

Ofgem Security of Supply Significant Code Review - Cash Out Reform



7 September 2012

Agenda

- Overview of the development of the legal text
- Overview of the process
 - Cash out
 - Cash flows
 - DSR calculations and payment

Development of the legal text



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Legal text development

- Business rules as discussed in June (with some minor changes) used as basis for the development of legal text
- Legal text developed and published for comment in Ofgem's proposals

Business Rules

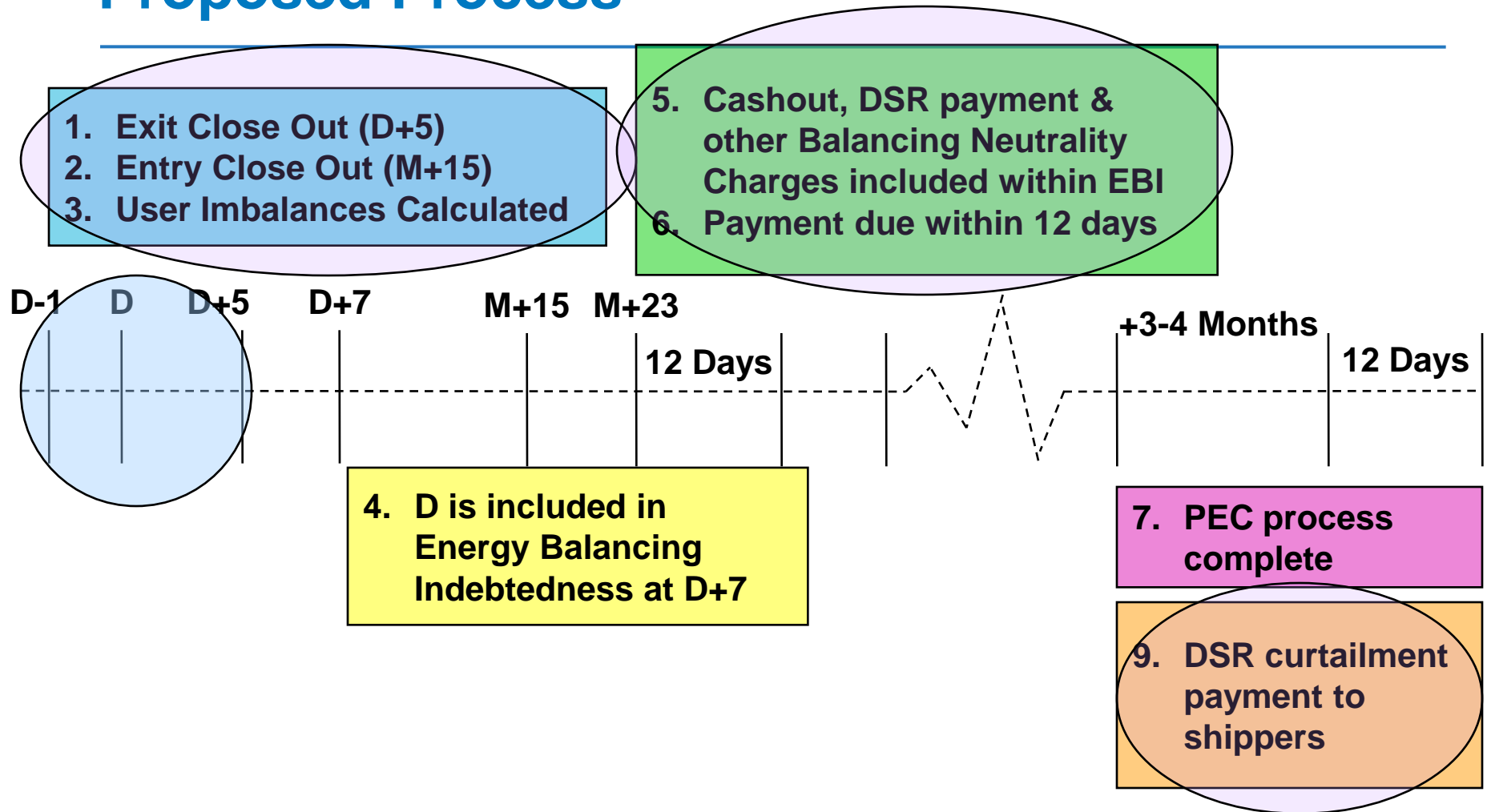
- BR1. GDE Cashout arrangements
- BR 2. NDM Uplift Arrangements
- BR 3. Demand Side Response Fund and Payments
 - 3.1 Calculation of the required DSR fund
 - 3.2 Calculation of DSR fund volume
 - 3.2 DSR payment Calculation
- BR 4. Managing shortfall/surplus of DSR Fund
 - 4.5 (a) DSR fund shortfall targeted cost
- BR 5. Settlement Timescales
 - 5.2 Settlement of DSR payments 5.2
 - 5..8 Shipper default and DSR fund payments
- BR 6. Demand Side reduction End Users curtailment information
- BR 7. Commercial Demand Reduction Contract
- BR 8 Process closeout
- Appendix A Emergency Curtailment Volume Calculation

