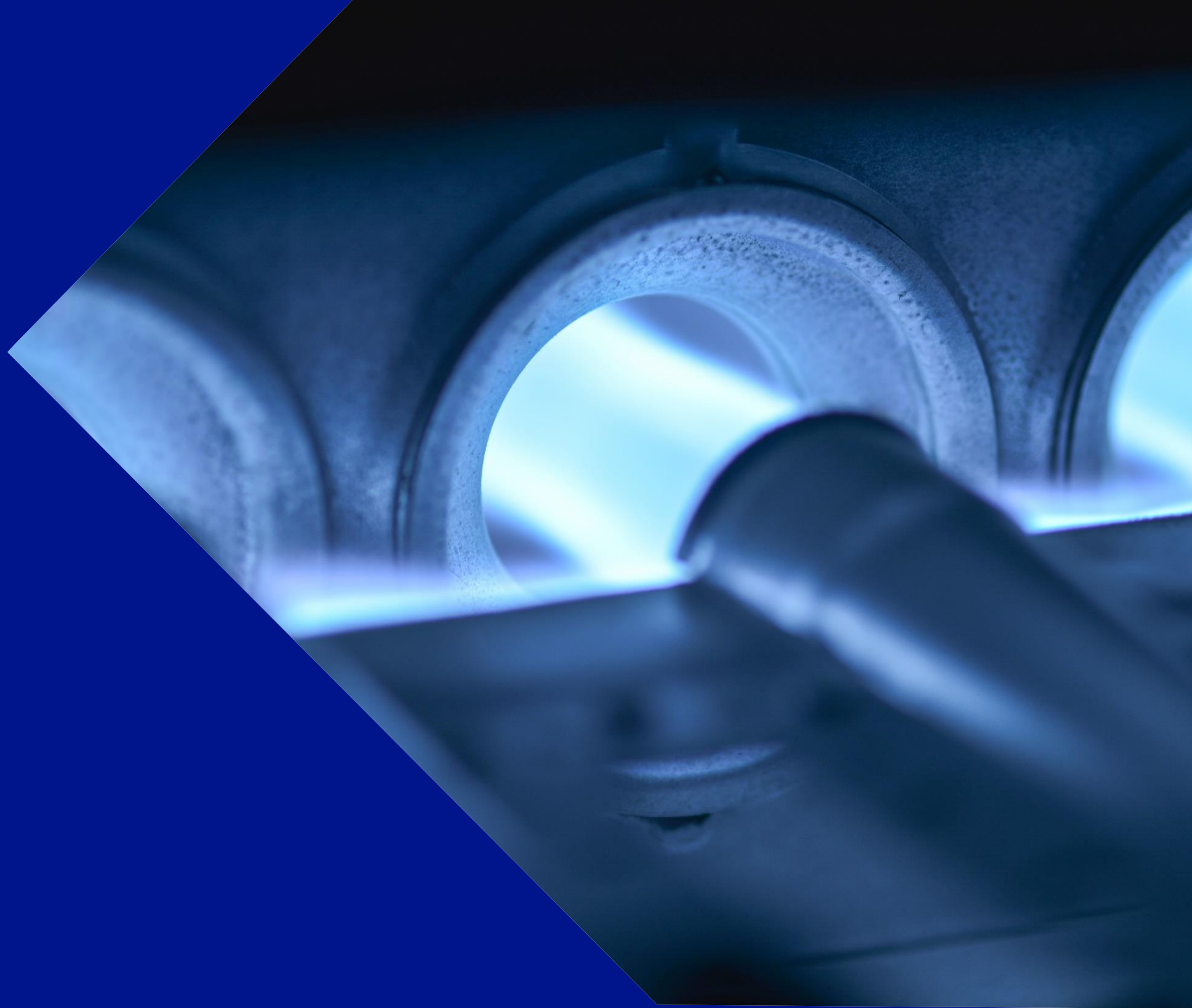


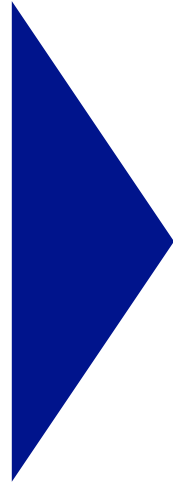
# Incentives

nationalgrid



# Maintenance incentive

Greater level of investment required for RIIO-2 combined with zero upside



Means we are more likely to...

...**protect** incentive performance **rather than improve** incentive performance – changes the trade off / balance between maintenance costs vs customer impact.

