

Ofgem Gas Security of Supply SCR – Workshop 3



Malcolm Arthur - 15/02/2012

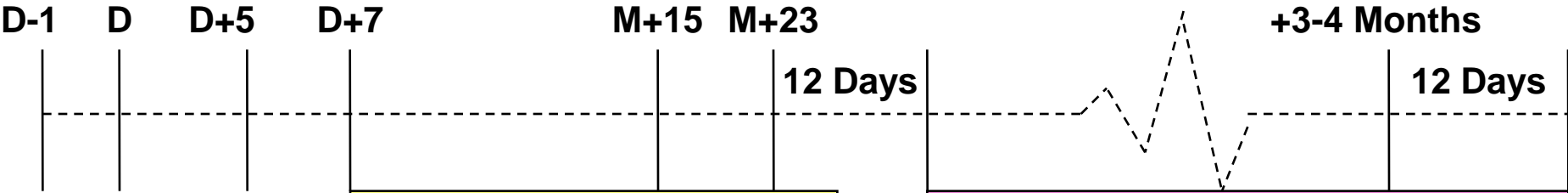
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 - Current Process Timescales
 - Network Isolation volumes
- Workshop 2 feedback
- Business Rules
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- Issues

Current Process Timescales

- 1. Exit Close Out (D+5)
- 2. Entry Close Out (M+15)
- 3. User Imbalances Calculated

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



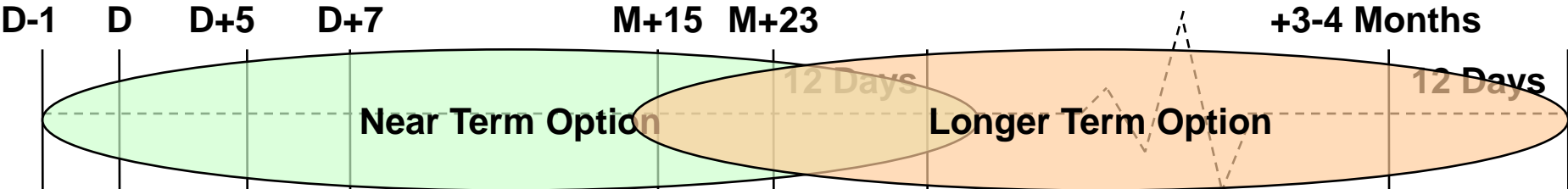
- 4. D is included in Energy Balancing Indebtedness at D+7

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

Proposed Process Timescales

- 1. Exit Close Out (D+5)
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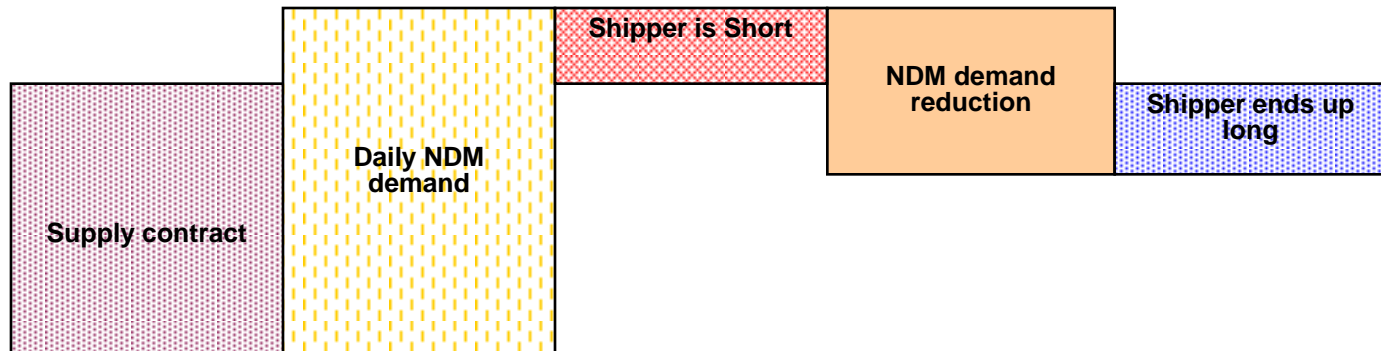
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Impact of NDM interruption

- DM volume interrupted by NEC = 60mcm
 - Imbalance volume of shippers corrected by ECQ
- 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.