Proposed cash out process

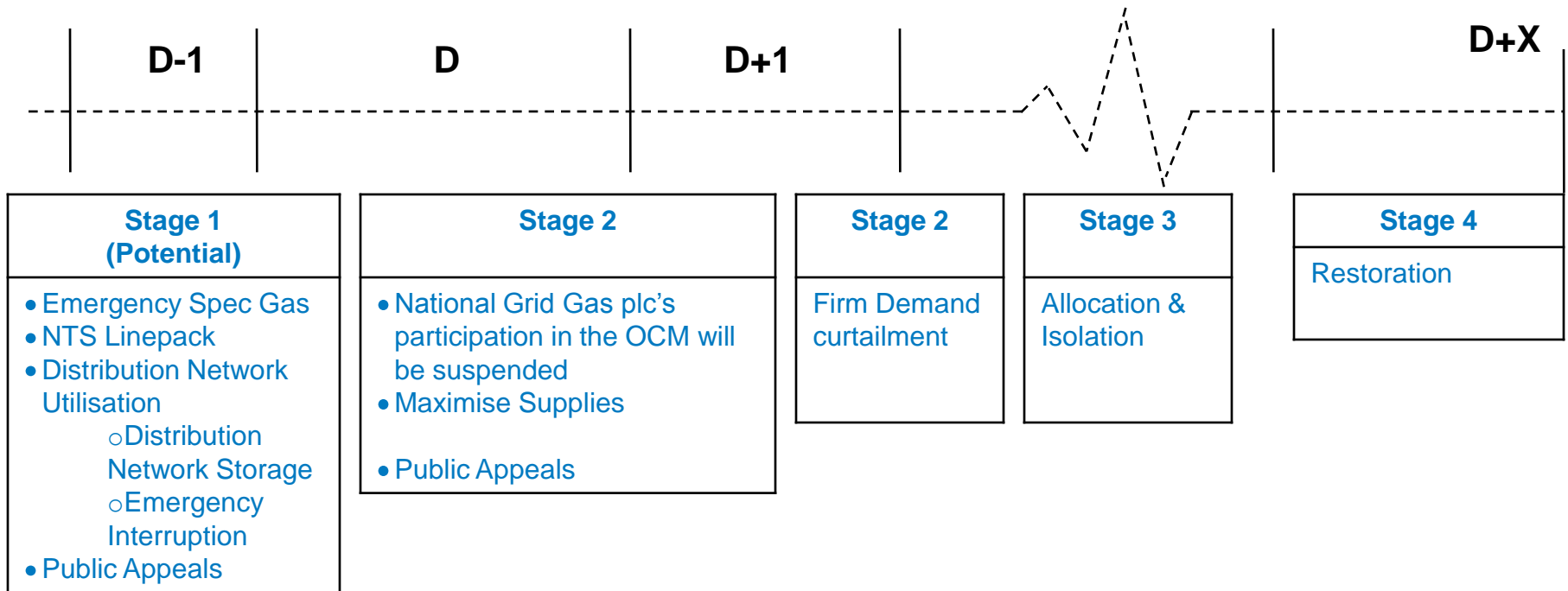


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Proposed Process



Proposed Cash Out Process



Proposed changes to cash out

Dynamic cash out	Default buy price £20/therm	Dynamic cash out
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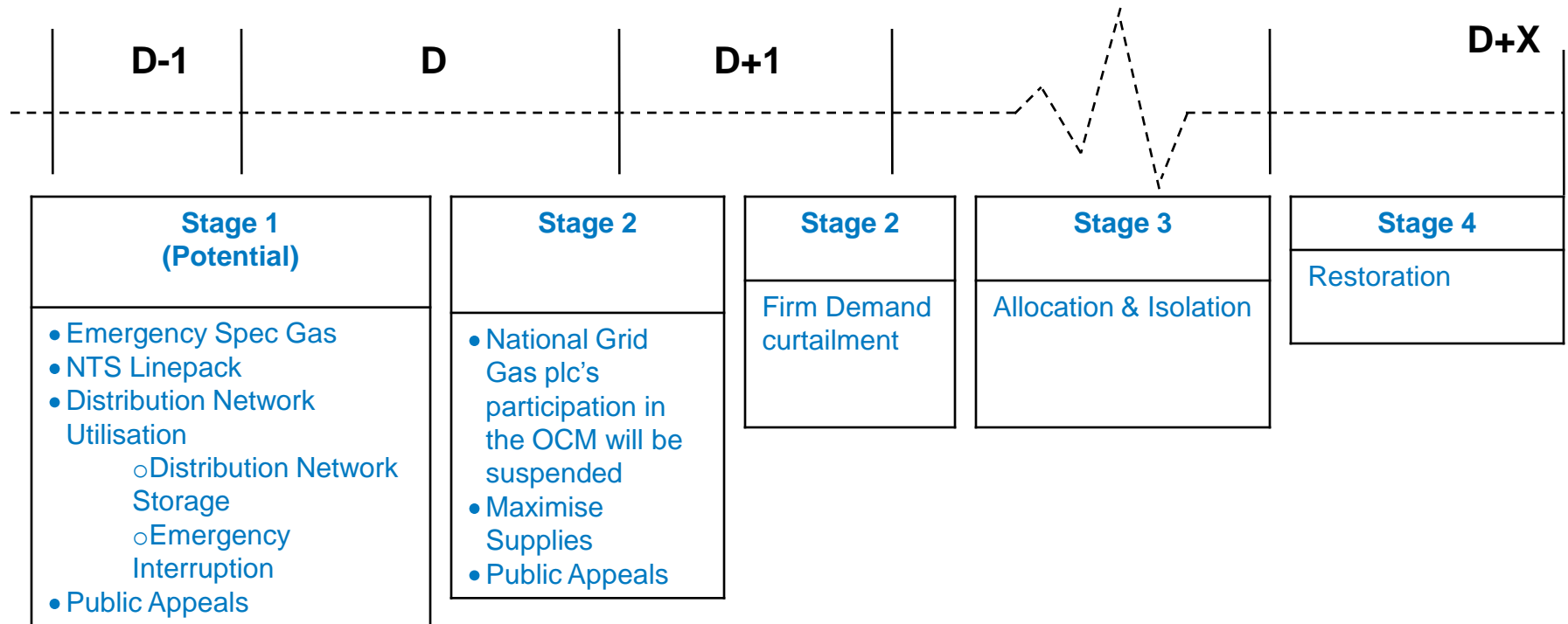
Proposed Cash out

	Day 1 Stage 2, 3 & 4		Day 2 and beyond Stage 2, 3 & 4	
	Short shippers	Long Shippers	Short shippers	Long shippers
Maximum Price (cap)	None	None	VoLL	VoLL
Cash out Price	SMP (Buy) VoLL post DSR	SAP	SMP (Buy) VoLL post DSR	SAP
Current Arrangements	SMP (Buy) for the day	SAP for the day	SMP (Buy) for Day 1	SAP for Day 1

