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for all gas and electricity customers

Workshop 1:
Gas SCR draft policy decision

How cash-out reform could be implemented

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Where are we in the process?

- 11 Jan 2011: Initial consultation released
  - Jan to April 2011: Consultation on the initial consultation

- 8 Nov 2011:Draft policy decision and draft impact assessment released
  - 29 Nov 2011: Opening seminar
  - **13 Dec 2011: Workshop 1**
  - 23 Jan 2012: Workshop 2
  - 31 Jan 2012: Closing date for responses
  - 15 Feb 2012: Workshop 3 (code and licence changes)
  - 29 Feb 2012: Workshop 4 (code and licence changes)
  - 14 March 2012: Closing seminar

- Spring 2012: Release final decision and impact assessment

Purpose of today's workshop

- To discuss how our proposed cash-out reform might be implemented
  - Including initial issues and difficulties that we have identified
- This does not mean we are going forward with our proposals irrespective of the consultation responses we receive
  - But without working out how our proposals could be implemented we will not be able to assess whether they will be workable

Plan for the day

- 9:30 – 10:00 - Ofgem presentation
  - The key issues identified in working through how to implement cash-out reform
- 10:00 – 12:00 – Breakout discussion sessions
  - Breakout session 1: The cash-out process
  - Breakout session 2: Neutrality and payments for DSR services
- 12:00 – 12:30 – Feedback from breakout sessions

This presentation

- Recap on our draft policy decision
- Overview of:
  - Current timescales for balancing and credit
  - Current balancing process
  - How we account for daily metered (DM) and non-daily metered (NDM) customer volumes
  - How neutrality works
- Introduction to the issues we will be discussing today
  - Group 1: the cash-out process – whether to have a near-time or post event process and related issues
  - Group 2: payment for interrupted customers – how to redistribute funds and how to deal with payments for DSR services

Recap on the draft policy decision

- The Authority is minded to pursue option 4 to:
  - Implement cash-out reform capped at one day's domestic VoLL
  - Recommend more consideration of possible further interventions alongside cash-out reform

- Further interventions work will now be carried out through a separate project
  - However, stakeholders can share their views on further interventions when responding to the draft policy decision

Current balancing and credit timescales

- Close out date for information is at a month plus 15 working days (M+15)

- Imbalance is known M+23 working days with payment 12 calendar days after this

- Credit is required 10 days after an imbalance
  - if the level of debt for a period of 3 days reaches 85% of the credit they have lodged, shippers have to provide more credit to return to their 85% limit

- Post Emergency Claims occurs months after the event and is funded by short shippers

Basic overview of balancing system

- At the start of the day Gemini provides a nomination for demand to each shipper based on:
  - DM customer usage estimates
  - An estimate of NDM customer demands in Local Distribution Zones (LDZ)

- Through the day Gemini will update its forecasts based on meter reads and shippers can re-nominate

- Shippers are cashed out based on:
  - the measured volume they have put on
  - minus the actual metered demand of their DM customers
  - minus their share of the actual metered volume of demand at each LDZ meter site (calculated as the residual after shrinkage and DM customer demand is accounted for)

Accounting for DM customer interruptions

- If a shipper interrupts a DM customer (either to sell that gas onto the market or to address an imbalance), the shipper has to submit a P70 form to account for the volume of gas that the DM customer has turned down.

- If DM customers are asked to turn down or off on behalf of the National Emergency Coordinator (NEC)

  - the emergency curtailment quantity (ECQ) process accounts for the volume interrupted (and provides minimal compensation for lost revenue)

  - for subsequent days, shippers can submit a P70 form instead

Accounting for NDM customer interruptions

- Current system does not account for any non-daily metered (NDM) customer demand reduction except in aggregate
  - Either for stage 2 (firm load shedding) or stage 3 (network isolation)

- We might be able to crudely account for NDM volumes in respect of stage 2 demand reduction but even with this it would be **very difficult to pay NDM customers for demand reduction in stage 2 where evidence of load reduction cannot be provided by the individual customer**

- We may be able to devise a system for accounting for how much demand has come off in stage 3 (through DNs); however:
  - Might not occur within current cash-out payment timescales
  - This means shippers could go from being ‘long’ to ‘short’; this could have credit impacts

How Neutrality works

- Short shippers pay into neutrality
- Neutrality pays out:
  - To long shippers
  - For balancing actions including NG trades and ECQ
- Any under or over-recovery is shared among shippers based on throughput on the day
  - This means that if a shipper defaults on payment the costs will be borne by the industry

What we want to achieve

- Once firm load shedding occurs, for each day of load shedding:
  - short shippers will face a cash-out price of £20/therm (or higher if it has already exceeded this)
  - firm end users that are interrupted will receive payment at £20/therm (though it may be difficult to pay NDM customers where evidence of demand reduction cannot be provided)

- Once network isolation occurs, for the first day:
  - short shippers will face a cash-out price of £20/therm
  - firm end users (DM and NDM customers) that are interrupted will receive payment at £20/therm

Group 1 issues

- Gemini and the cash-out process
- The pros and cons of a near time versus post event process
- Credit and other issues

Group 2 issues

- How to recover funds for interruption payments (neutrality vs ‘dedicated fund’)
- How to deal with interruptible contracts
- How to pay NDM customers that are affected by load shedding

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