Potential impact of NDM interruption on market length



Workshop 2 Feedback

- Near term process is preferred
- Using estimates for network isolated volumes within current process timescales
 - Estimated data is expected to be 95%+ accurate
- Estimated network isolated volumes used in an 'ECQ type' process to better reflect shippers emergency imbalance

Ofgem SCR Significant Code Review— Cash Out Reform

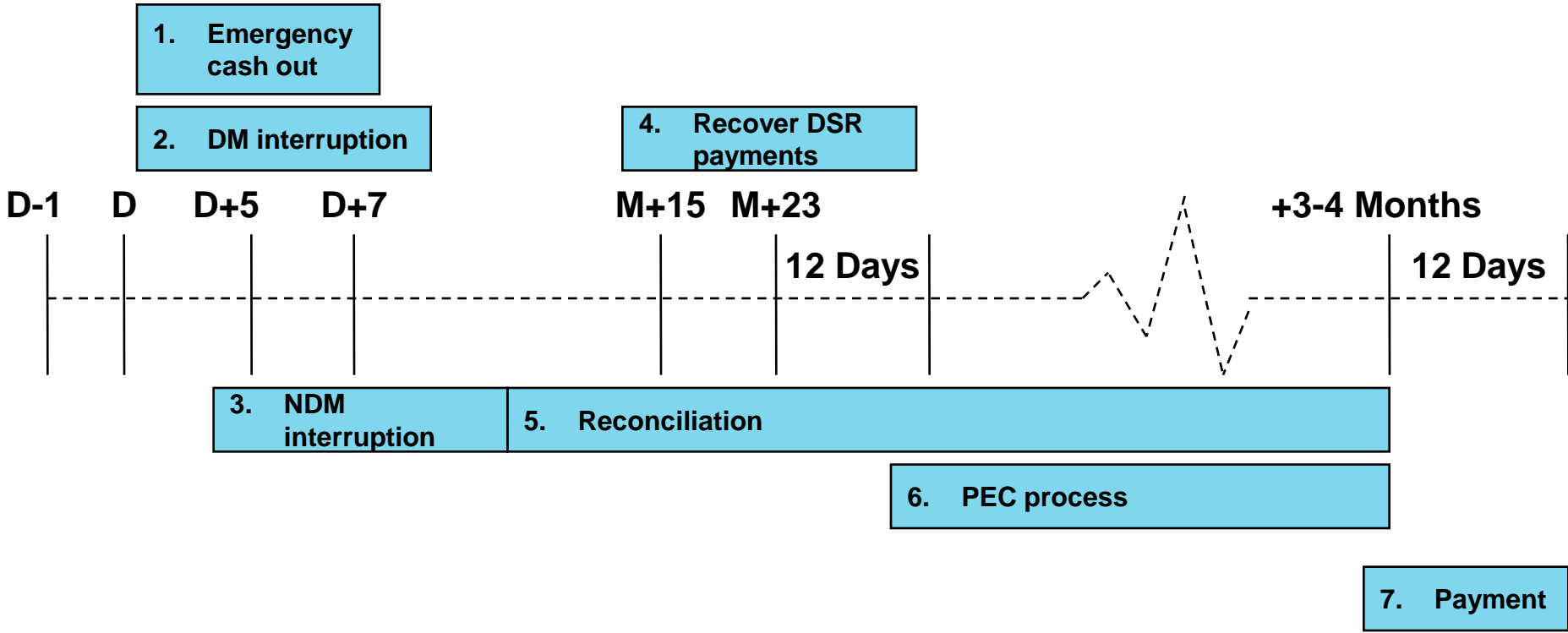


Proposed revision to GDE Cashout and introduction of DSR Payments
15 February 2012

