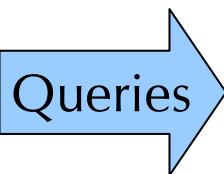


Recommendations from the inputs workstream

Hannah Cook

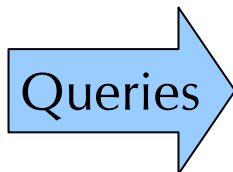
Background

Inputs workstream convened to assess whether a defect exists in relation to the way forward trades feed into cash out



GAS

- Is the current approach appropriate?



ELECTRICITY

- Does the historical allocation of option fees appropriately reflect utilisation of standing reserve?
- Is the way forward trades feed into NIV appropriate?

Query: Gas

- National Grid highlighted that forward trades are not currently carried out in gas;
- The use of Operating Margins in gas for energy balancing purposes has occurred very infrequently over the past five years.

THEREFORE

Current methodology for allocation of option fees and feed through of forward trades was not considered a defect

Query 1: Electricity

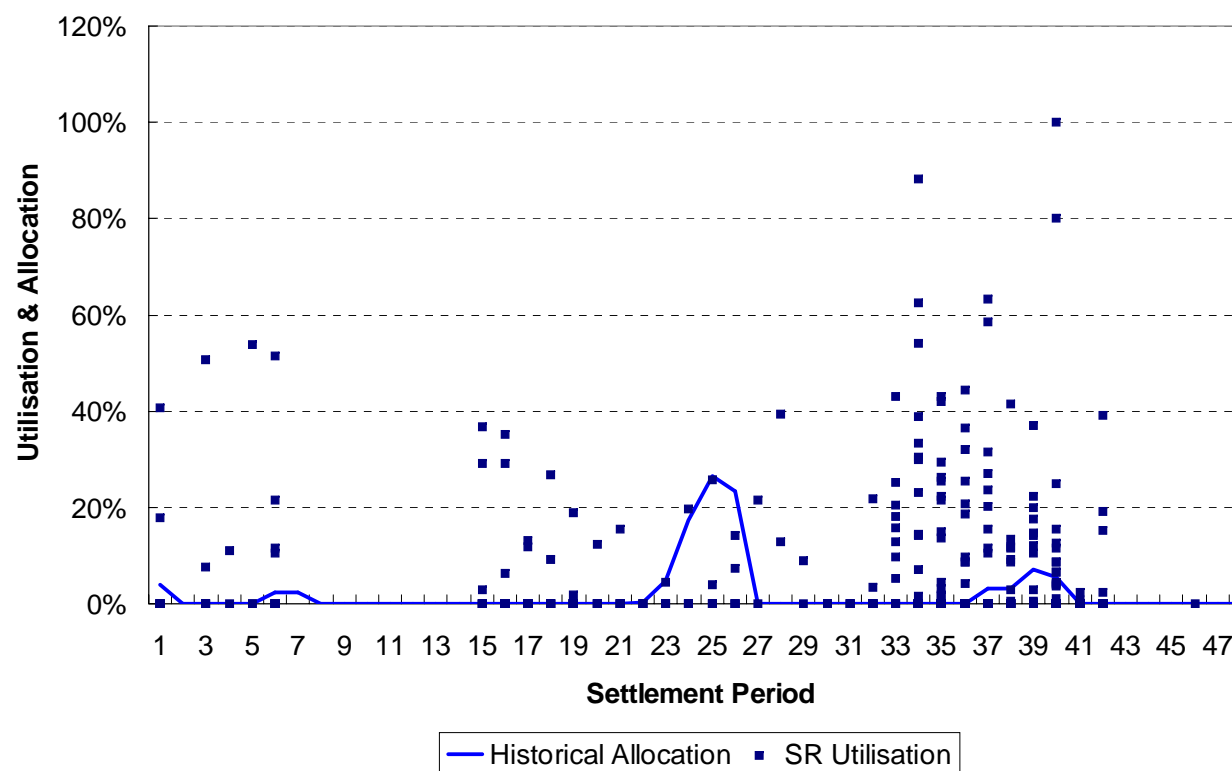
The Allocation of option fees on a historic basis does not reflect actual utilisation of standing reserve

ANALYSIS

- Comparison of historical allocation and actual utilisation of standing reserve:
 - For certain representative periods; and
 - For a period of a year
- Comparison of method based on MEL NGC and DF with historical allocation.

