

Safety Monitors and Gas Reserve - above the line

National Grid Transmission

Content

- ◆ Current regime – pros and cons etc
- ◆ Possible routes for development - outline strawmen for discussion and debate.
 - ◆ GBAs
 - ◆ SO role
 - ◆ Others?
- ◆ Note: Strawmen presented here are for discussion only and do not necessarily represent NG Transmission's view or preferred approach.

Current regime assessment – GBA not triggered

- ◆ General historic direction to minimise SO role
- ◆ SO incentives aim to achieve above whilst also targeting costs to the appropriate gas day
- ◆ Pros –
 - ◆ Has resulted in low residual balancing costs and liquid within day market
 - ◆ SO only acts when there is a projected Daily Balancing Requirement
- ◆ Cons –
 - ◆ SO role concentrated on 36 hour period
 - ◆ SO only acts when there is a Daily Balancing Requirement
 - ◆ Forward looking SO balancing requirement outside current scope

Current regime assessment – GBA triggerd

- ◆ SO role expanded to incorporate multi-day bids and OTC participants
- ◆ Pros –
 - ◆ SO role looking further out
 - ◆ Facilitates Demand-Side Offers to the SO
- ◆ Cons –
 - ◆ Potential increase in SO market intervention

Note: SO still only acts when there is a projected daily balancing requirement

Above the Line Options: Modified GBA

- ◆ **Current Arrangements:**
- ◆ GBA not designed to **protect** storage stocks
- ◆ GBA threshold reduced as each storage type gets within 2 days of the safety monitors (GBA more likely to be triggered)
- ◆ GBA contract trigger in DSR contracts
- ◆ GBA trigger for SO to access OTC and multi-day trades

- ◆ At MRS and LRS the trigger threshold for GBA is reduced too late to have the desired affect on storage flows? (enough time to respond?)

Above the Line Options: Modified GBA

- ◆ Possible option going forward:
- ◆ Introduce a different GBA threshold for each storage type?
 - ◆ E.g, LRS within [20] days
 - ◆ MRS within [10] days
 - ◆ SRS within [2] days
- ◆ Advantages:
 - ◆ Likely to result in significantly more GBAs being issued
 - ◆ Gives more time for Demand side to respond
- ◆ Disadvantages:
 - ◆ Will this provide more DSR or devalue the significance of a GBA?

Above the Line Options: SO role change

- ◆ Should NG NTS intervene in the market to preserve storage stocks when there is no projected on the day imbalance?
- ◆ If so what could be the trigger for this change?
- ◆ Potential Objective - To take action that reduces net withdrawals from storage thus preserving stocks for later in the winter and maximising the efficient use of other supply or demand reduction sources?

Above the Line Options: Potential Triggers for SO role change

- ◆ New GBA threshold
- ◆ Stocks below some other “line”, e.g.;
 - ◆ 1 in 50 Firm monitor line
 - ◆ 1 in 10 Firm monitor line
 - ◆ Industry determined “Essential Industry” line
- ◆ Where the rate of storage use is considered to be excessive relative to demand.
- ◆ No trigger – SO role discretion expanded at all time periods

Above the Line Options: Potential SO Actions

- ◆ On days when system is Long with excessive storage use
 - ◆ Rather than SO selling excess gas to the market, this could be nominated by the Res balancer back into storage and held in a “neutrality storage account”
 - ◆ Gas could be released as a balancing action on high demand days if system is short, beach at max, etc.
 - ◆ Send ANS message requesting locational DSR trades
- ◆ Or, when system is balanced/short with excessive storage use
 - ◆ Counter nominate against storage withdrawal flows into a Residual Balancer storage account
 - ◆ Buy locational gas exclusively sourced from sustainable supplies and or demand reduction

Above the Line Options:

What happens to Residual Balancer's stored gas?

- ◆ Options
 - ◆ Hold until required to support demand or end of winter, then offer back to market.
 - ◆ Auction on D[+1]
 - ◆ Resell price?
 - ◆ Daily market price
 - ◆ WACOG,
 - ◆ Marginal price of stored gas?
 - ◆ Use for future Residual Balancing actions

Cost targeting

- ◆ Recycle cost/revenues through neutrality
 - ◆ When
 - ◆ To who
 - ◆ How:
 - ◆ UDQO only
 - ◆ NDM and Priority Load UDQO only
 - ◆ Others?

Above the Line Options: Potential SO Actions

- ◆ Advantages:

- ◆ Aims to avoid a GSMR monitor breach
- ◆ SO best placed to project forward Daily system imbalances
- ◆ Revised cost targeting (UDQO) may facilitate competition

- ◆ Disadvantages:

- ◆ Question mark over the efficiency of such an increase in SO role over current market arrangements