GDE Cash-Out Reform and DSR Payment Arrangements – Modules of work

	Business Rules Section
1. Introduce an administered GDE SMPbuy Cashout (short Cashout)	2
2. Firm-load Shedding Arrangements (DM interruption, NDM>732,000 kWhs), effect on Shipper Balance Position	n/a
3. Network Isolation (NDM Isolation) effect on Shipper Balance Position	7
4. Neutrality and Introduction of a DSR 'Fund' account	1 & 4
5. Reconciliation ?	6
6. Provision of Supply and Voluntary DSR payment for cost of gas above the Long Cashout Price (PEC process)	n/a
7. Payment of DSR to Shipper and through to End Consumer	3

New Process Timescales



GDE Cashout Reform - Modules

1. **Introduce an administered GDE SMPbuy Cashout (short cashout)**
 - a. @VoLL
 - b. from firm load shedding in stage 2 and ongoing.

1. **Firm-load Shedding Arrangements (DM interruption), effect on Shipper Balance Position**
 - a. ECQ (existing arrangements)
 - b. NDM >750,000 kWhs (with AMR)
 - c. P70 provisions for DN and shipper interrupted DMs and large NDMs (existing arrangements)

1. **Network Isolation (NDM Isolation) effect on Shipper Balance Position**
 - a. Application of a NDM demand uplift process (detailed in following slides)
 - b. Account for Demand Uplift in UDQO, applied in EBI Cashout process, and not in any other invoice process.
 - c. Demand uplift applied on [D1] of network isolation only?
 - d. Long or Balanced Shipper with Isolated sites on D1of Network Isolation will be paid [@ 30 day avg SAP] for volume determined to have been interrupted, information provided by DN (based on same data as DSR payment to End User) funded through neutrality.

Settlement for the Provision of additional Supply and DSR - Modules

- 4. Provision of Supply and Voluntary DSR payment for cost of gas above the Long Cashout Price (PEC process)**
 - a. Shipper recovery of additional cost associated with supplying additional gas, Non UKCS, additional supply and Voluntary DSR etc
- 5. Neutrality and Introduction of DSR 'fund' Account**
 - a. After Netting off all Cashout credit/payments, ECQ payments, System Balancing Actions, etc the remaining value will feed DSR 'fund' account.
 - b. May want to consider raising the DSR fund required by creating a charge for the total DSR value and smearing the cost across short shippers within the same invoice (similar process to PEC payments and cost recovery)
- 6. Payment of DSR to Shipper and through to End Consumer**
 - a. Determination of estimated relevant volume isolated (by shipper)
 - b. Determination of estimated relevant volume isolated (by site)
 - c. Invoice to Shipper
 - d. Invoice to End consumer
- 7. Reconciliation process?**
 - a. Is a reconciliation process required to account for any NDM isolation discrepancies above the DN 95% + accuracy of NDM data provision

Issue: In terms of ensuring the Neutrality Account is held whole whilst feeding a DSR fund account: How will non payment of EBI invoices by defaulting shippers be managed?

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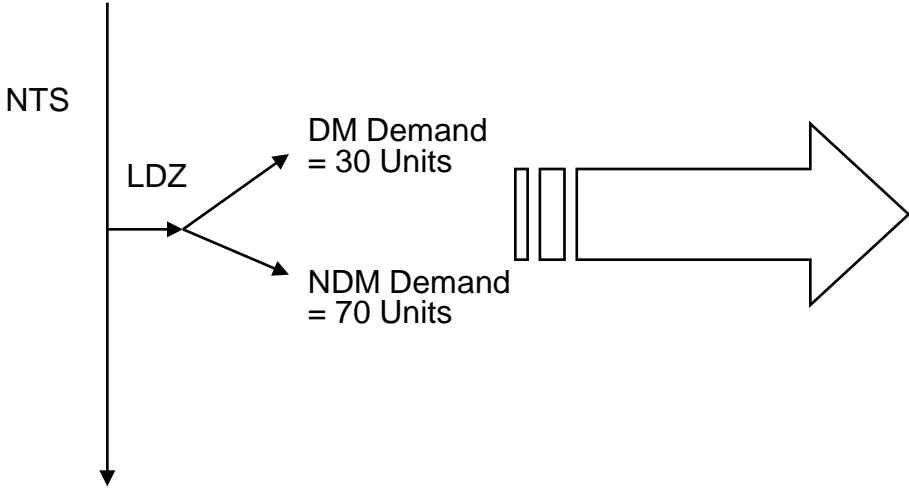
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Module 3 - GDE stage 3 Network Isolation (NDM isolation) - Principle Objective of Change

Shippers “cashed-out” based on the imbalance they would have occurred had their NDM exit allocations not been scaled-back as a result of NEC instruction to scale back LDZ due to National Gas Deficit Emergency.

