



Cash out review working group - scope

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General framework

- Cross governance consideration of cash out issues
- Original timescale was to focus on possible changes ahead of this winter
- Timescale has been extended
- Focus now is on issues in relation to which revisions could be made ahead of winter 2006/07

Gas and electricity focus

- Group to focus on both electricity and gas cash out
- Based on feedback received, majority of areas highlighted are electricity focused
- Several key gas areas are highlighted:
 - emergency cash out
 - pricing of OM gas in cash out
 - fixed differentials

Proposed scope

- Issues to be included:
 - weighted average vs marginal prices for cash out
 - pricing of SO reserve contracts and how these feed into imbalance
 - reverse pricing, in the case of electricity, and default differentials in the case of gas
 - split of system and energy balancing actions, how these do/don't feed into the calculation of cash out prices
 - the methodologies for redistributing imbalance cash flows
 - the methodologies for determining cash out prices in emergency circumstances
 - pricing of demand control and/or voltage reduction

BSAD

- Types of questions to ask and issues to assess include:
 - include or exclude pre-Gate Closure actions? If include...
 - treatment of forward contracts?
 - treatment of reserve?
 - aggregated or disaggregated BSAD? If aggregated...
 - net or gross?

Tagging

- Types of questions to ask and issues to assess include:
 - include or exclude system balancing actions from cash out prices?
If exclude...
 - are the current methodologies appropriate?
 - any potential revisions to the current methodologies?
 - any additional tagging methodologies?

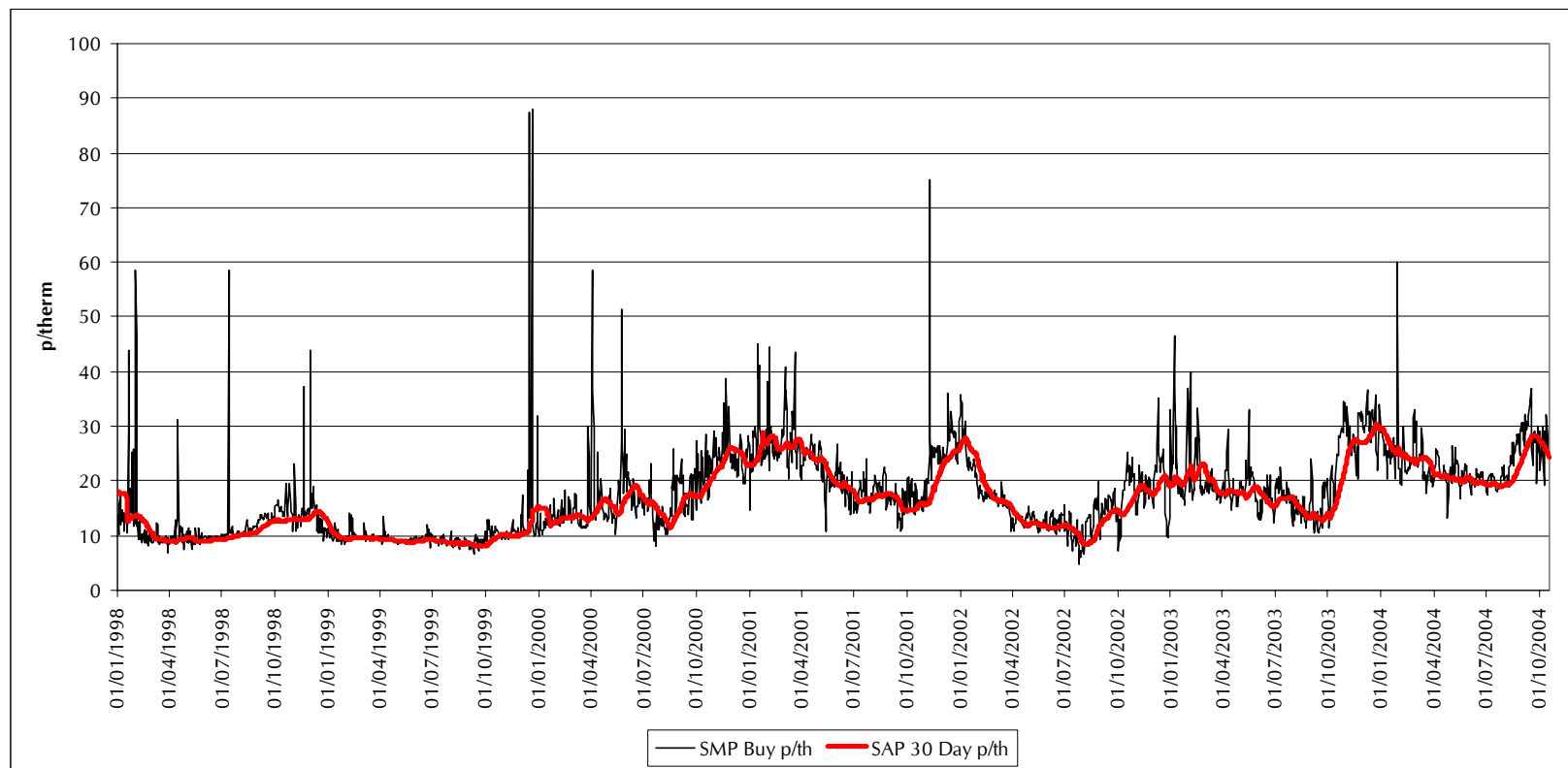
Calculation of cash out prices

- Types of questions to ask and issues to assess include:
 - in electricity, weighted average vs marginal/chunky marginal pricing?
 - in gas, are the existing fixed differentials appropriate?
 - include or exclude measures such as demand control and/or voltage reduction in cash out prices?

Emergency cash out

- Mindful of live mods in relation to emergency instructions in electricity
- Types of questions to ask and issues to assess include:
 - how do the electricity and gas emergency cash out arrangements interact? Can the interaction between the two be improved?
 - in gas, does the existing combination of emergency cash out prices and the emergency claims review procedure provide appropriate commercial incentives for parties to seek to avoid and alleviate emergency situations?

Emergency cash out – historical data



Residual cashflows

- Types of questions to ask and issues to assess include:
 - does the current distribution of residual imbalance cashflows influence incentives to balance?
 - any potential revisions to the current methodology?

Residual cashflows – simulated data

Party	Credited Energy Volume	Imbalance Volume (short)	Imbalance as % of Credited Volume	Energy Imbalance Charge	Offer Volume	Offer Price	Offer Cashflow	RCRC	Non Delivery	Total Cashflow
A	2000	-500	-25%	-24913	400	50	20000	15226	0	10313
B	1500	-50	-3%	-2491	15	40	600	11420	0	9528
C	500	-100	-20%	-4982	5	45	225	3807	0	-951
D	200	-2	-1%	-99	10	35	350	1523	0	1773
E	100	-5	-5%	-249	5	100	500	761	0	1012

Priority areas

For discussion...



Promoting choice and value for all
gas and electricity customers