Legal Drafting

- Cash out
 - Business rules: section 1
 - Code drafting: paragraph 4.2.4

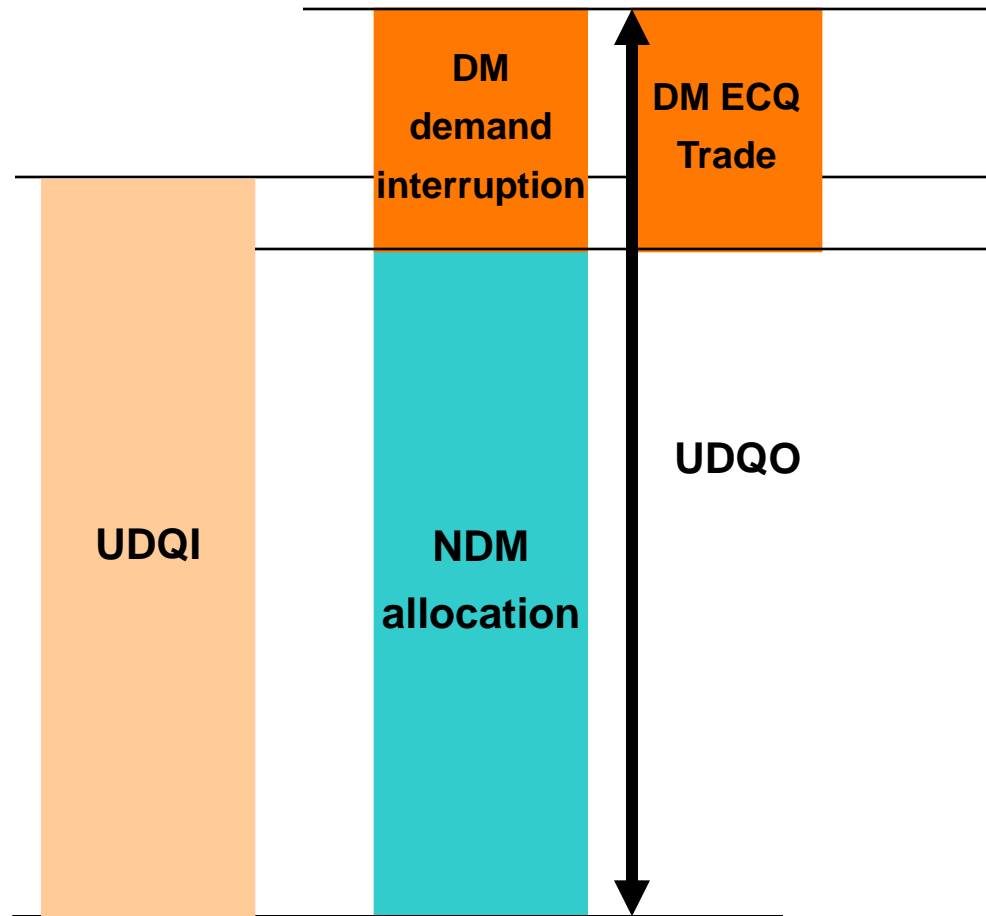
Proposed ECQ process



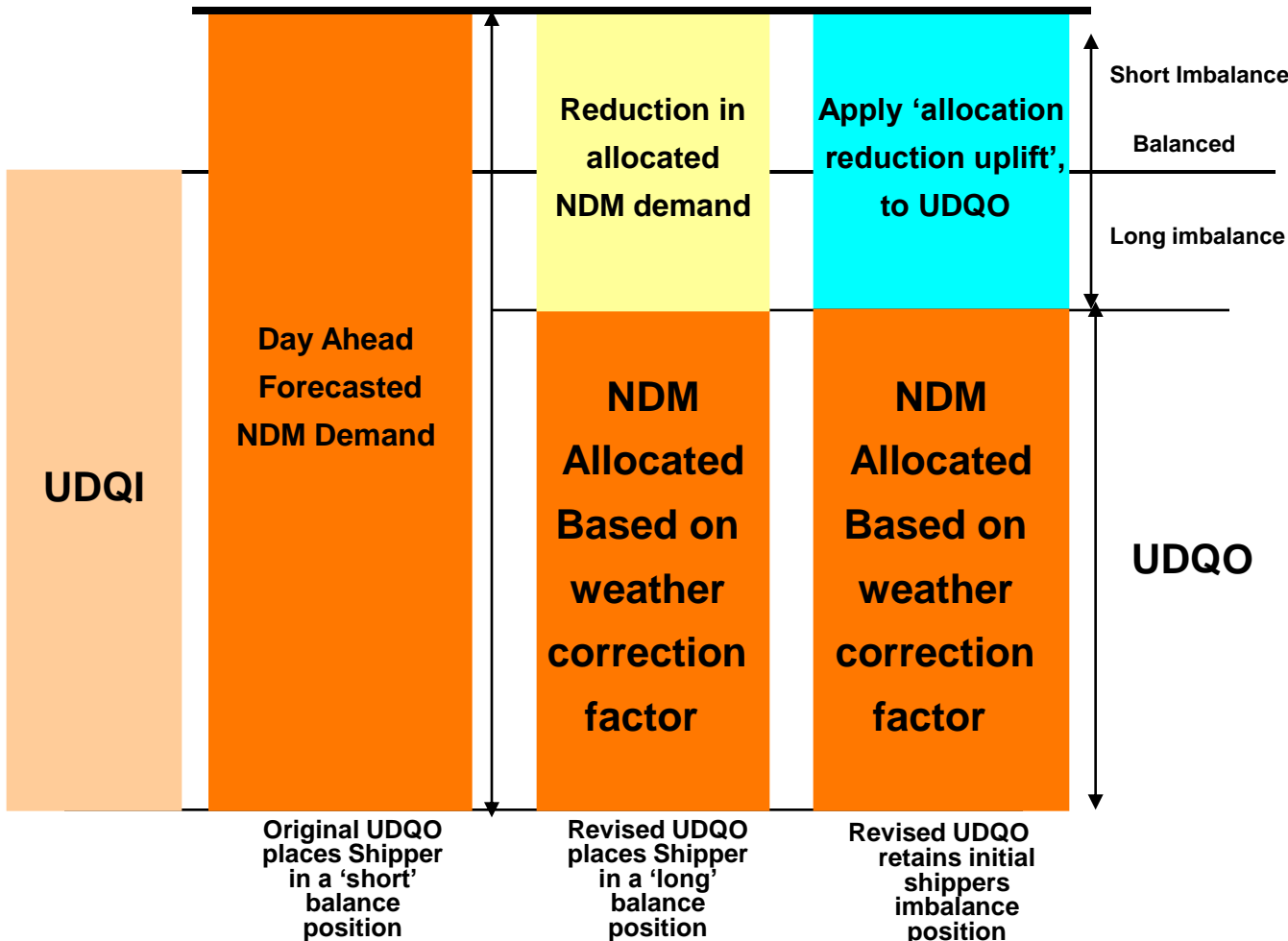
Proposed changes to ECQ

<p>Commercial DSR excluded from DR ECQ</p>
<p>New NDR ECQ introduced</p>

DM ECQ



NDM ECQ Process



Uplifting the UDQO by the difference between forecasted and reduced allocation volume will maintain the original balance position. Recompense for the additional volume may be settled through a trade. Thereby there will be no double accounting impact from subsequent meter reconciliation.

Commercial DSR excluded from ECQ process

National Grid informed
of commercial DSR prior
to start of the winter

Updates sent
as soon as possible

Sites 'registered' will be
excluded from ECQ and
no DSR payment
will be provided

If site is planned to be
commercially interrupted,
a P70 is required (as now)