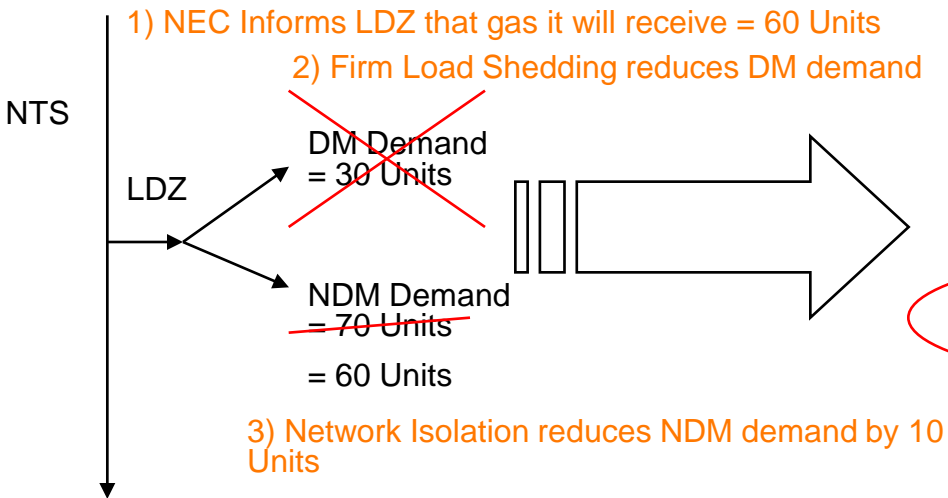
Module 3 - Current NDM process

Non Emergency Process



DM Noms entered by Shippers
Forecast Demand updated on regular basis throughout D-1 and D based on prevailing conditions
NDM Noms updated on Gemini based on demand profile