...focus on minimising our costs rather than alignment with customers.

...use maintenance days (i.e. we aim for targets rather than look to exceed targets) due to lack of financial upside to encourage investment in improvement.

What might this **mean** for you? How will this **impact** your **business**?

# Shrinkage incentive

Removal of financial incentive

...Ofgem rationale for removing financial incentive is that prompt or leaving to cash-out has largely out-performed the shrinkage target...

...We believe procuring all shrinkage energy on the prompt / leaving to cash out does not align to business hedging / risk management activities and therefore increases the risk of disproportionately high daily shrinkage energy costs (currently around £50m to £80m per annum)...

...means price performance is more likely to degrade (i.e. no financial reason to beat a price)...

...would you consider a simpler 'price' only shrinkage incentive?

What might this **mean** for you? How will this **impact** your **business**?

# Demand Forecasting incentive

Minimal potential incentive returns means...

...**minimal investment** potential to improve forecasting accuracy.

D-1 incentive low returns means...

...forecasting performance more likely to **stay still** against a **more challenging** back drop (supply and demand volatility increasing) this means...

... **demand forecasting** accuracy is more likely to **deteriorate** from RIIO-1 levels.

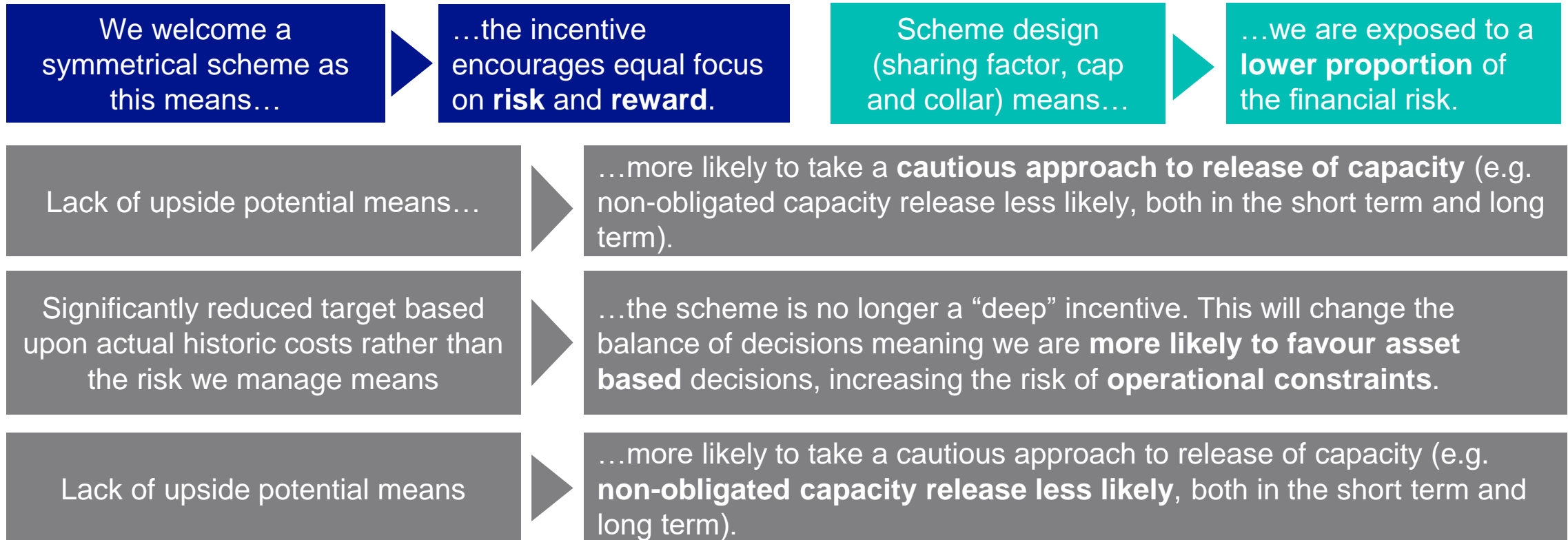
Removal of D2 to D5 financial incentive means...

... forecast accuracy performance more likely to **deteriorate**. The limited focus will be on D-1 performance, taking into account above points.

What might this **mean** for you? How will this **impact** your **business**?

# Constraint Management incentive

The scheme in RIIO-1 **has performed** as intended in **minimising** the **consumer costs** associated to constraint risk management. The RIIO-2 scheme potentially **moves away** from this and has potential to **increase consumer costs** associated to constraint risk management.



What might this **mean** for you? How will this **impact** your **business**?