Legal Drafting

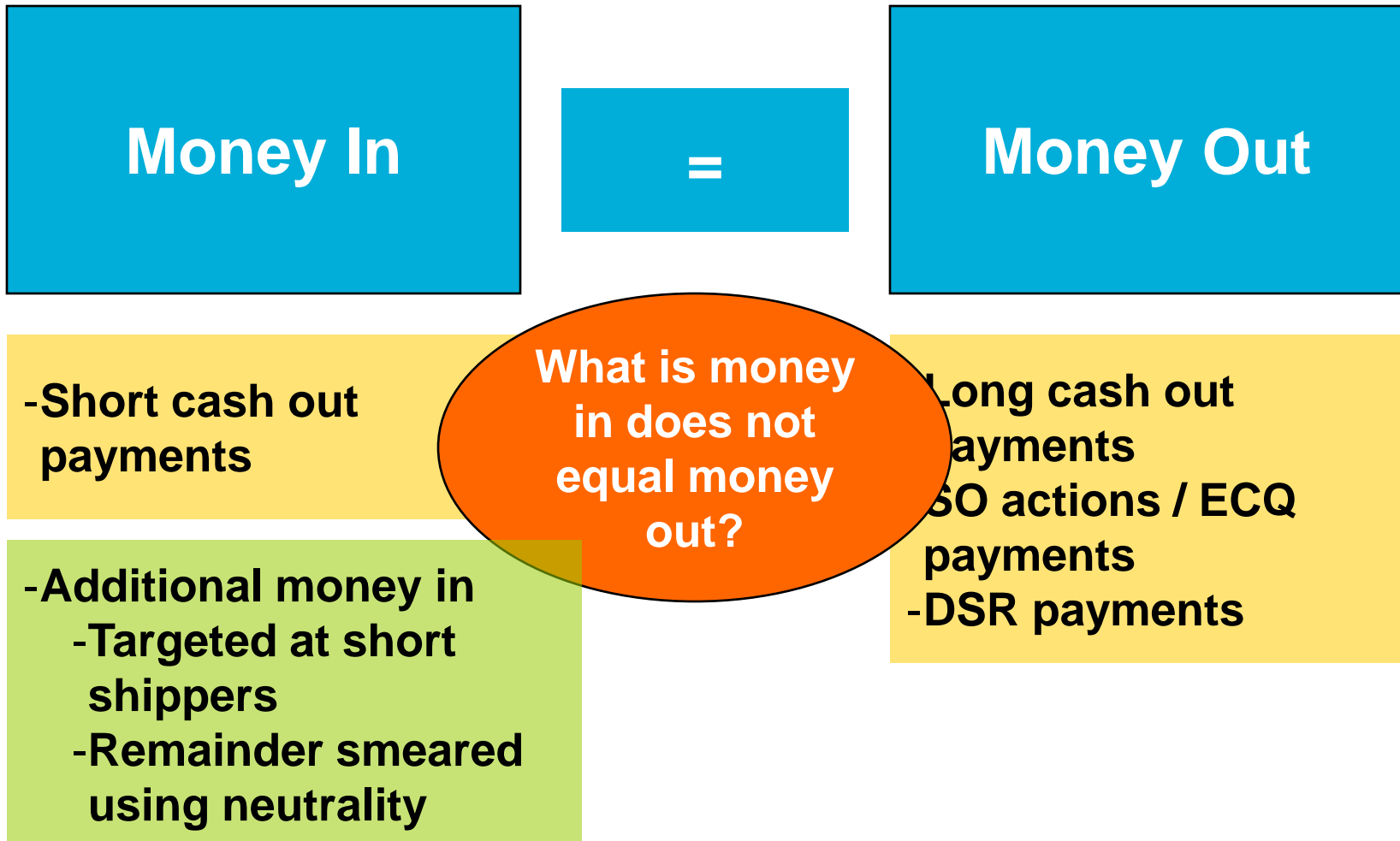
- DR
 - a “**DR System Exit Point**” is a System Exit Point excluding:
 - Commercially Interruptible;
 - Storage Connection Point; and
 - an interconnector pipeline.
- NDR
 - Introduce new NDR definition and NDR ECQ methodology
 - Business rules: section 2
- Legal drafting: paragraphs 6.1-6.3

Proposed change to Cash-Flows



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Cash Flow



Shortfall in required funds

- Post EBI net off: any shortfall in required DSR funds:
- Initially targeted at short shippers

$$\frac{\text{Shortfall}}{\text{Greater of the total volume of involuntary DSR}} \times \text{Volume of shippers short position}$$

