

Ofgem Gas Security of Supply SCR – Workshop 2

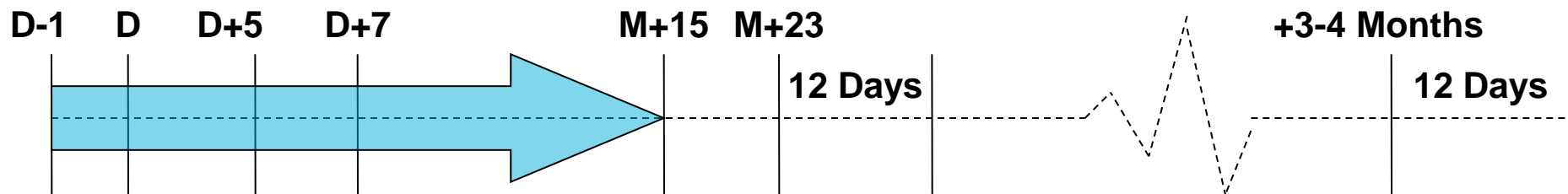


23/01/2012

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- Current Process
- Issues we've encountered
- Initial Options
- Assumptions
- Next Steps

Current Process (1 of 4)

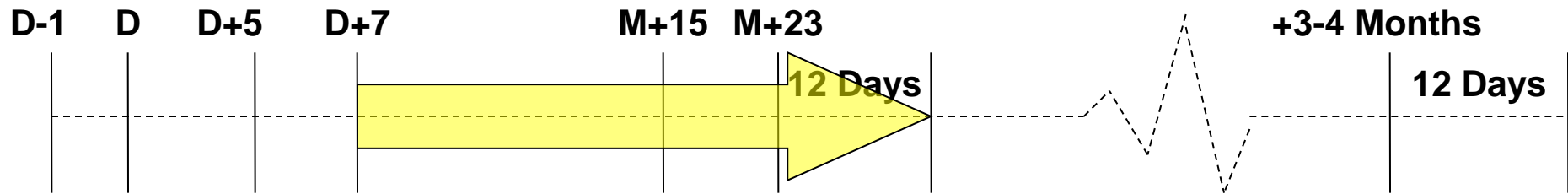


1. Nominations (D-1)
2. Daily Flows, SO Actions, Cashout Charges Set (D)
3. Exit Close Out (D+5)
4. Entry Close Out (M+15)
5. User Imbalances Calculated

In a GDE, Cashout is as follows;

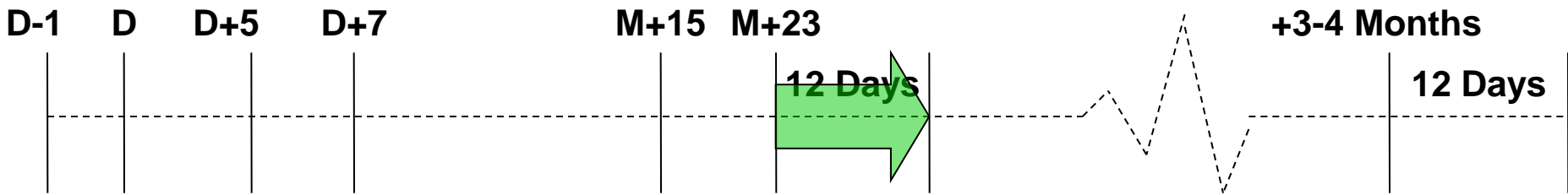
- SMP Buy (Short Shippers) = SMP Buy frozen - set on Day 1 of GDE (stage 2)
- SMP Sell (Long Shippers) = SAP set on Day 1 of a GDE (stage 2)

Current Process (2 of 4)