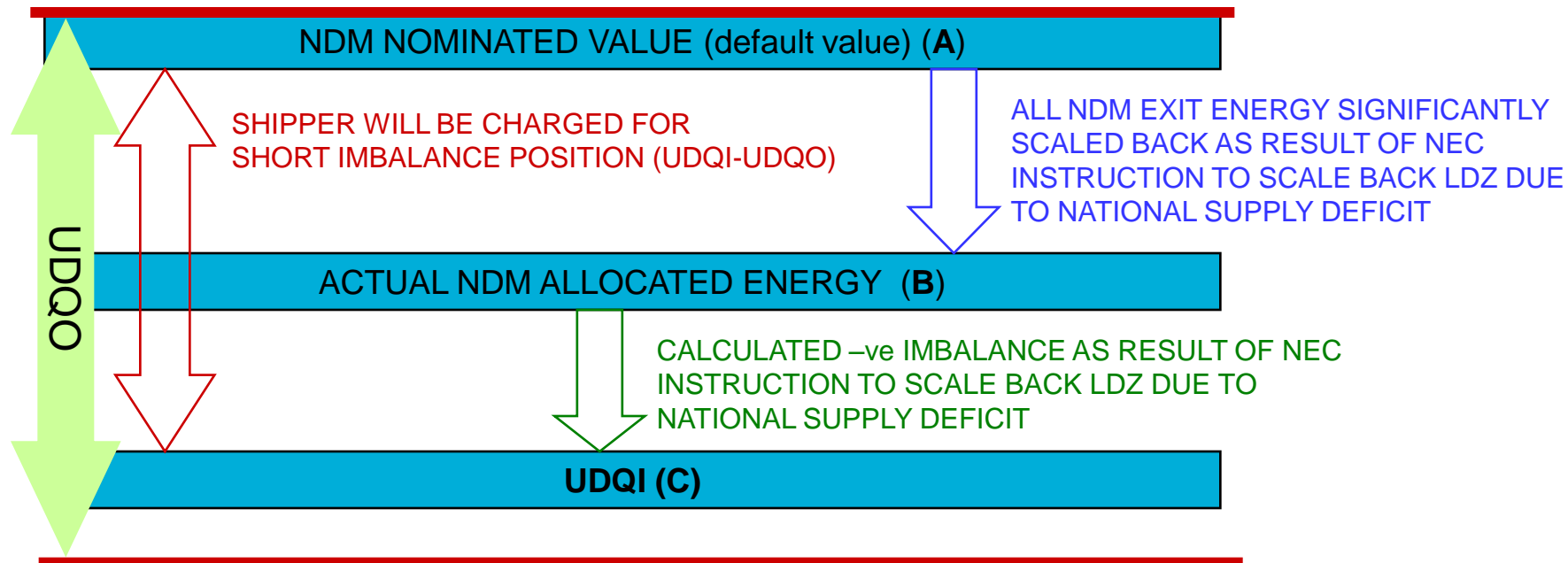
Emergency Process



DM Noms entered by Shippers
Forecast Demand updated on regular basis throughout D-1 and D based on prevailing conditions
NDM Noms updated on Gemini based on demand profile

4) All Shippers will see the Forecast demand and NDM nominations reduce by 10/70 as Gemini will apply the reduction in aggregate for the LDZ and not by individual isolated sites

Treatment of 100% NDM “short” Shipper



A is the shipper's UDQO used for national imbalance and cash-out (including Allocated NDM plus requested uplift)

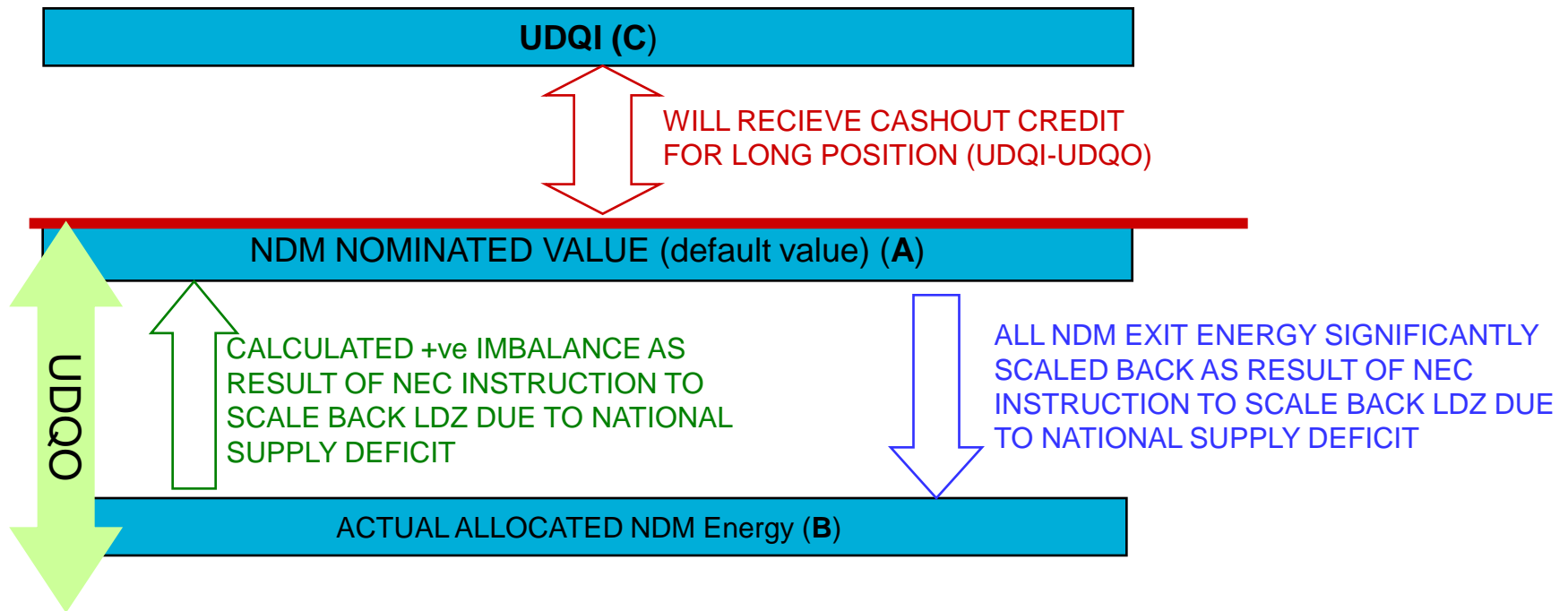
B is the shipper's NDM allocated quantity (used in all exit billing) except cash-out

