Approach to assessment

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Past assessment

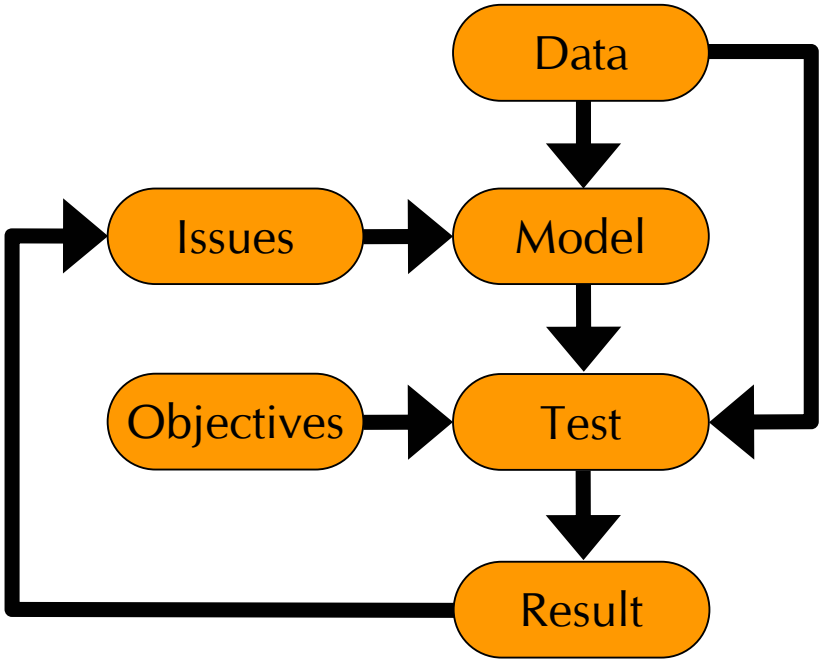
- In the past, amendments to the cash out arrangements made through industry code processes
- Effective tool for discrete issues
  - Established framework
  - Focussed
  - Industry led
- Cash out
  - Cross industry; cross governance
  - No clear defect identified
  - Difficult to assess solutions

Proposed assessment

- Flexible framework
  - Includes gas and electricity and the interactions between the two
  - Cross governance: all codes
  - Incentives on both parties and System Operators
- Industry led with Ofgem input
  - Ofgem has own views on what the Group should consider, how it should operate (subgroups, etc), and the timescales involved
  - However, this is open to the Group
- Quantitative and qualitative
  - Assessment led by quantitative / objective analysis supported by qualitative / subjective analysis

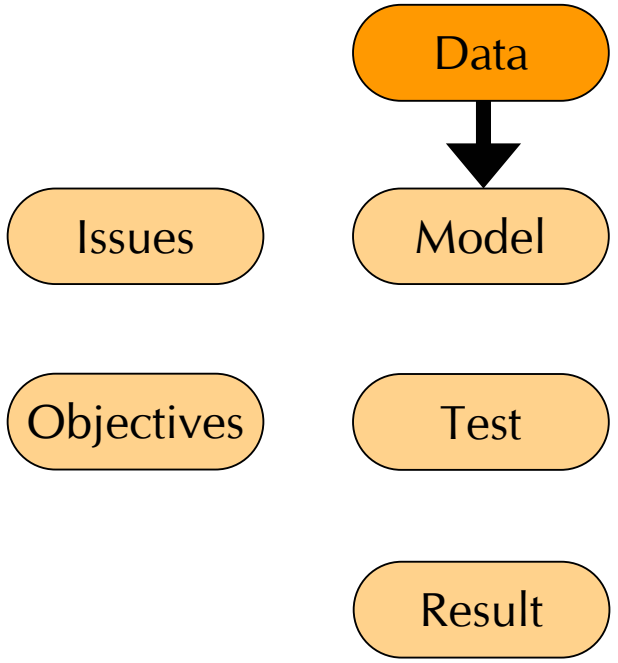
Assessment framework

- Use real and synthesised data
- Model of cash out arrangements central to analysis
- Broad issues already identified by Ofgem (BSAD, treatment of OM gas, etc)
- Test against objectives
- Iterate