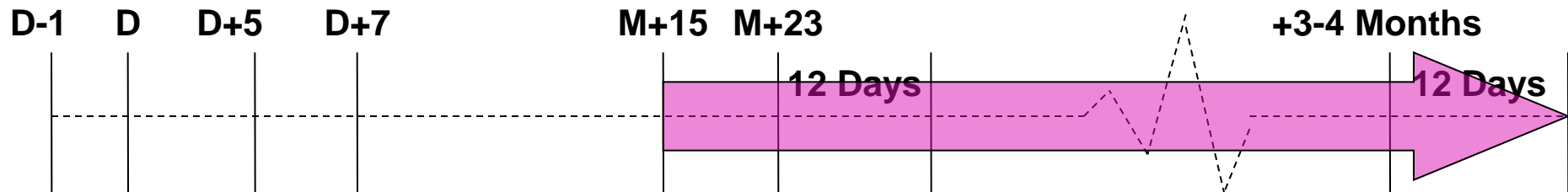
**6. D is included in Energy
Balancing Indebtedness at
D+7**

Current Process (3 of 4)



- 7. Cashout & other Balancing Neutrality Charges included within Energy Balancing Invoice
- 8. Payment due within 12 days

Current Process (4 of 4)



- 9. Post Emergency Claims Process provides Long shippers opportunity to be recompensed above Frozen SAP**
- 10. PEC payments smeared across Short Shippers and issued in Energy Balancing Invoice**

Recap of initial issues

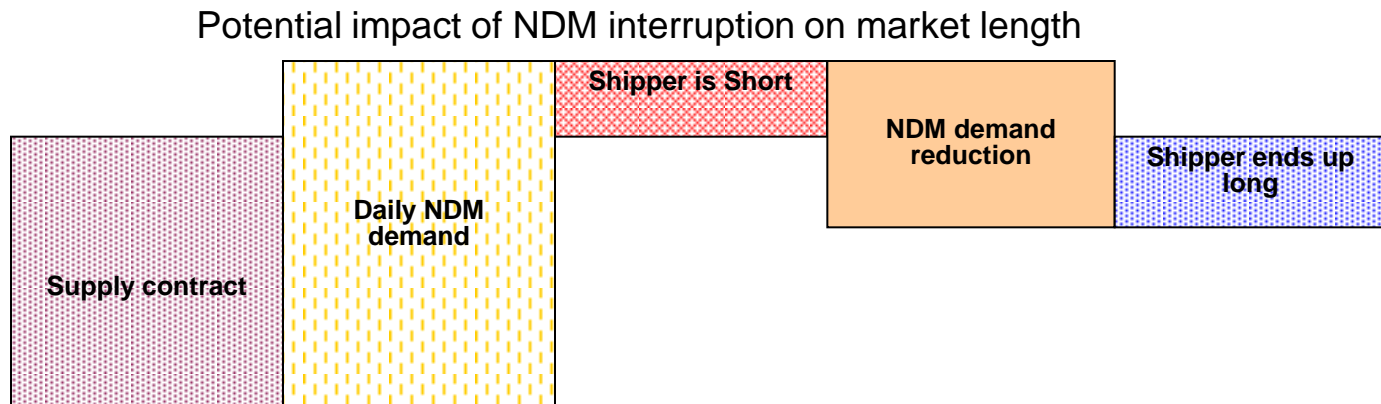
- Can all isolated / interrupted sites be identified?
 - If yes under what timescales?
 - If no (NDM) does this matter? What can we do for NDM?
 - Can Large NDMs be considered as DM?
- Do we need separate processes for DM and NDM payment calculations?
- Can Neutrality mechanism be used to manage cashout and Demand Side Response Payments? How do you manage NDM interruption and impact on market length of parties?
- Are UNC payment timescales & Energy Balancing credit appropriate?
- How do Energy Curtailment Quantity and Post Emergency Claims processes interact with proposal?

Resulting options

- Smaller NDM's cannot be treated in same timescale as DMs
 - Can we leave as is? e.g. Shared allocation in an LDZ
 - Do we create a 2 stage process? Is this efficient?
 - If we go for single process is this at M+23 or later (e.g. PEC)
- What do we do with cashout? Particularly considering the above issue
 - Cashout up front knowing imbalance volumes may change due to NDM correction? If yes, how do we treat money in neutrality?
 - If we are happy delaying full cashout, what about paying long shippers who may have incurred high marginal costs?
- Do extended timescales help for credit purposes?

