

Ofgem Security of Supply Significant Code Review Gas shippers and suppliers perspective

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Objectives of the SCR

1. minimise the likelihood of a Gas Deficit Emergency (GDE) occurring by encouraging gas shippers and suppliers to take out sufficient investment to ensure gas security of supply
 2. minimise the severity and duration of a GDE, if one ever occurred, by sharpening incentives to attract gas into Great Britain (GB)
 3. compensate firm consumers if they are ever interrupted due to a GDE.
- Note: the review is aimed at reducing the likelihood of a GDE occurring due specifically to insufficient supplies

Proposed Solution

- Set a VoLL based on an estimated value for domestic consumers for a one week outage which would occur once in 20 years – a measure of security consistent with the European Regulation
- VoLL would be paid to disconnected firm users and also would feed into cash-out (capped for stage 3 emergencies)
- Ultimately short shippers would be exposed to extreme cash-out prices (capped at £20/therm) and the revenue raised would fund payments to the disconnected users
- Possible further interventions

Meeting the objectives?

- *minimise the likelihood of a Gas Deficit Emergency (GDE) occurring by encouraging gas shippers and suppliers to take out sufficient investment to ensure gas security of supply*
- Assumes that shippers can/will react to incentives and/or circumstances
 - High risk, low probability events – is it quantifiable?
 - Insure against being “short” by entering DSR contracts with customers – customer willingness?
 - Purchase gas “on the day” – depends on nature/speed of emergency
 - Invest in new infrastructure – investments not made on basis of events which may/may not happen
- For a rapid emergency – not much a shipper can do apart from interrupt customers if this is possible
- For a developing emergency – market will respond and prices should attract supplies irrespective of existence of VoLL determined cash-out (credit allowing)

Meeting the objectives?

- *minimise the severity and duration of a GDE, if one ever occurred, by sharpening incentives to attract gas into Great Britain (GB)*
- In theory, yes, but dependent upon trading market generating appropriate prices (credit issues)
- Is there a concern that prices will tend to VoLL levels quicker than they would without a prescribed cap?
- For a rapid emergency, the impact on additional supplies may be negligible – availability, distance to travel etc...This is true whatever the mechanism
- NEC can still instruct delivery of domestic supplies

Meeting the objectives?

- *compensate firm consumers if they are ever interrupted due to a GDE*
- Yes, but may lead to “over-compensation”.
- VoLL based on a domestic valuation, which will exceed that of larger loads
- If customers will not enter into interruptible contracts at levels reflecting their VoLL then short shippers will fund excess payments

Further interventions

- Ofgem recognises limitations of VoLL, but Gas Forum is concerned that they may be more profound
- Ofgem sees the need for further measures
- GF welcomes review of additional measures and expects that Ofgem will engage, fully with industry
- Not clear if we need VoLL given its drawbacks **and** additional measures
- **Gas Forum recommends deferral of decision on SCR until such time as further interventions have been fully appraised by the industry**