

Draft Policy Decision on the Gas Security of Supply – Significant Code Review

Demand Side Response Working Group

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Purpose of presentation

1. Background on the Gas SCR

2. Draft policy decision

3. Next steps

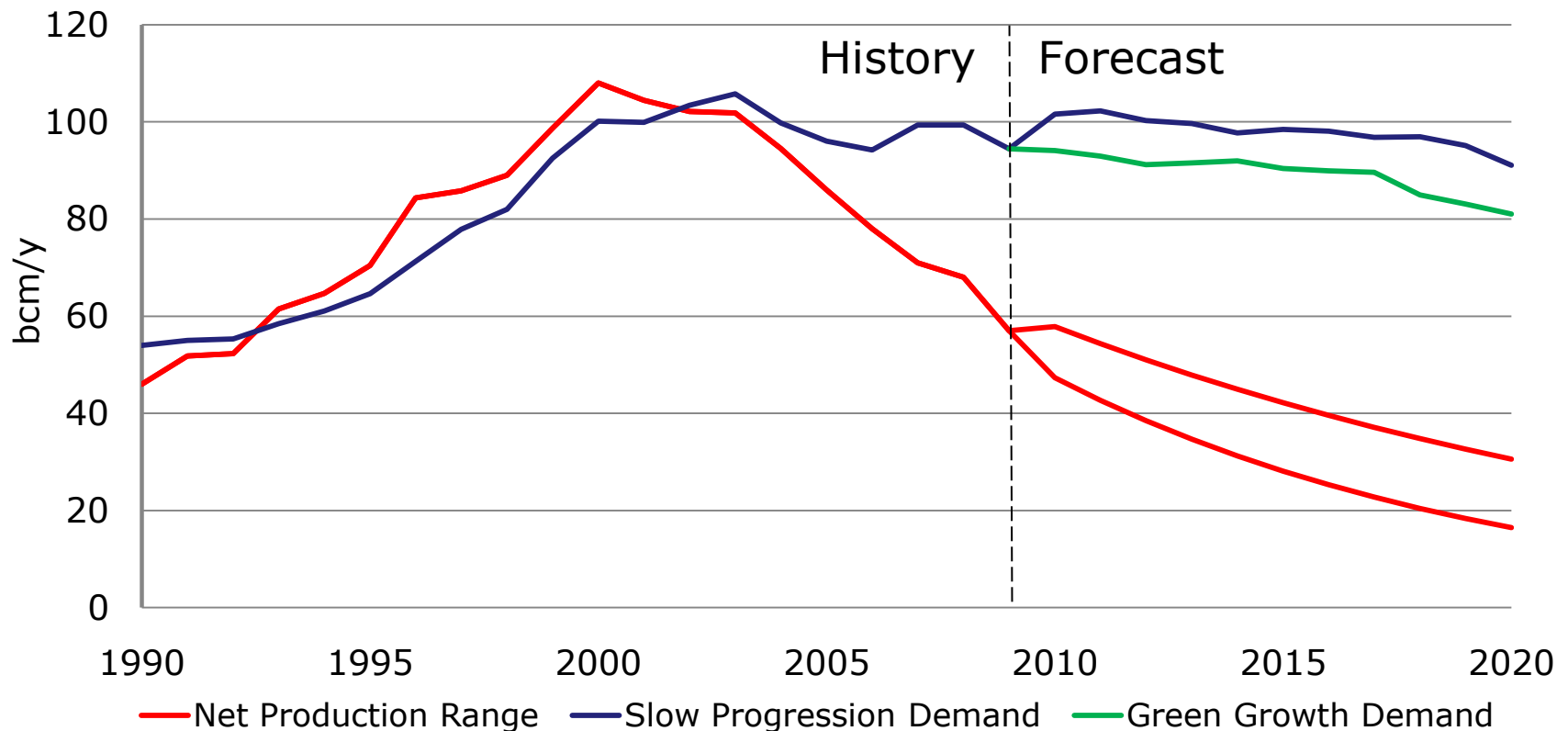
4. Discussion

1. Background

- Why are we doing it?
- What have we done so far?

Why are we doing it?

- For some time we have expressed concerns about whether the current arrangements can ensure security of supply into the future



Source: National Grid, Ten Year Statement, 2010

Why are we doing it?