Impact of NDM interruption

- DM volume interrupted by NEC = 60mcm
 - Imbalance volume of shippers corrected by ECQ, so should be no change in market length of shippers that are short or long
- NDM volume interrupted by NEC = 40mcm
 - Market participants balance positions are changed due to reduction in metered volumes. Therefore, potential under-recovery of interruption payments



We think there are possibly two options

■ Near Time

- Cashout @ VOLL rather than SMP Buy
- Hold cashout payments back to fund DSR payments
- Undertake post event process
 - Assess NDM isolations and correct Imbalance positions & cashout payments
 - Calculate DSR payments
- Smear any deficit in DSR payment pot among short shippers
- Smear any surplus in DSR pot among all shippers

■ Post Event

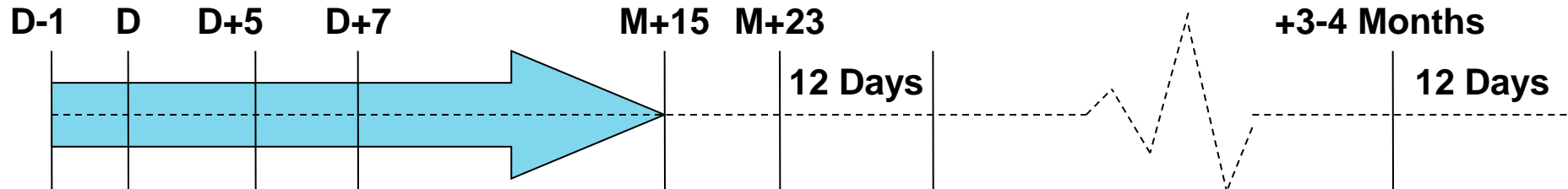
- Cashout @ [SAP] rather than SMP Buy
- Hold any surplus in neutrality back to offset DSR payments
- Undertake post event process
 - Assess NDM isolations and correct Imbalance positions & cashout payments
 - Calculate DSR payments
- Pay DSR Payments & Invoice DSR Pot to short shippers at same time

Across both options we've made some assumptions

- Large NDM sites will be treated as DM for DSR payments
- Smaller NDM (domestic) sites will receive a fixed DSR payment
- Emergency stages mirror UNC Mod 412 (Stages 2 & 3 are merged)
- VoLL only kicks in when Firm Load Shedding begins
- DSR payments continue for a site which is an LDZ unaffected by Network isolation
- NTS / Xoserve will administer process
- DSR Payments will be made to shippers who will in turn pass payments onto consumers
- PEC & ECQ processes remain as-is

Proposed Options vs Current Process (1 of 4)

- | | |
|---|---|
| 1. Nominations (D-1) | ✓ |
| 2. Daily Flows, SO Actions, Cashout Charges Set (D) | ✓ |
| 3. Exit Close Out (D+5) | ? |
| 4. Entry Close Out (M+15) | ✓ |
| 5. User Imbalances Calculated | ? |



a) Option 1 (Near Time)

Cashout changes;

- SMP Sell = 'Frozen' SAP (no change)
- SMP Buy = VoLL
- Surplus cashout funds held outside of neutrality until DSR payments calculated

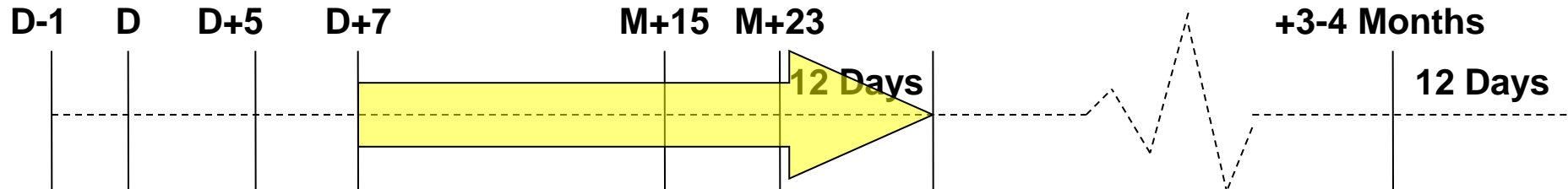
b) Option 2 (Post Event)

Cashout changes;

- SMP Sell = ['Frozen' SAP] (no change)
- SMP Buy = ['Frozen' SAP]
- Surplus cashout funds held outside of neutrality until DSR payments calculated