C is the shipper's UDQI used to determine cash-out

Proposed Shipper's National Imbalance used to calculate emergency cash-out = A - C (prevailing arrangements B-C)

This will determine the shipper's cash-out payments. The shipper failed to deliver the gas used by their portfolio and moreover failed to deliver what they were requested to and so **contributed to the emergency**.

Treatment of 100% NDM “long” Shipper



- A** is the shipper's UDQO used for national imbalance and cash -out
- B** is the shipper's NDM allocated quantity used in all exit billing except cash-out
- C** is the shipper's UDQI used to determine cash-out

Shipper's National Imbalance used to calculate emergency cash-out = A - C

This will determine the shipper's cash-out credit. The shipper brought more gas into the system than it was allocated for NDM portfolio, moreover it delivered more than requested. So **contributed by reducing the emergency**. The shipper will receive cashout credit for long position above NDM nominated default value; and receive recompense for gas supplied for NDM portfolio where sites were isolated.

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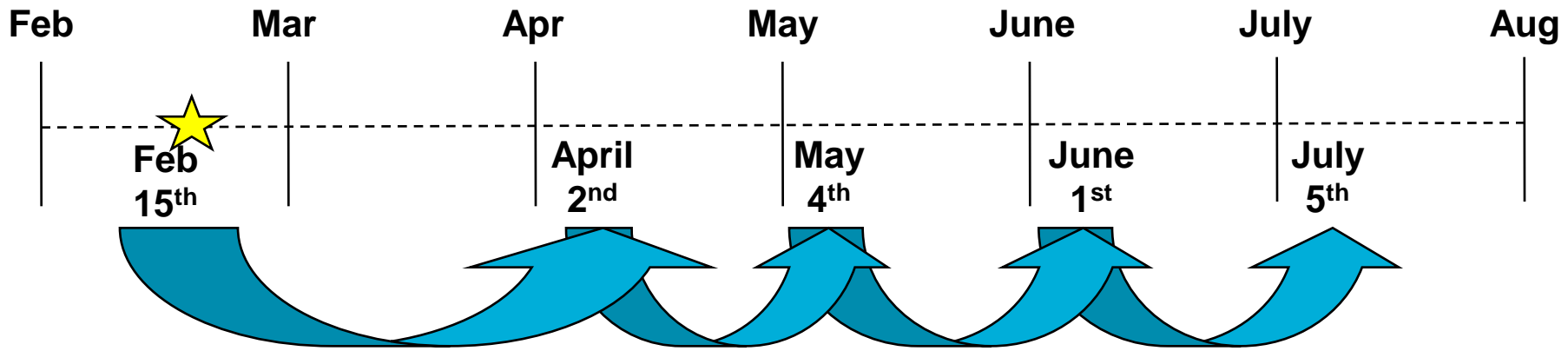
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Process close Out Timescales

What would timeline look like if we had a GDE today.....



