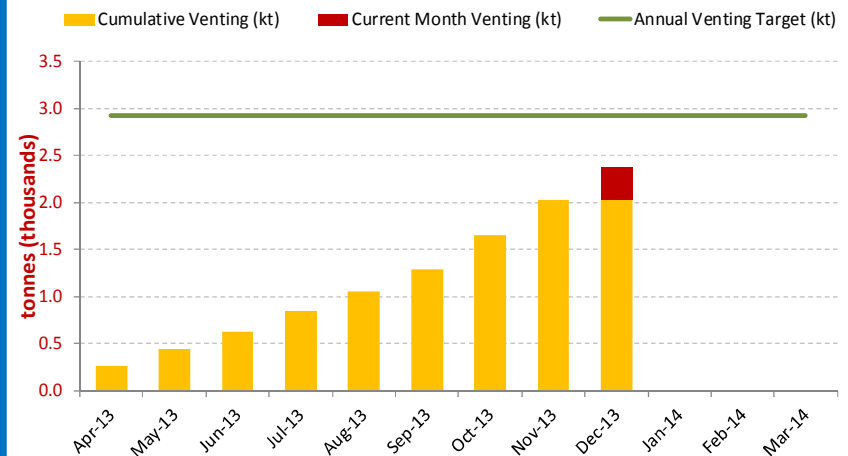
- NGG is performing well against the incentive - so far it has not made any changes to its maintenance plans.
- The data provided is NGG's monthly forecast on the length of their annual maintenance works.
- We will receive the final data at the end of the year.

SO performance II

Demand Forecasting D-2 to D-5



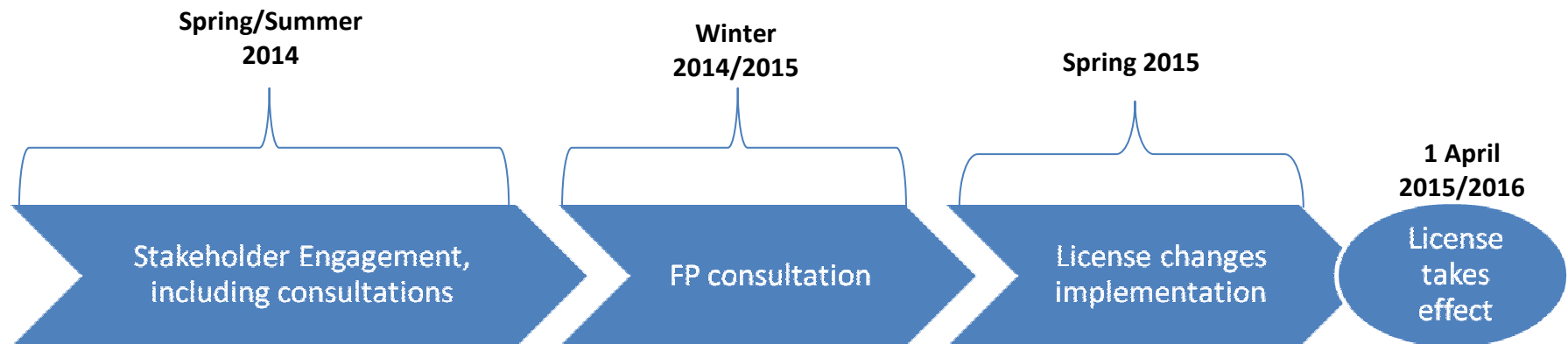
Green House Gas (GHG) Emissions Venting Target



- Until December 2013 NGG average daily demand forecast error was constantly below the target of 16 mcm.
- However, December saw the forecast error increase up to 20 mcm, which is 4 mcm above the target.
- We still do not have the data for the remaining winter months. During colder winter months typically the demand volatility is higher which makes demand forecasting more complicated.

- December 2013 saw levels of venting at 348 tonnes, taking the total amount vented to 2419 tonnes, 83% of the annual target.
- We still do not have the data for the remaining winter months.
- However, typically we have observed higher venting levels during colder months.

Indicative timelines



N.B. We intend to review the three incentives at the same time.

Any questions?

For further questions email: soincentives@ofgem.gov.uk

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