

# **Gas Security of Supply – Significant Code Review**

## **Demand Side Working Group**

**Anna Barker & Jamie Black**

[gb.markets@ofgem.gov.uk](mailto:gb.markets@ofgem.gov.uk)

16 February 2011

## Purpose of today's session

**1. Brief overview of Gas SCR**

**2. Stakeholder views to date**

**3. Ofgem's early views**

**4. Next steps**

## **1. Brief overview of Gas SCR**

## Why are we doing it...

- GB gas market has delivered
  - **However**, concerns remain whether the current arrangements will deliver security of supply, and growing import dependency exacerbates these concerns
- **Project Discovery**
  - Assessment of whether market arrangements in GB can deliver secure, sustainable energy supplies
  - Concerns include:
    - Security of supply is not fully priced
    - Frozen cash-out may not attract gas during an emergency
- **Government priority**

## Our key objectives for the review

- Our key objective is to enhance gas security of supply in an efficient manner. We are seeking to:
  - a) minimise the likelihood of a gas emergency occurring
  - b) minimise the duration and severity of a gas emergency if one was ever declared
  - c) appropriately compensate firm consumers if they ever were to be interrupted
- Enhanced obligations remain on the table
- We will be conducting an impact assessment to help ensure the best outcome for consumers

# Potential options for reform – emergency arrangements

Element	Current arrangements	Option 1	Option 2	Option 3
<b>Shipper-to-shipper trading</b>	Continues	Continues	Suspended	Suspended
<b>Cash-out price</b>	Frozen	Dynamic	Dynamic	Frozen
<b>Post emergency claims</b>	Required	Not required	May be required for domestic supply	Required
<b>Role of VoLL</b>	None	Administrative price cap(s) at VoLL	Administrative price cap(s) at VoLL	Administrative price cap(s) at VoLL
<b>NGG role</b>	No market balancing actions	Market balancing actions set cash-out	Market balancing actions set cash-out; Sole purchaser of gas from non-domestic sources	Sole purchaser of gas from non-domestic sources
<b>NEC role</b>	Authorise firm load disconnection; Authorise instruction of maximum flows from domestic sources	Authorise firm load disconnection	Authorise firm load disconnection; Authorise instruction of maximum flows from domestic sources	Authorise firm load disconnection; Authorise instruction of maximum flows from domestic sources
<b>Compensation for firm customers disconnected</b>	None	Compensation at administrative VoLL(s)	Compensation at administrative VoLL(s)	Compensation at administrative VoLL(s)

## **2. Stakeholder views to date**

## Opening Seminar – 18 Jan

- General support for the review
- Prevention is better than a cure
- Importance of interruptible contracts
- The Value of Lost Load (VoLL) will be difficult to estimate
- Interactions with networks is key



## **W1 – emergency cash-out options – 21/01**

- No clearly preferred option
- Major credit impacts on shippers under options 1 and 2 in particular
- Market power may become an issue with dynamic cash-out capped at VoLL
- Safety case changes need careful consideration
- NGG unlikely to be better at sourcing gas than shippers (options 2 and 3)
- Different types of emergency (slow burn vs rapid) may warrant different approaches

## **W2 – VoLL and compensation – 28/01**

- VoLL difficult to estimate, especially for I&C
- Firm customers appear to view gas supply as 100% firm
- Industry may not invest in mitigating high impact low probability events
- We should consider capping total compensation payable for firm disconnection and spreading costs over time
- Smearing of costs may dent incentives on individual shippers
- 'New pre-emergency alert' proposed for early disconnection of firm daily metered customers

## **W3 – obligations and IA criteria – 4/02**

- Need a clear understanding of the level of security sought
- Who pays and who benefits should be clearly identified
- Obligations are likely to distort market, damaging competition and/or liquidity
- Debate on whether obligations are best placed on NGG or shippers/suppliers
- Benefits of new emergency stage highlighted again
- IA needs to establish impact of options on likelihood of emergency, and recognise that some costs are difficult to quantify

## Closing seminar – 9/02

- Support for new pre-emergency alert
- Support for more demand side response
- Some questioned whether there is a problem that needs fixing
- Some concerns that a capped cash-out will act as a target
- Estimates that the cost of including VoLL as compensation could be significant

## Summary of stakeholder views to date

- All options should remain on the table
- No clear support for any of the presented options — some combination of elements may be better
- New stage of emergency could be beneficial for I&C VoLL discovery
- Any reforms should go with rather than against the grain of the market

### **3. Ofgem's early views**

## Ofgem early views [I]

- This is the first stage of our consultation – all options remain on the table
- The lack of compensation for interrupted firm customers is a gap in the arrangements – security of supply is not fully valued
- Ability to attract imports during an emergency may be constrained
- These risks are currently borne by consumers
- We are yet to be convinced that shippers are not best placed to manage this risk
- There may be some need to limit liability on shippers

