

# Gas Security of Supply SCR

## Revised options workshop

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1 April 2011

## The purpose of today's workshop

- High-level messages from responses to the initial consultation
- Outline revised options for reform
- Discuss and gain feedback on the revised options

## Agenda

- 10.05 – 10.15: Introduction – Chair
- 10.15 – 10.40: Presentation – Ian Marlee (Ofgem)
  - Emerging messages from consultation
  - Revised potential reform options
  - General discussion and questions
- 10.40 – 10.50: Short break & separate into breakout sessions
- 10.50 – 12.30: Breakout session 1
- 12.30 – 13.15: Lunch
- 13.15 – 15.10 – Breakout session 2
- 15.10 – 15.20 – Short break
- 15.20 – 15.50 – Representatives from each group to report back on the breakout sessions
- 15.50 – 16.00: Closing remarks - Chair

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# Contents

**1. Background**

**2. Emerging messages from consultation**

**3. Outline of potential reform options**

**4. Q&A**

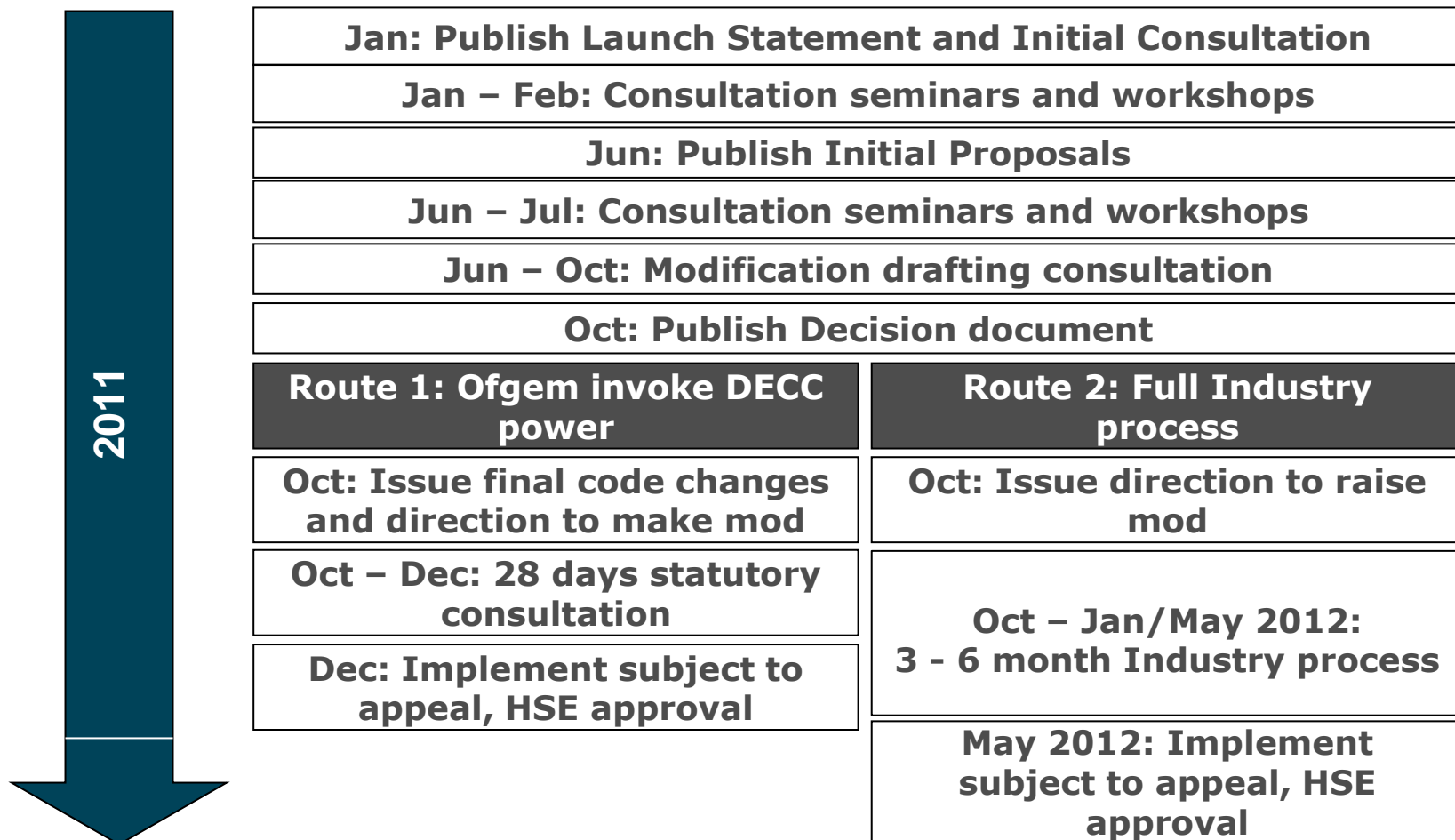
## 1. Background

- Objectives of the Gas SCR
- Timeline

## Objectives

- Our objective is to **enhance gas security of supply in an efficient manner**, by:
  - a) minimising the **likelihood** of a gas emergency ever occurring
  - b) minimising the **duration and severity** of a gas emergency if one was ever declared, and
  - c) appropriately **compensating** firm customers if they are ever interrupted.

