

Ofgem SCR Gas Security of Supply a consumers view

Eddie Proffitt
Gas and Carbon Group Chairman

Initial reaction

£20/therm

Wow!

Ofgem Impact Assessment

Table 2 Assessment of reform options

Key criteria	Current arrangement (frozen cash-out)	Option 1 Cash-out rises to full VoLL	Option 2 Cash-out rises to capped VoLL	Option 3 Further interventions with frozen cash-out		Option 4 Further interventions with cash-out rising to capped VoLL	
				Best	Worst	Best	Worst
Likelihood of firm outages							
Duration and severity of outages							
Payment for involuntary DSR services							
Consumer prices							
Competition and Market Efficiency							

Positive impact
 Moderate impact
 Negative impact

Winter outlook 2011/12

Table G2 - Forecast Daily Gas Demand- October to March 2011/12

October to March winter mcm/d	Daily average 2010/11			Actual range		Forecast range	
	2010/11 actual	weather corrected	2011 forecast	2010/11 low	2010/11 high	2011/12 low	2011/12 high
NDM	188	173	170	66	318	35	340
DM + Industrial	32	32	32	25	37	22	42
Ireland	20	20	18	12	28	12	32
Total Power	68	68	68	51	94	40	100
Total demand	311	295	290	176	465	140	510
IUK export	11	11	5	0	60	0	60
Storage injection	10	10	9	0	59	2	60
GB Total	332	316	305	252	465	210	510

2011/12 High forecast

	MCM
Power Generation	100
DM + Industrial	42
NDM over 200,000 to 2 million therms	32
NDM 25,000 to 200,000 therms	8
NDM 2,500 to 25,000 therms	35
NDM under 2,500 therms	265

Impact

	MCM/DAY	THERMS	COST/DAY
POWER @ 20%	20	7.2 million	£144 million
DM + Industrial Over 2 million therms	42	15.1 million	£302 million
Large NDM Over 200,000 therms	32	11.5 million	£230 million
TOTAL	94	33.8 million	£676 million

Ask a Friend

- To determine how much of the £302m DM + £230m NDM to add I asked for a value from the Distribution Networks.
- The DMs came up with a combined figure for both DM and NDM on their networks for day one
- **£400 million for day one**

Cost Comparison

- Assume Power + DNs value
- £144m + £400m = £544 million per day
- For comparison 15 days - £8,160 million
- Previous regime 15 days - £40 million
- Am I in favour of the Ofgem “payment for involuntary DSR services” proposals?
- **YOU BET I AM!**

Beware the small print

- Page 28
 - 37 From a practical perspective however, payment for involuntary DSR service in stage 2 might have to be restricted to gas users that can verify that they have either reduced or stopped their gas use. This may mean that only DM customers would be able to receive payment for DSR services in stage 2.
- Totally opposed to this restriction
- DNs each have a list of 200 sites “protected by interruption” that goes below the DM limit
- DNs should be made to fit AMR to these sites with payment if interrupted

Capping the market

- I follow the reasoning for not freezing the market
- I have a concern with capping the market at a known price
- This becomes the target price for producers
- Who assesses the value of gas brought to market after the cap is reached?
- What do they measure the value against?

Ofgem view

- Sharper price signals could incentivise investment in;
 1. new storage,
 2. interconnection with Europe,
 3. long-term supply contracts,
 4. import diversification or
 5. demand side response (DSR)

However....

- Will suppliers invest in the measures on Ofgem's list?
- Will existing storage be changed to strategic storage making the market short of gas thereby creating an emergency?
- The proposal is of no help for those whose process cannot be interrupted.
- What role for Force Majeure in contracts?

Where will it lead?

- If Ofgem's reasoning is correct
- Large firm gas sites will become extremely attractive for commercial interruptible contracts
- This attraction will be for all suppliers including current domestic suppliers
- I look forward to the bidding war to be an I&C interruptible supplier

Surprise

- No obligations on shippers/suppliers
- No role for the System Operator other than calling a Gas Balancing Alert
- But....
- **Investigation of further interventions will be progressed through a separate process.**

To summarise

- I am in favour of unfreezing the market
- Have doubts about a cap
- Am opposed to limiting payments to DM only sites
- Have doubts about further market developments without obligations