Proposed Options vs Current Process (2 of 4)

6. D is included in Energy Balancing Indebtedness at D+7 ✓



a) Option 1 (Near Time) Credit;

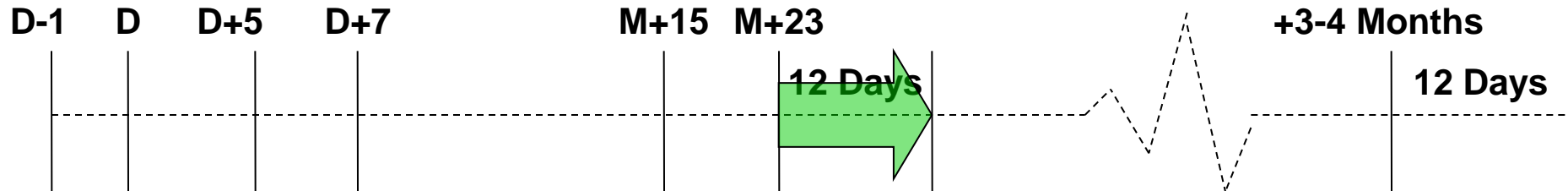
- Users relative indebtedness will include cashout @ VoLL

b) Option 2 (Post Event) Credit;

- Users relative indebtedness will include cashout @ ['Frozen SAP']

Proposed Options vs Current Process (3 of 4)

7. Cashout & other Balancing Neutrality Charges included within Energy Balancing Invoice ?
8. Payment due within 12 days ?



a) Option 1 (Near Time)
M+23 Energy Balancing Invoice;

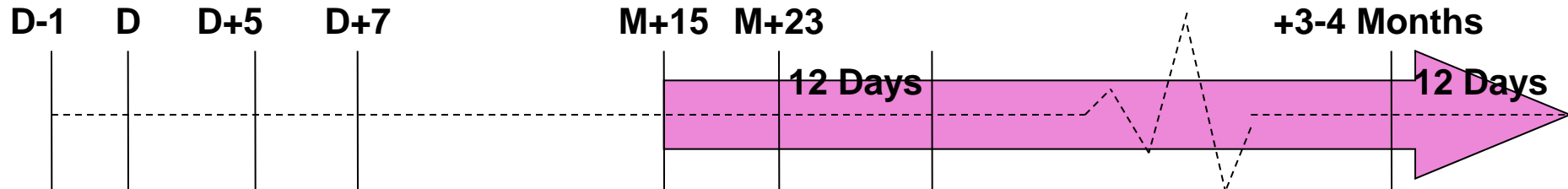
- Cashout @ Frozen SAP for long shippers
- cashout @ VoLL for short shippers

b) Option 2 (Post Event)
M+23 Energy Balancing Invoice;

- Cashout @ [Frozen SAP] for long shippers
- cashout @ [Frozen SAP] for short shippers

Proposed Options vs Current Process (4 of 4)

- 9. Post Emergency Claims Process provides Long shippers opportunity to be recompensed above Frozen SAP ✓
- 10. PEC payments smeared across Short Shippers and issued in Energy Balancing Invoice ✓



- a) Option 1 (Near Time)**
DSR Payments are calculated;
- Majority of 'DSR pot' has been held back from cashout
 - Any deficit in 'DSR pot' will be recovered from [short shippers]
 - Any surplus in 'DSR pot' will be smeared to [all via neutrality]

- b) Option 2 (Post Event)**
DSR Payments are calculated;
- Some money may still remain from cashout
 - Short Shippers will fund remaining DSR pot
 - DSR Payments will be made at same time

Next Steps; Refine options and obtain implementation costs

- VoLL at cashout (M+23) or post event (3-4 Months)?
- Are UNC payment terms (12 days) appropriate?
- Do we need to recalculate imbalances post Network isolation
 - If shippers meet assumed allocations is there any issue?
 - Are Network isolation plans a fair representation of the Shipper split for the LDZ?
- Refine AMR 'proof of interruption' process for Large NDMs
- How do we deal with interruptible sites?
- How much do these options cost to implement? Submit a ROM to Xoserve