# Indicative timetable for the 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.



## **2. Emerging messages/ issues from consultation**

## Summary of views

- Responses largely echoed feedback provided at the Closing Seminar. In particular:
  - All options should remain on the table
  - No clear support for any of the presented options — some combination of elements may be better
  - New pre-emergency demand side response could be beneficial for daily metered VoLL discovery
  - Any reforms should go with rather than against the grain of the market

## Key issues

- We have grouped comments into the following key themes:
  - Non-Daily Metered (NDM) customers
  - Firm DM Customers
  - Obligations
  - Cash-out

## NDM customers

- **Simplicity preferred in setting VoLL for NDM customers**
  - We are undertaking work to determine VoLL, looking at willingness to pay and willingness to accept for domestic and SME customers
- **Mixed views on whether VoLL should set compensation due to potential credit implications**
- **Some support for:**
  - Bounding the liability (when compensation is paid)
  - Capping the liability (e.g. the maximum payable per person per event)

## Firm DM customers

- A number of responses supported an enhanced DSR capability, focused on DM customers
  - Possibly through an auction
  - Different views on who would administer this (e.g. suppliers or NGG) and when it would occur (e.g. before winter or as an emergency appears imminent)
- Some support for compensation but concerns about setting an I&C VoLL

## Obligations

- Many disagreed with obligations
- But IF obligations were considered necessary, would need to determine:
  - The security standard
  - Who they apply to
  - What they apply to
- Responses suggested storage obligations (monitor once before winter or throughout) and enhanced information provision by shippers
- Varied views on whether obligations would be consistent with EU regulation

## Cash-out

- Responses provided some support for dynamic cash-out to attract non-domestic gas supplies
- BUT concerns that capping dynamic cash-out at VoLL could act as a 'target', pushing prices up unduly (also safety case concerns)
- Options for reform include:
  - Discretion on when to freeze cash-out (i.e. with the UNC Panel, NGG or NEC) depending on type of emergency
  - Dynamic but not capped at VoLL

## **3. Outline of potential reform options**



Objective	Reform element	Options include...		
Reduce the likelihood of a gas deficit emergency	<b>Non-Daily Metered (NDM) customers</b>	Compensation at VoLL	No compensation at VoLL	
Reduce the likelihood of a gas deficit emergency	<b>Firm DM customers</b>	Compensation at VoLL	DSR auction (Exercise only)	DSR auction (Option and Exercise)
Reduce the likelihood of a gas deficit emergency	<b>Obligations</b>	Information obligation	Proof of winter supply obligation	Storage obligation
Reduce the likelihood of a gas deficit emergency	<b>Licence conditions</b>	No breach if NDM interrupted	Breach if NDM interrupted	
Reduce the severity and/or duration of a gas deficit emergency	<b>Cash-out</b>	Dynamic to stage 4	National Emergency Coordinator (NEC) to determine when to freeze cash-out	

	<b>Existing arrangements</b> (the 'baseline')	Package 1: <b>'Market' package</b>	Package 2: <b>'Administrative' package</b>
<b>NDM customers</b>	No compensation	Compensation at VoLL	-
<b>Firm DM customers</b>	No compensation	Compensation at VoLL	DSR auction (option and exercise)
<b>Cash-out</b>	Frozen stage 2, then Post Emergency Claims (PEC)	Dynamic to stage 4	NEC to determine when to freeze cash-out
<b>Obligations</b>	N/A	Info. Obligation	Storage Obligation
<b>Licence conditions</b>	N/A	-	Breach if NDM interrupted

- Many other potential packages are feasible
- We remain open to alternative options
- This will be discussed in the second breakout session

## Impact Assessment (IA)

- IA will aim to consider impact of options on:
  - the likelihood of a gas emergency occurring
  - the duration and severity of a gas emergency if one was ever declared
  - the costs and benefits of each option
- Will consider which package of reforms will deliver the best outcomes for consumers (i.e. impact on consumer bills)
- Qualitative impact will also need to be assessed (e.g. risks associated with each option)

## 4. Q & A

## **Logistics for the rest of today**

## Logistics

- What group? Please refer to your packs
- Where?
  - Group 1 – Whittle Room (mezzanine level 2)
  - Group 2 – Lawrence Room (ground floor)
- What when?
  - Coffee/ tea available in both rooms (10:40 – 10:50)
  - **Break out session 1** (10:50-12:30)
  - **Lunch** (12:30-13:15) in Stephenson Room (1<sup>st</sup> floor)
  - **Break out session 2** (13:15-15:10)
  - Coffee/tea in the Stephenson Room (15:10-15:20)  
prior to reporting back and wrapping up (15:20-16:00)

The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, a hand is shown holding a white document. In the bottom left corner, a blue gas burner is visible. The overall theme is energy and customer service.

*ofgem*

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for all gas and electricity customers