ofgem Promoting choice and value
for all gas and electricity customers

Group 2:
Neutrality and Payments for DSR services

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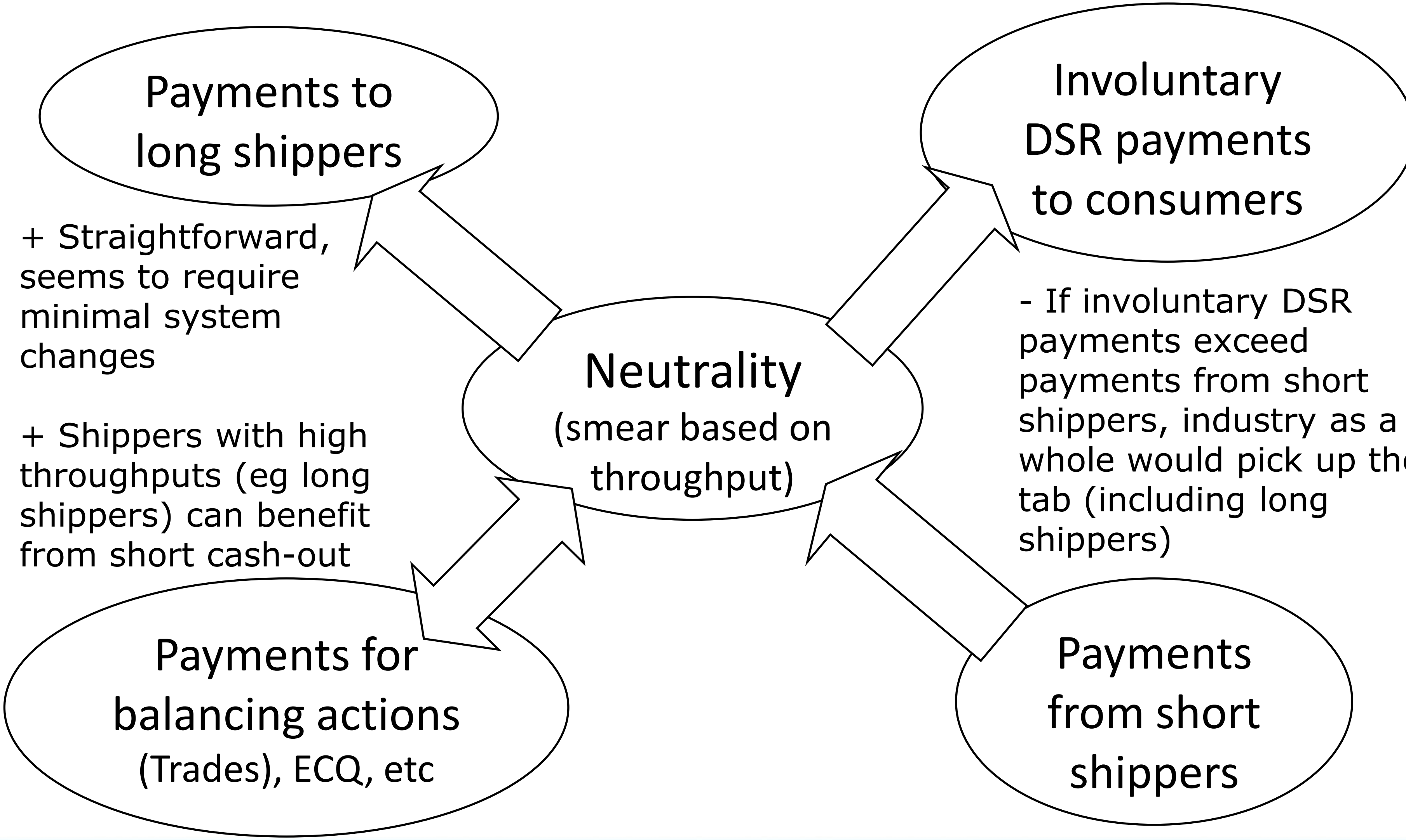
Discussion topics

1. **Cash-flow:** Use of neutrality or set up of dedicated fund

2. **Interruptible contracts:** Payment to interruptible customers if interruption is directed by National Grid

3. **Load shedding:** Payment to interrupted NDM customers at stage 2

Cash-Flow: Option 1 "Existing System"