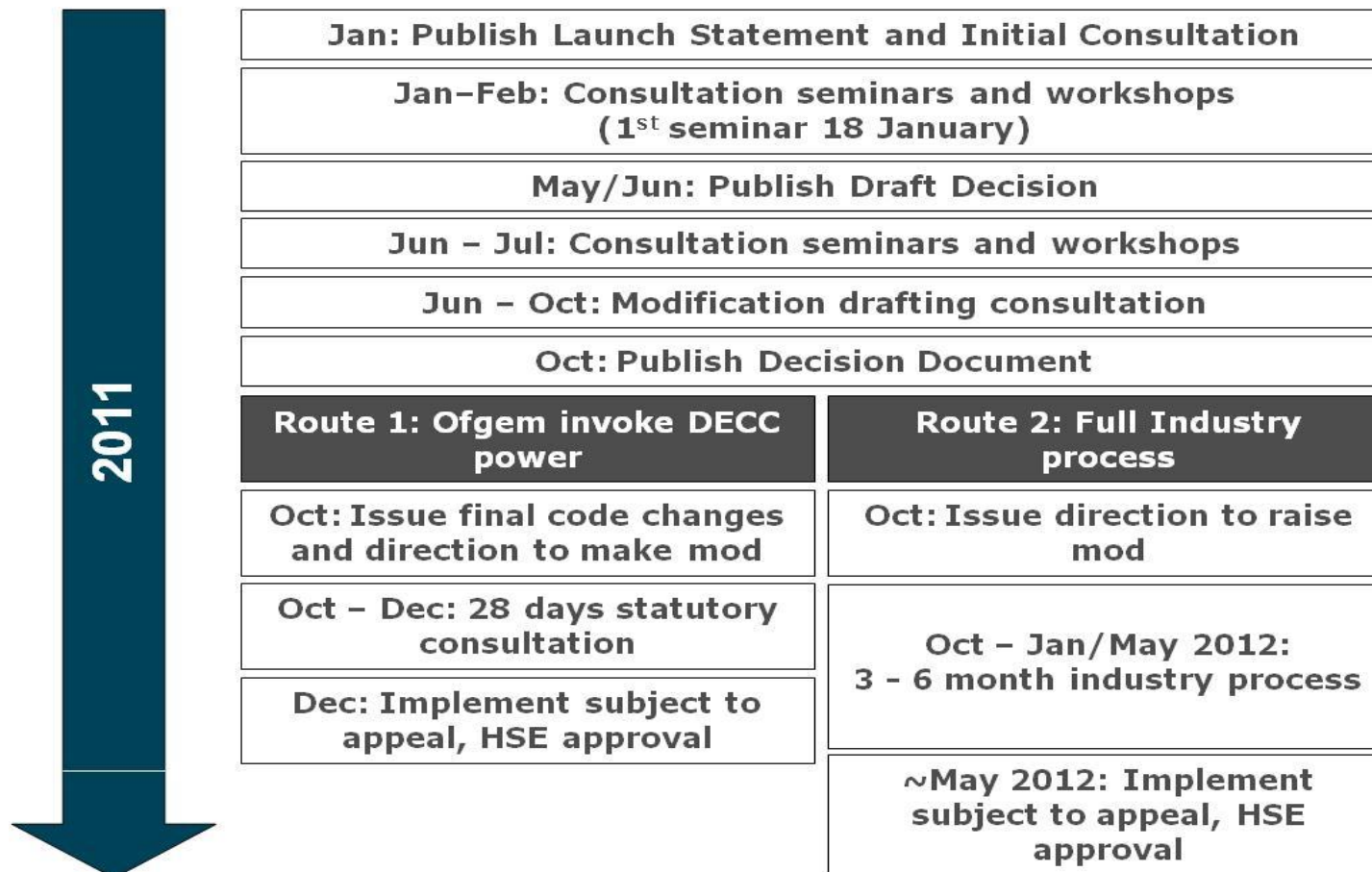
## Ofgem early views [II]

- On interruptibles:
  - Our concerns with gas security of supply pre-date any changes to the interruptible regime
  - That said, we recognise the important contribution that DSR can make to security of supply
- On networks interactions:
  - Our focus is on a commodity-based interruption
  - Identifying responsibility for compensation may be difficult
  - We are working closely with the RIIO T1 and GD1 teams
- On European interactions:
  - We are mindful of the interactions with EU regulations and guidelines



## **4. Next steps**

# Indicative timetable for gas SCR



Note: Following consultation, if we decide that obligations are needed then the relevant licence conditions should be in place for December 2011, but we would not expect obligations to become enforceable until winter 2012-13.

## Ongoing consultation

- Responses to the Initial Consultation are due on **22 February 2011**
- We encourage everyone to make a detailed written submission, providing evidence to support your views wherever possible
- There will be further opportunities for involvement:
  - Targeted meetings with stakeholder groups (like this one!)
  - Potential for further workshops prior to our draft decision
  - Consultation on draft decision, including further stakeholder seminars and workshops



Promoting choice and value  
for all gas and electricity customers