



Promoting choice and value
for all gas and electricity customers

Ofgem Update – Gas Operational Forum

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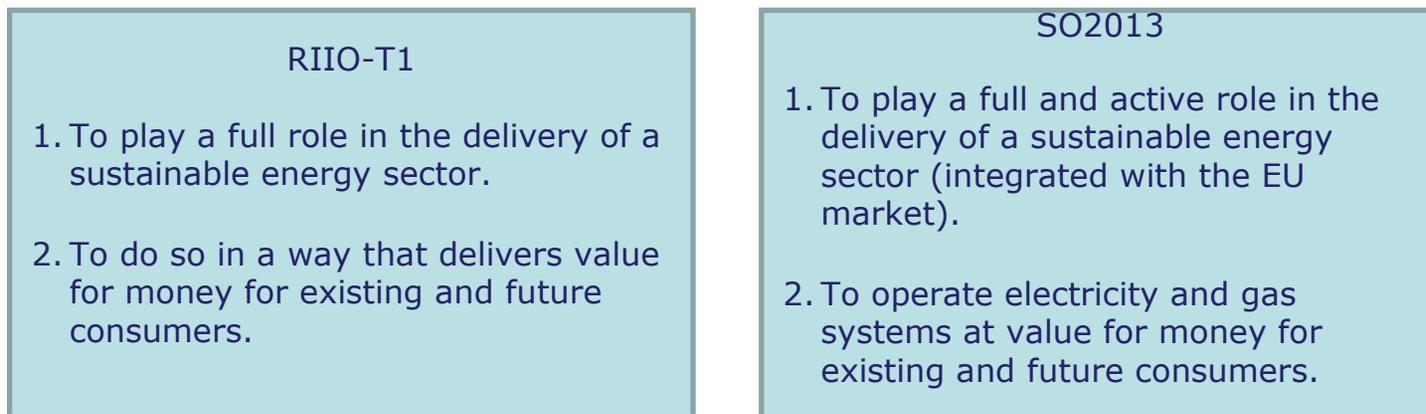
February 15 2012

SO Incentives from 2012

- We received two responses to our Final Proposals and we published our Decision on February 1 with no changes with respect to our final proposals.
- The responses raised issues for our consideration:
 - UAG: one respondent considered that our proposals required NGG to do little other than what they do under the status quo. They also suggested that we focus on finding an appropriate solution ahead of setting longer term incentives from 2013.
 - We are considering a wide range of options ahead of setting incentives from 2013.
 - Provision of information: one respondent suggested that NGG should be incentivised to achieve better levels of data availability and timeliness at times when the market would value this the most (e.g. days of gas balancing alerts).
 - This proposal requires further consideration and consultation, and would go beyond rolling over the existing incentives.
 - Demand forecasting: NGG expressed concern regarding the effect of what it considered to be Ofgem's rounding down of NGG's proposed demand forecast adjustment factor.
 - Our approach reflected our view that levels of historical error should not be automatically incorporated into future targets and that the increase in difficulty of demand forecasting may not increase in a linear relationship with storage capacity.

SO Incentives from 2013: Objectives for SO and TO regulation

- On January 31 we published a consultation on the principles and policy for the SO regulation from 2013. Responses should be e-mailed to soincentive@ofgem.gov.uk by March 27
- The overall objectives for the SO and the TO are very similar. Therefore, we propose a common approach to regulation.



Common principles for monopoly regulation

Aligned objectives

SOs and TOs face similar challenges and uncertainties meeting these objectives

Overview of SO regulatory framework from April 2013

Principles, policy and objectives set for 8 years

- Some incentive schemes may be set for shorter periods but overarching approach will not change.

Output incentive schemes

- The SO regulatory frameworks will be outputs led
- We have set out what outputs the SOs will be held to account to deliver and how we will incentivise them.

Cost incentive schemes

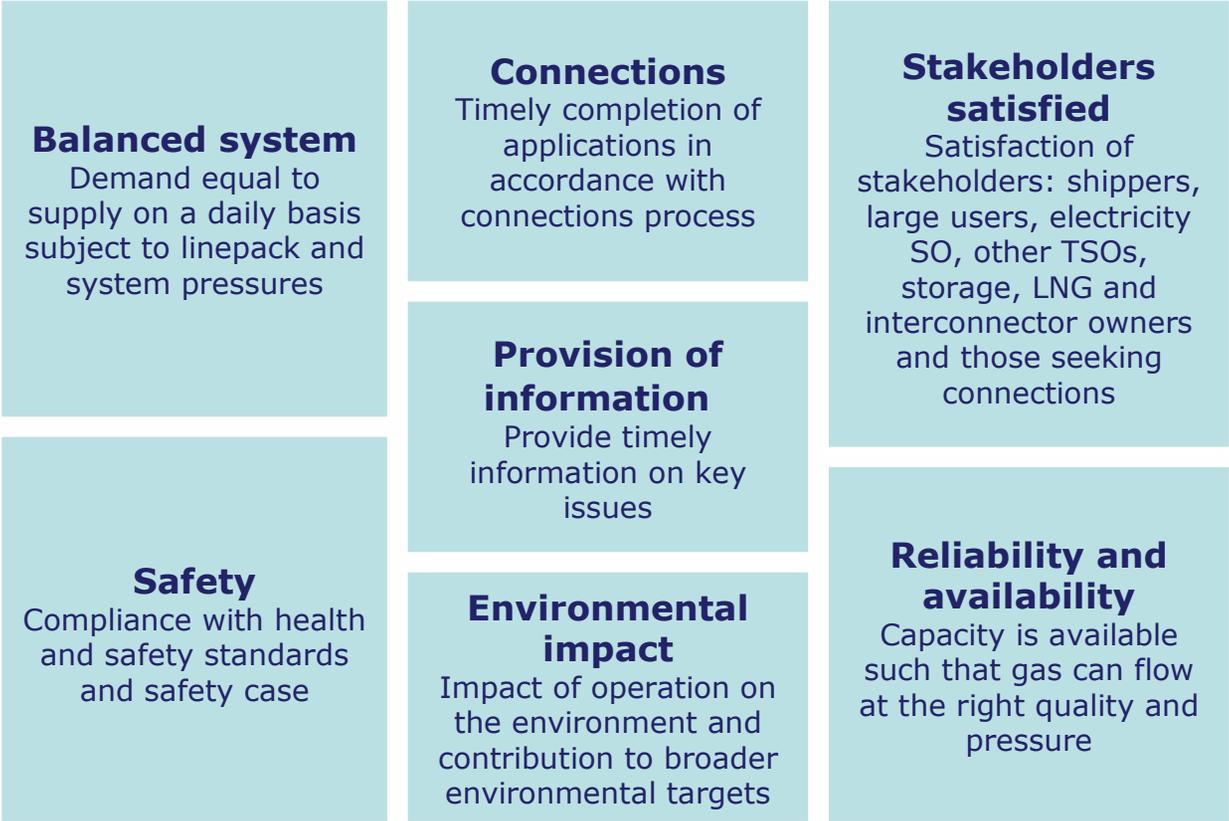
- The SOs will be incentivised to deliver outputs at long term value for money through cost incentive schemes with associated cost targets.

