ofgem

#### **Recommendations from CORWG: Inputs**

Kevin James

NB: these views are provided for discussion purposes only. Any views expressed in this presentation (unless expressly referring to Ofgem) are intended to summarise the views of the CORWG. Any preliminary views from Ofgem are not binding on the Authority in any way, nor shall be construed as granting any rights or imposing any obligations on the Authority. The views expressed or statements made in this meeting will in no way fetter the discretion of the Authority.



CORWG 06 12 05

### Issue considered and initial findings

Does a defect exist in relation to the way forward trades feed into cash out?

• Group considered whether the current methodology provides a reasonable approximation of costs associated with option fees?

- should cash out cover cost allocation? or
- should it provide more dynamic signals to the market?
- Group considered that the current historical allocation covered costs associated with option fees but did not provide appropriate signals at times of system stress

BSAD

**Option** fees

- Group considered whether disaggregated and gross BSAD would have an impact upon the cash out price
- Effects of disaggregated BSAD and Gross BSAD were not material;
- National Grid to carry out analysis at times of system stress.

#### Issue considered and initial findings

Does a defect exist in relation to the way forward trades feed into cash out?



- Is the current treatment of non-OCM trades in gas cash out appropriate?
- Analysis highlighted non-OCM trades do not take place very often and that they are rarely taken for energy reasons



- Is the treatment of other non-BM trades e.g. warming contracts appropriate?
- National Grid is currently undertaking a reserve review and the conclusions from this will affect the treatment of non-BM products









## Inputs: Ofgem's initial views

- Defect detected in the current methodology
- Fundamental question to resolve in relation to costs versus signals



Option fees



Other non-BM

- Available evidence suggests material defect not detected.
- Most concerns regarding transparency
- UNC mod 61, if approved, will mean non-OCM trades feed into cash out; difficult to comment given mod under consideration
  If other non-OCM products were to be developed a key consideration would be the impact on cash out
- Reserve design and cash out interactions need to be captured
  Option fee approach proposed for other products e.g. warming contracts needs to be captured in cash out







ofgem



# Promoting choice and value for all gas and electricity customers