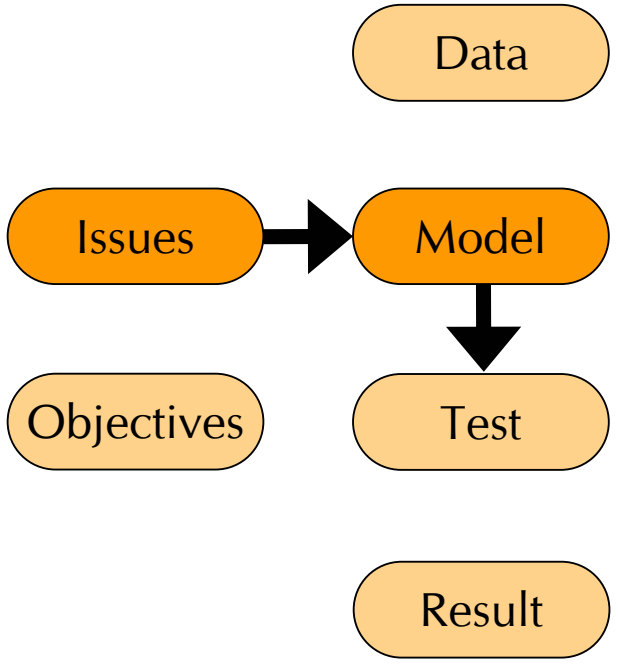
Data

- Categorise 'state' of system imbalance
- Derive data:
  - Volume of actions required to balance system
  - Volume and nature of actions available to SO
- NGT and Elexon to take lead
- CORWG audit data



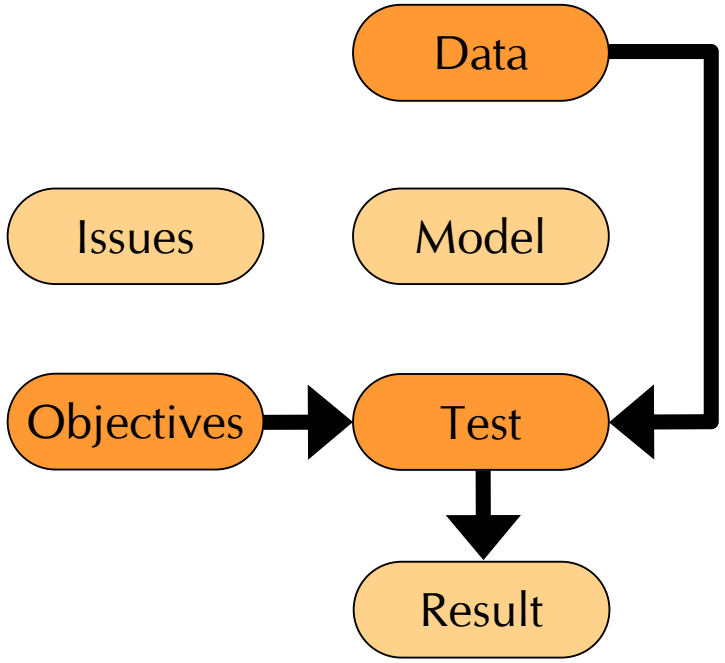
Model – the sausage machine

- Model cash out mechanism
  - Detailed
  - Flexible
  - Robust
- Issues - make changes to model:
  - For instance, BSAD:
    - aggregated / disaggregated; BSAD
    - net / gross BSAD
    - etc
- Run model; product: set of imbalance prices
- NGT and Elexon to take lead
- CORWG audit model



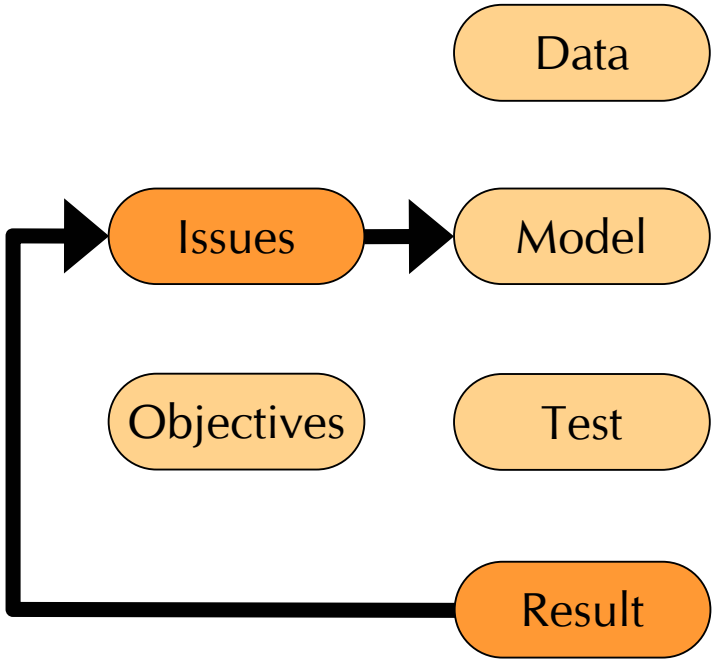
Test

- Inputs:
  - Data: 'state' of the system
  - Set of imbalance prices
- Test: with regard to the state of the system, do prices promote cash out objectives to:
  - Provide appropriate commercial incentives to balance…; and
  - Reflect the costs incurred by the SO in balancing
- Subjective test: primary role of CORWG



Result

- Iterate:
  - Can more improvements be made?
  - New issues?
  - New data?
  - Interactions
- CORWG recommendation



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Promoting choice and value for all gas and electricity customers