- Cash-out prices incentivise shippers to balance supply and demand
- But cash-out is frozen at stage 2 of a gas deficit emergency (GDE)
- Project Discovery highlighted concerns that a frozen cash-out price may not attract gas during a GDE and may not provide sufficient incentives to invest in security of supply
- Interrupted firm customers do not get paid for the involuntary demand side response (DSR) services they provide to manage a GDE
- **The costs and risks of a GDE are mainly with consumers despite industry being better able to manage these risks**

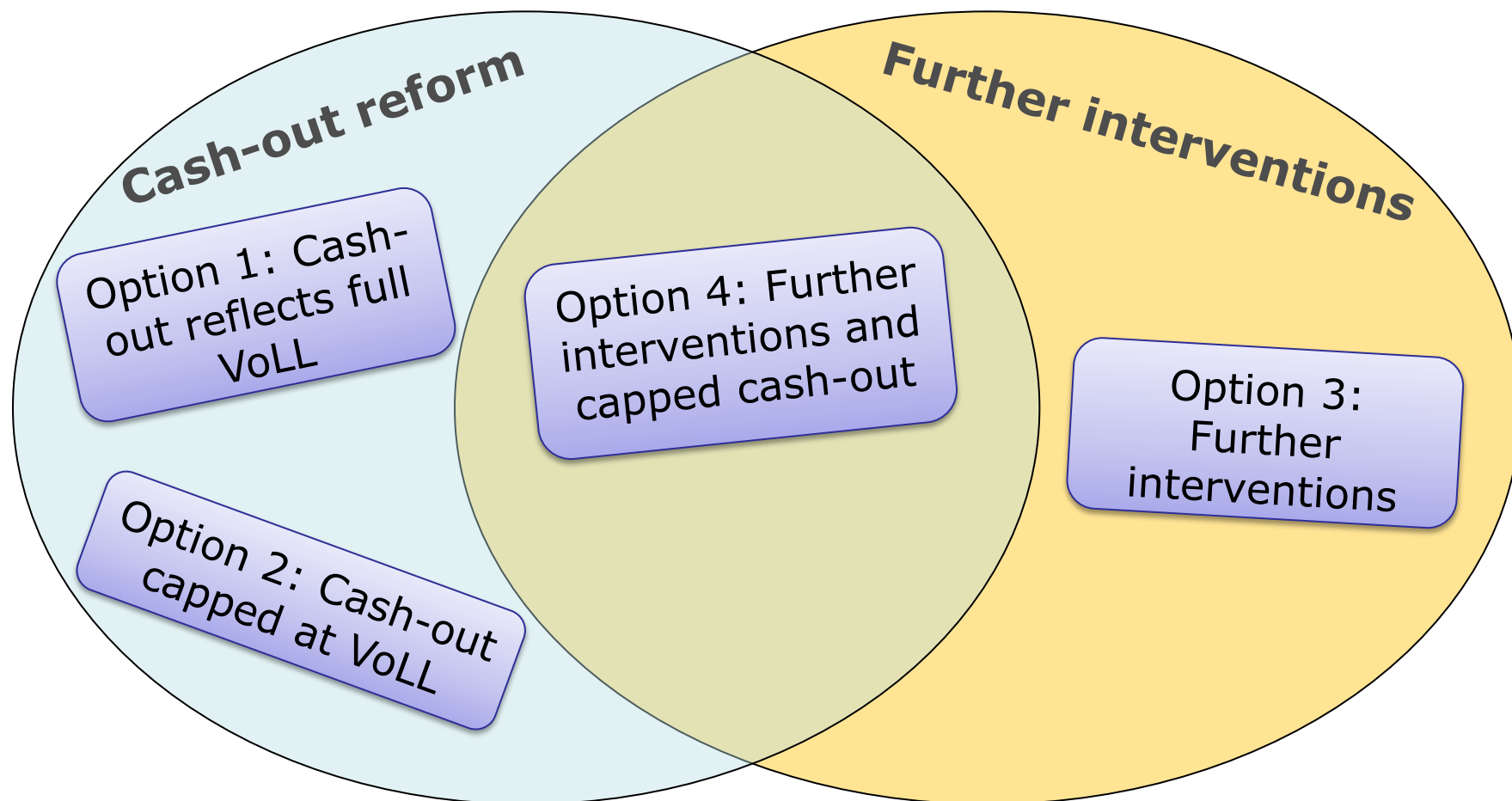
What have we done so far?

- Initial Consultation published on 11 January 2011
- Two seminars and three workshops between January and April 2011, discussions with key stakeholders throughout
- Six consumer panel discussions were held in January and February to elicit the views from domestic consumers across GB
- Study by London Economics on the “Value of Lost Load” (VoLL)
- Quantitative modelling by Redpoint Energy to assess the costs and benefits of reform proposals
- Draft Policy Decision and Draft Impact Assessment published on 8 November 2011

2. Draft policy decision

- What are our reform options?
- What is the Authority's draft policy decision?

What are the reform options?