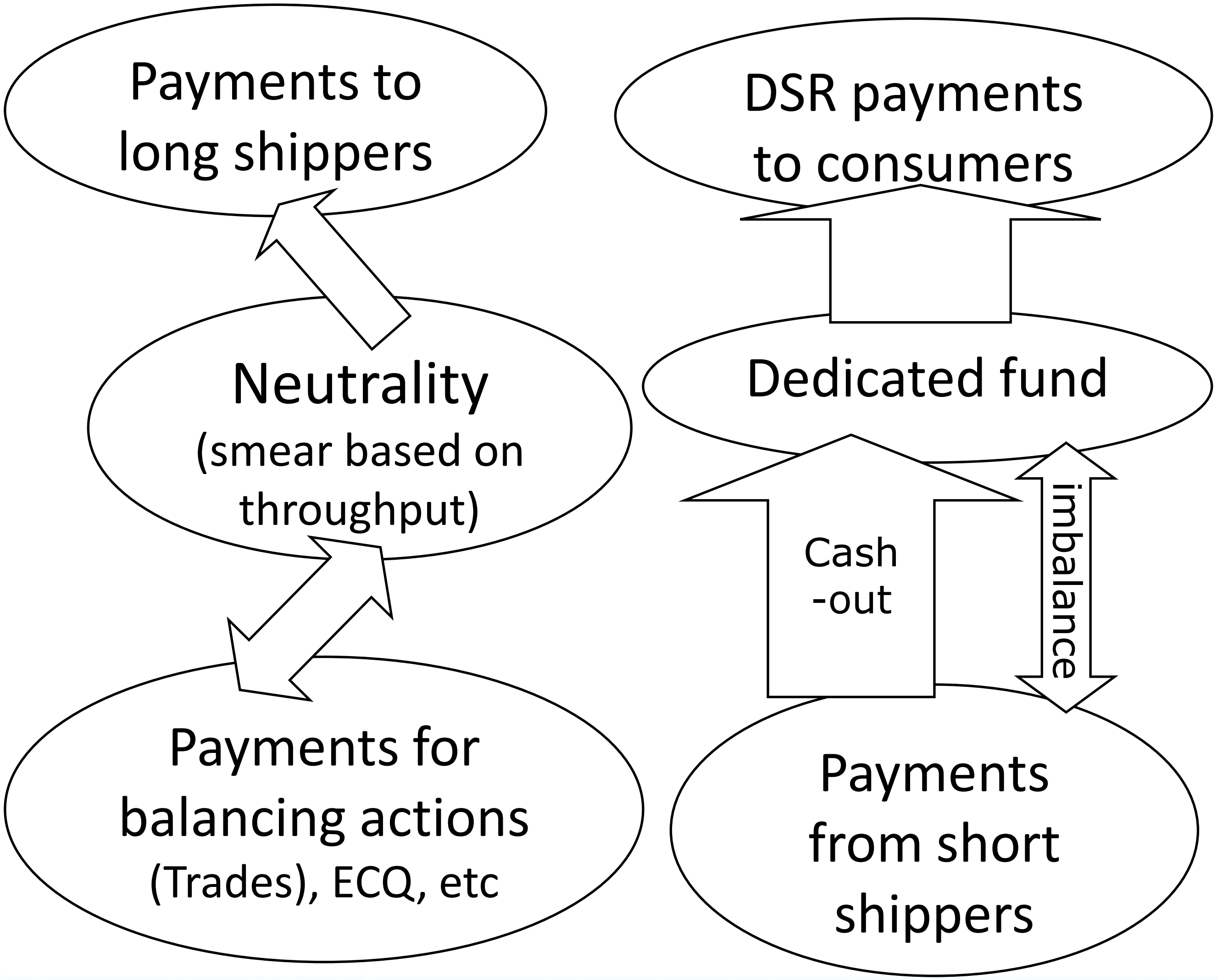


+ Straightforward, seems to require minimal system changes

+ Shippers with high throughputs (eg long shippers) can benefit from short cash-out

- If involuntary DSR payments exceed payments from short shippers, industry as a whole would pick up the tab (including long shippers)

Cash-Flow: Option 2 “Outsourcing”



+ Risk of ‘dedicated fund’ imbalance is with short shippers

- Requires set up of a new fund and significant system changes

-Incentives on long shippers reduced as positive ‘dedicated fund’ imbalance would go to short shippers?

Payments to "interruptible" DM customers

- Customers receive exercise price if interrupted by supplier (and not subsequently interrupted as part of a stage 2 emergency), which will be paid for by the supplier.

- Interrupted during a stage 2 emergency:
  - If interruption caused by NGG load shedding or physical network isolation: See next slide
  - Different if customer was already interrupted by supplier and P-70 was submitted?

Payments to “interruptible” DM customers if interrupted as directed by NGG

What should customers receive?	Who should pay?	What implications should this have for affected shippers/suppliers?
Customers receive exercise price + could be used to stage interruptions and cash-out -/+ Suppliers would need to inform NGG of contracts if paid by fund/neutrality	Paid by supplier that has contract - Would discourage agreement of interruptible contracts	Affected shippers receive SAP-30 and do not benefit from balance recalculation + use of existing ECQ mechanism + can submit P-70 for subsequent days
Customers receive VoLL + easy to implement -Unfair to pay interruptible customers the same as firm? - no staged process possible	Paid by fund/ neutrality + Ensures that those responsible for the GDE pay	Affected shippers do not receive SAP-30 but benefit from balance recalculation + stronger incentive to sign interruptible contracts? - Requires changes to ECQ - Discourages interruptions by suppliers?

Payments for load shedding of NDM customers

- Principal: NDM customers should receive interruption payments for any firm load shedding that they provide in stage 2

- However, difficulty in providing proof that NDM customers have turned down load

- Mainly NDM customers with an annual consumption of 732,000kWh and above affected

- Two options:
  1. No payment unless consumer can provide some form of proof
  2. Payment at VoLL assuming load has been turned down unless shippers can prove that consumer has not interrupted

- How does the roll-out of Automated Meter Reading equipment (AMRs) tie in here?

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