SO-TO interactions

- The frameworks will encourage the SOs to work with the TOs to identify behavioural changes that could result in overall lower costs of output delivery for consumers.
- The framework will promote transparency of interactions between SOs and TOs.

In cases of significant change, the regulatory framework will need to be able to adapt accordingly.

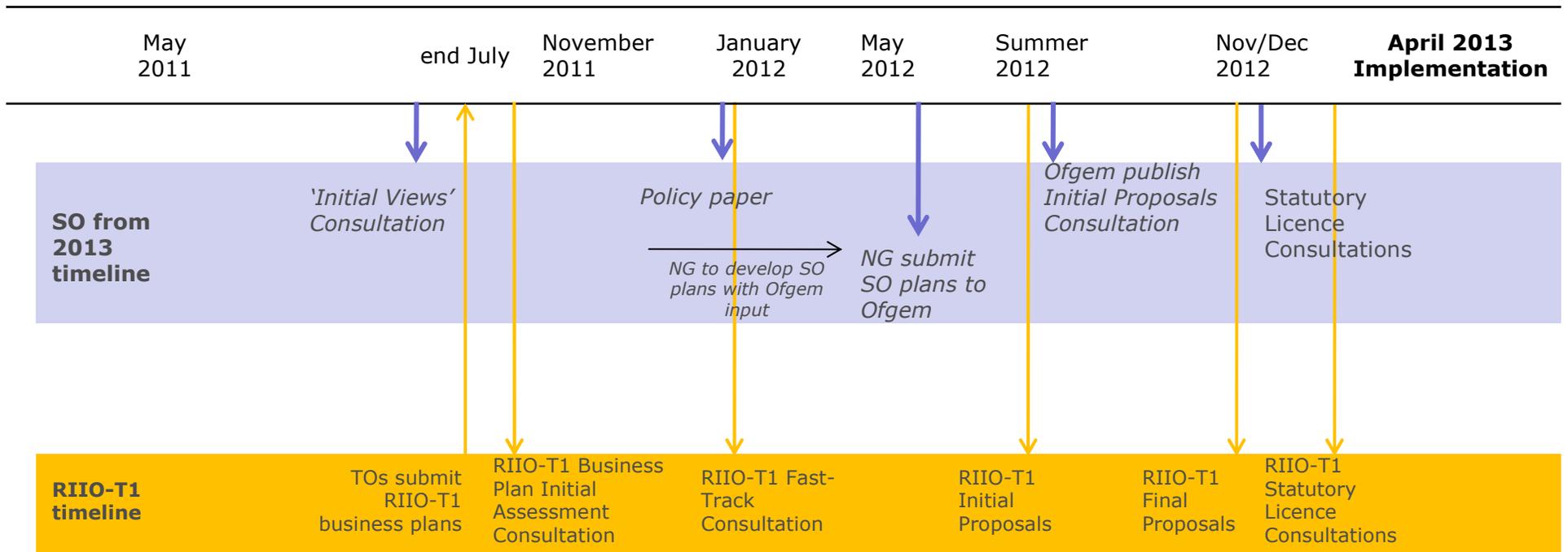
Gas SO outputs



Cost Schemes - Gas

	Scheme length	Cost target methodology
Shrinkage cost (bundled)	8 years	As now, volume forecast multiplied by reference prices
OM cost (bundled, with utilisation costs potentially carved out above a certain value)	8 years	To be determined.
Potential Balancing cost		To be determined

Timeline





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Links

SO Incentives

<http://www.ofgem.gov.uk/Markets/WhIMkts/EffSystemOps/SystOpIncent/Pages/SystOptIncent.aspx>

Incentives from April 2012

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=279&refer=Markets/WhIMkts/EffSystemOps/SystOpIncent>

Incentives from 2013

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=277&refer=Markets/WhIMkts/EffSystemOps/SystOpIncent>

Any questions?

If you have any questions please feel free to contact us anytime

soincentive@ofgem.gov.uk

SO incentives from 2013: Mathieu.pearson@ofgem.gov.uk tel:0207 901 7294

The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, there is a close-up of a gas burner with a flame. In the foreground, there are stalks of wheat. A large, white, stylized arrow points from the top right towards the bottom left, passing behind the text.

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