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
- The Department of Energy and Climate Change (DECC) has asked Ofgem to investigate further interventions
 - Ofgem will submit a report to DECC by May 2012
- The remainder of the consultation for the Gas SCR will focus on our proposed cash-out reform
 - Responses on further interventions are invited and will be addressed as part of the new further interventions work stream

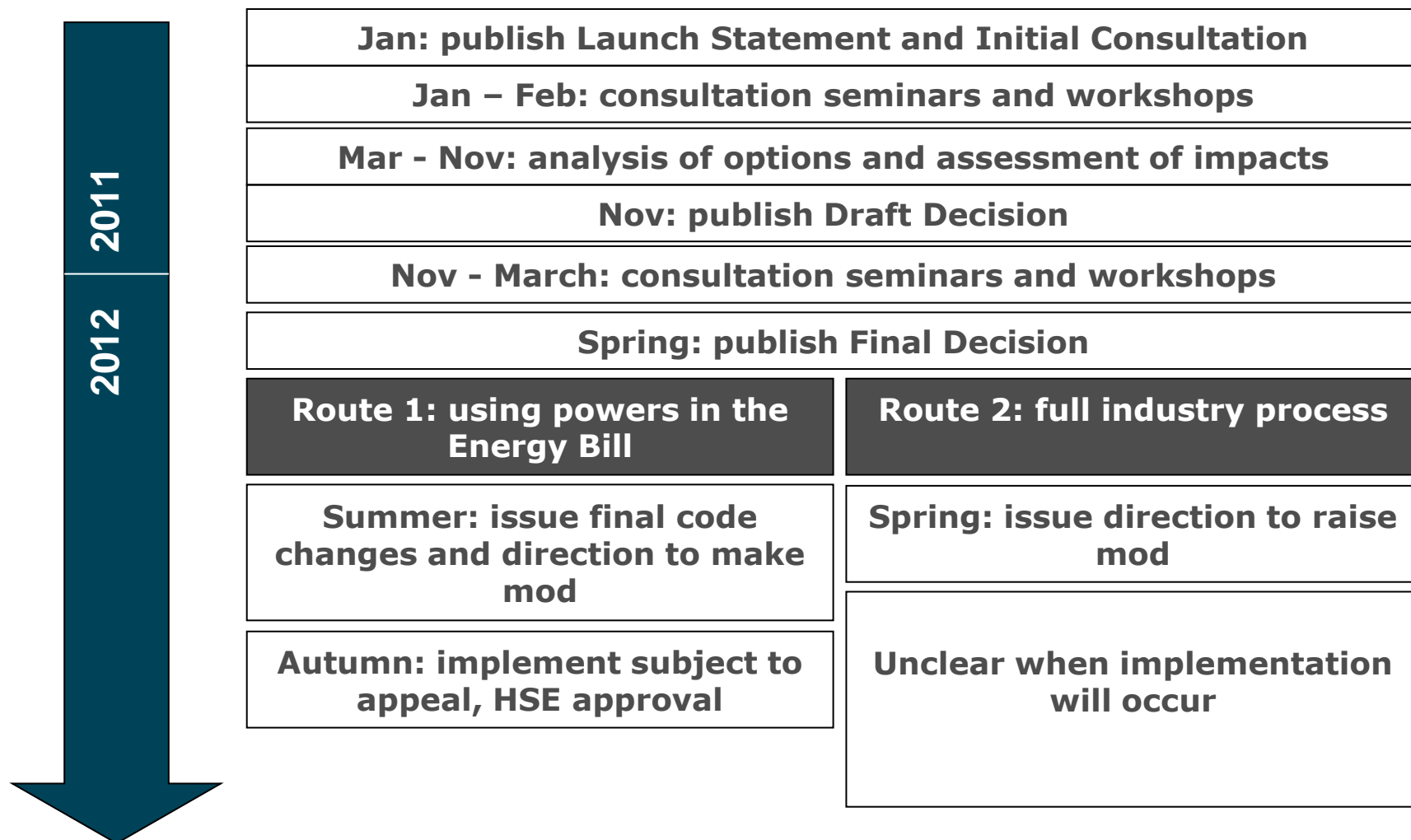
Cash-Out Reform

- 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
- 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

3. Next steps

- How and when are we planning to take this forward?
- How are we planning to involve stakeholders?

Indicative timetable



Further stakeholder engagement

Consultation on draft policy decision

Event	Date
Opening stakeholder seminar	29 November 2011
Workshop 1	13 December 2011
Workshop 2	23 January 2012
Deadline for responses	31 January 2012

Licence and code drafting

Event	Date
Workshop 3	15 February 2012
Workshop 4	29 February 2012
Closing seminar	14 March 2012

4. Discussion

- Use of interruptible contracts
- Payment for load shedding of NDM customers
- Payments to “interruptible” DM customers if interruption directed by NGG

Use of interruptible contracts

- Do you think that cash-out reform will increase the use of interruptible contracts?
- What are the barriers to agreeing interruptible contracts for:
 - Suppliers?
 - Customers?
- What could overcome these barriers?

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 would be 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

Payments to “interruptible” DM customers if interruption directed by NGG

Minded-to position

- Customers are paid exercise price for the volume of gas that has been interrupted
- Shippers are not provided with payment to pass through but benefit from gain in imbalance position
- National Grid would not apply the ECQ to these volumes of gas.