

# Below the Line Options / Issues

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National Grid Transmission

# Content

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- ◆ Current regime – pros and cons etc
- ◆ Possible routes for development - outline strawmen for discussion and debate.
  - ◆ Title procurement
  - ◆ Constrained on/off service procurement
  - ◆ Others?
- ◆ Note: Strawmen presented here are for discussion only and do not necessarily represent NG Transmission's view or preferred approach.

# Current regime assessment

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- ◆ Pros -
  - ◆ Market based solution - Multiple buyers/sellers
  - ◆ Compensates for loss of access to stored gas
  - ◆ Mitigated “run on storage”
  - ◆ Retention of NEC role, as a “backstop” to the market, secures supplies to consumers who can not be Protected by Isolation
- ◆ Cons -
  - ◆ Does not provide a transparent forward value of stored gas
  - ◆ Compensation is same for all rather than User determined
  - ◆ Both Command and Control and market in play – may be incompatible
  - ◆ Cost smearing too broad?

# Securing the Gas Safety Reserve - Title Procurement by NG NTS

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- ◆ Pros –
  - ◆ Provides forward cost visibility
  - ◆ Secures title to the gas
  - ◆ Guarantees that gas will be available when required
- ◆ Cons -
  - ◆ Higher cost (inefficient?) – Single buyer cost driver?
  - ◆ Lack of available storage capacity – Secondary market only
  - ◆ Distressed buyer?
  - ◆ NG NTS becomes provider of last resort for 1 in 50 security
  - ◆ Reduced incentive for shippers to secure own supplies?
  - ◆ May unnecessarily sterilise some storage
  - ◆ “Windfall profits/losses on sale” issues

# Securing the Gas Safety Reserve - Procurement of Constrained Service

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- ◆ SO does not necessarily need title to the gas only the ability to demonstrate it is there and can be controlled
- ◆ Could buy a service from shippers to ensure gas in store is above minimum until directed to flow or until released from commitment (end of winter) i.e. a constrained off/on type service.
- ◆ Two options:
  - ◆ Shipper to hold stock
  - ◆ Shipper to counter-nom withdrawals when required

# Securing the Gas Safety Reserve Constrained Storage Option

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## ◆ Perceived Benefits

- ◆ Potentially lower cost/market intervention than procurement option
- ◆ Once constraint lifted, shippers would be free to withdraw gas
- ◆ No issues associated with SO selling large quantities of gas in the spring or windfall profits from winter release.
- ◆ Costs recovered through Balancing Neutrality – potential for weighting/targeting of costs

# Securing the Gas Safety Reserve Constrained Storage Option

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## ◆ Perceived Downsides

- ◆ Commercial obligations contained within a contract are unlikely to provide same level of certainty as current regime
- ◆ Current NEC safety case rights would still be required
- ◆ What would be the default if service is not offered?
- ◆ How would Mid winter requirement changes be accommodated?

# Securing the Gas Safety Reserve Constrained Storage Option

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## ◆ Possible Process

- ◆ Tender to all shippers during summer
- ◆ Separate tenders for each storage type
- ◆ Select in price order based on estimated requirement
- ◆ Re-tender (if necessary) as requirement changes
- ◆ Re-tender for mid-winter increases/reductions in monitor levels?
  - ◆ Short tender period
  - ◆ Rely solely on NEC powers until further options secured?

# Securing the Gas Safety Reserve Constrained Storage Option

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- ◆ **For further discussion/development:**
  - ◆ Should option provider have to evidence that gas is available prior to signing contract?
    - ◆ If yes, this provides more security for market
    - ◆ If no, this allows provider to take risk on option being called until the SO exercises its option
  - ◆ What if insufficient is offered?
  - ◆ What should be the benchmark for “economic and efficient” assessment of offers given obligations to secure?

# Securing the Gas Safety Reserve Constrained Storage Option

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- ◆ **How might these options be funded?**
  - ◆ Cost recovery through neutrality?
    - ◆ Should this be smeared across all shippers, or;
    - ◆ Targeted at NDM shippers and DM priority load shippers, or;
    - ◆ Targeted at those shippers contributing to “the problem”
      - ◆ How would these shippers be identified?
  - ◆ Link to Cashout?
    - ◆ Should cost of constraint service or procurement be fed into cashout?
    - ◆ If so should this be weighted in any way to reflect “risk” profile