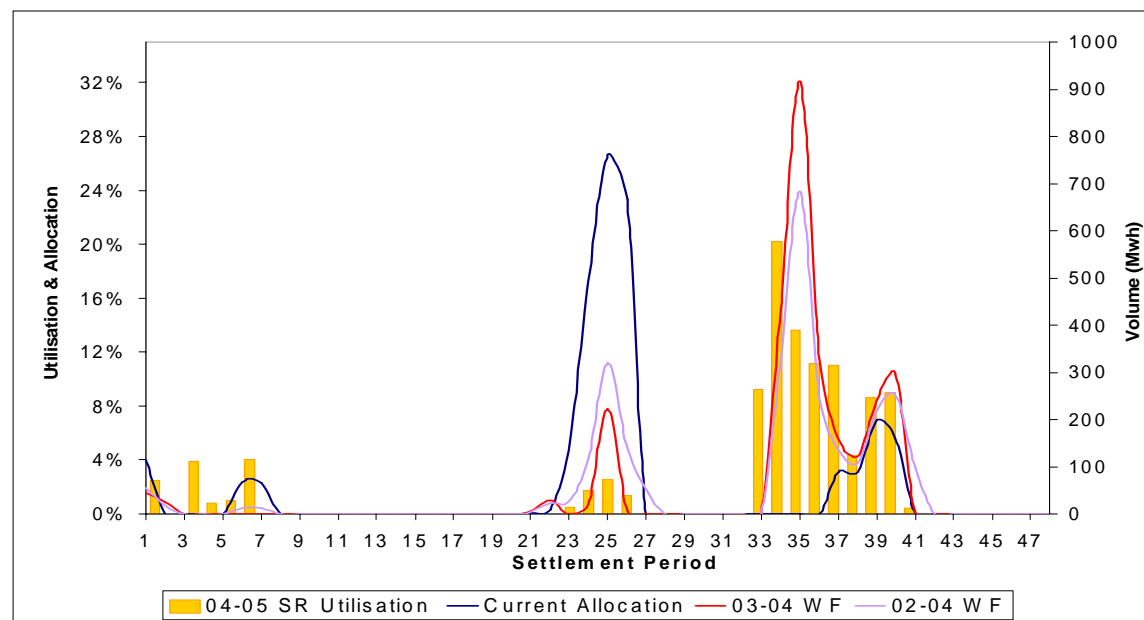
Size of defect

8. Daily SR Utilisation (36 MWh) and Option Fee Allocation (£86k) for NWD (26th October - 2nd February)



Solutions proposed (1)

- Historical allocation based on most recent data;
- Further analysis required to see if this is a materially better fit.



Solutions proposed (2)

Solution 2

- Fundamental change to current methodology
- Similar to that proposed by Mod 136
- Option fees would be allocated following a “trigger”
 - NISM; or
 - indicator of energy shortage
- Analysis needed to derive associated values for “system” and “energy” standing reserve

Query 2: Electricity

Inclusion of BSAD on a net basis does not appropriately reflect the level of reserve contracted pre-gate closure

ANALYSIS

- Recirculation of the average values obtained from previous disaggregated BSAD analysis.

- Circulation of the average values obtained from previous gross BSAD analysis.

Group keen for more analysis regarding the effects of gross and disaggregated BSAD at times of system stress

Possible further analysis

Historical
allocation

- Further analysis regarding the value associated with “energy” standing reserve;
- Research regarding valuation of “energy” standing reserve in other energy systems;

BSAD

- National Grid to carry out Gross and disaggregated BSAD analysis for times of system stress.

Outstanding concerns

GAS

- National Grid stated it did not intend to engage in forward trading
- BUT mod raised to allow National Grid to contract directly with customers for demand side response
- Way this will feed into cash out needs consideration

ELECTRICITY

- National Grid's reserve review has not been concluded;
- The conclusions of the review will have implications for the treatment of standing reserve and warming contracts in cash out

A large, central ofgem logo is positioned in the middle of the slide. It features the word "ofgem" in white, lowercase, sans-serif font, set against an orange rounded rectangular background.

Promoting choice and value for all
gas and electricity customers