- | | | |
|--|---|--|
| <p>'1st' Energy Balancing Invoice;</p> <ul style="list-style-type: none"> • Cashout charges • Balancing Neutrality Charges • Any additional DSR pot 'top up' charges (may slip) • Issued April 2nd • Payments Due April 14th | <p>'2nd' Energy Balancing Invoice;</p> <ul style="list-style-type: none"> • Additional DSR Pot charges for NDM 'reconciliation' | <p>'4th' Energy Balancing Invoice;</p> <ul style="list-style-type: none"> • DSR Payments to shippers • Additional DSR Pot credits • Post Emergency Claims payments |
| | <p>'3rd' Energy Balancing Invoice;</p> <ul style="list-style-type: none"> • Additional DSR Pot charges for shipper insolvency | |

Issues

- Smaller NDM DSR Payment Reconciliation
 - Who pays / receives for the increase / decrease in payments?
 - How is this achieved?
- Smaller NDM 'ECQ' trade price; 30 day SAP or Frozen SAP?
- Smaller NDM Demand Uplift methodology
 - NDM uplift information provision e.g. should this feed into nominations?
 - Is it for first day of a network isolation or for the duration?
- Smaller NDM Demand Uplift to apply for day 1 of Network isolation only or for all days of isolation?
- DSR Payments for large NDMs that do not have AMR
- Calculation of imbalance for long parties with DM and NDM customers (which is calculated first?)

Next Steps

- Revise / update business rules
- Where appropriate, consider developing legal text

Questions

- Any Questions?



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Just in case - reference

Module 3 - Network Isolation

(NDM Isolation) Effect on Shipper Balance position

- The current NDM demand forecast and nominations are influenced by expected changes in demand forecasted to be offtaken from NTS to LDZ by the End of Gas Flow Day.
- During GDE day LDZ demand expected to be offtaken by the End of Day will be restricted by NEC
- During Network Isolation any reduction in demand, after the DM proportion of demand is accounted for, will be profiled across all NDM sites & reflected in the NDM Allocations.
- As a result of instruction to isolate the NDM demand forecasts within day will inform NDM shippers to deliver reduced volumes to those previously forecasted.
- Where Network isolated the resultant NDM profiled Allocation would be reduced, therefore shipper delivering to the reduce forecast may be commercially balanced but in practise short.
- The Proposed change seeks to incentivise all NDM Shippers, with or without sites that have been isolated within the LDZ, to not reduce their supply in line with the curtailment but continue to deliver gas to meet their NDM demand, had no curtailment been initiated.

Module 3 - Proposed NDM process

– NDM Demand Uplift

- In respect of a Network Isolation in GDE stage 3 National Grid NTS will notify of the ‘GDE NDM forecast’ :
 - Nominations for NDM assume that each site will consume, two options proposed:
 - **volume, based on the SOQ, determined through an agreed methodology is one option; or**
 - **Nominations may be uplifted to reflect the % of LDZ curtailment**
- Acknowledgement that full SOQ will not reflect conditions on the GDE day i.e. may not be 1 in 50 everywhere, through public announcements consumers will have been asked to turn down in Stage 1, so for example 80% SOQ
- For the purposes of NDM daily quantities the Output (UDQO) will include the NDM Allocation plus the difference in energy between the NDM allocation and the NDM uplift.

Module 3 - Benefits

- Provides incentive for shippers to continue to supply sufficient gas for NDM portfolios, Addresses the concern associated with ensuring that appropriate incentives are in place, during a GDE.
- Better aligns NDM with the DM arrangements during a GDE
- In terms of improvement to previous developments in SCR workshop:
 - Provides greater transparency of closed out balance positions earlier in the process.
 - Better facilitates shippers ability to determine their balance position and exposure to imbalance charges

Module 3 – payment for additional gas

- Under proposed new rules Shippers will be requested to deliver gas for all its NDM portfolio regardless of the or not it has site isolated within the LDZ.
- If Network Isolation is called & site is interrupted (therefore not consumed gas) the proposed changes seeks to recompense shippers for gas supplied, but not Offtaken due to isolation.
- Recompense will be applied where a Shipper has delivered sufficient gas to satisfy its 'Pre-GDE expected' demand for all isolated sites, to be eligible for payment the shipper must be in a balanced or long position
- The Shipper will be paid for isolated Volume at [30 day SAP] and this will be funded through Neutrality, as with ECQ payments.

Issue: In terms of a long balance position: which is calculated first the quantity of long balance eligible for PEC payment, or eligible for NDM payment detailed in above?