or

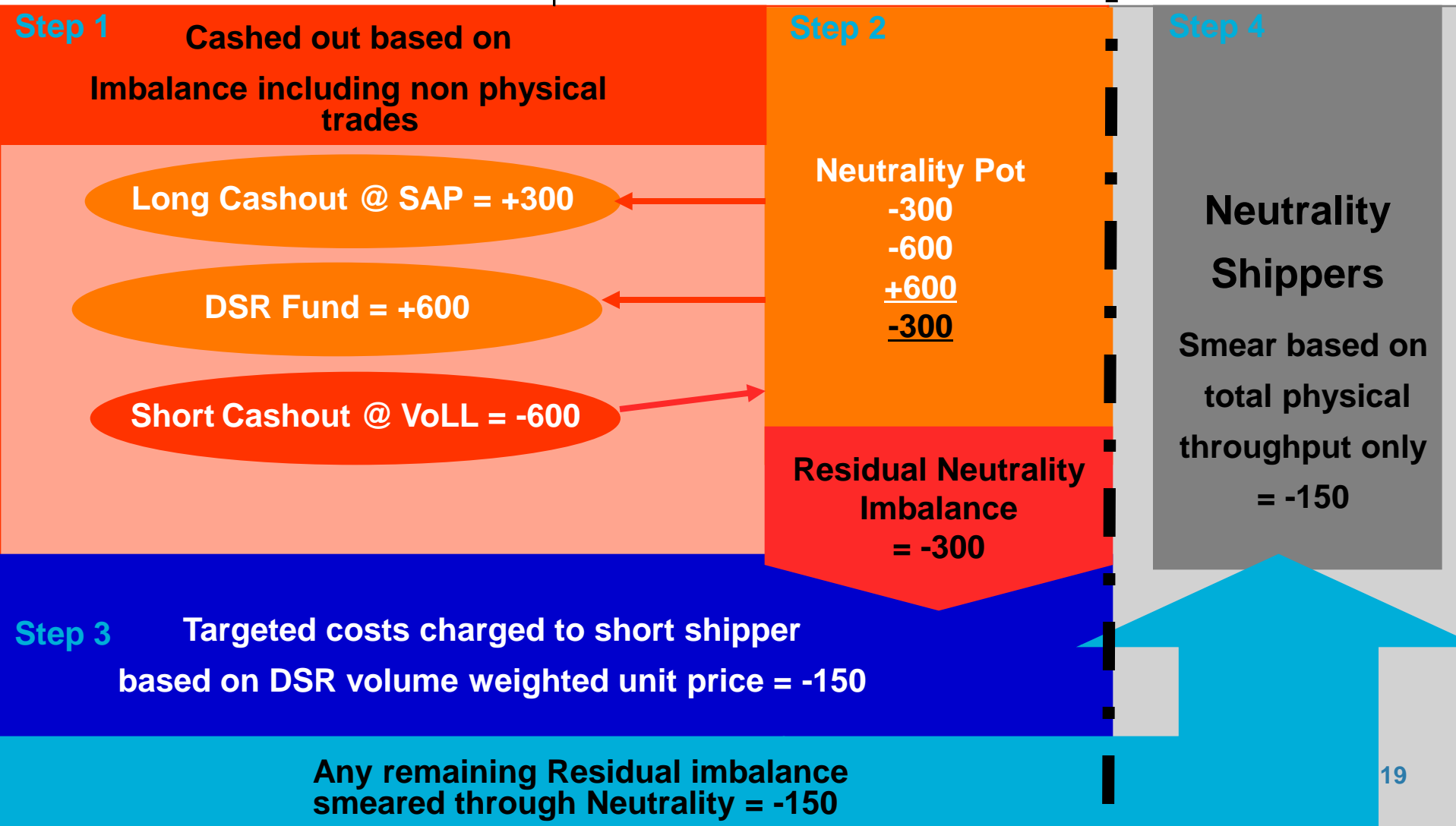
$$\text{Total volume of short shippers imbalance position}$$

- Remaining shortfall recovered by neutrality

Cash Flow

EBI Shipper Specific charges

Neutrality Process



Summary of Short Shipper charges nationalgrid associated with short Imbalance position:

Charge	Calculation
Short imbalance cashout	Imbalance Volume X VoLL
Targeted shortfall cost for required DSR Fund	Imbalance Volume X weighted Unit price
Targeted costs for PEC charges	Imbalance Volume X VWAPEC

} **M+28**

} **~M+M4**

= total cashout cost to short shippers

Legal Drafting

- Identify BR and legal text
 - Business rules: sections 4
 - Legal drafting: paragraphs 6.5, 6.6

DSR Payment Calculation



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DM Payment Calculation

Volume x Price = Payment

Volume = ECQ volume

Price = £20 / therm

NDM Payment Calculation

Volume x Price = Payment

Price = £20 / therm

Volume = $\frac{\text{NDM curtailed volume}}{\text{Summated SOQ for all curtailed sites}}$ X Site SOQ

NDM Volume

NDM curtailment volumes = NDM forecast prior to curtailment – End of day NDM demand

Example of NDM DSR payments

Application of ratio to aggregate of curtailed NDM SOQs in 4 LDZs

LDZ	Pre- Network Isolation total NDM demand forecast	Total NDM allocation on D	NDM interrupted volume	Ratio	Total interrupted NDM SOQ volume	NDM DSR Volume
1	100	0	100	0.67	150	100
2	100	25	75	0.75	100	75
3	100	75	25	0.50	50	25
4	100	90	10	0.50	20	10

Application of ratio to aggregate of curtailed NDM SOQs in LDZ 1

LDZ 1: NDM Volume interrupted					
100					
	Site 1	site 2	site 3	site 4	Value
SOQ	20	30	50	50	150
Ratio	0.67	0.67	0.67	0.67	
Total NDM DSR Volme	13	20	33	33	100

Legal Drafting

- Identify BR and legal text
 - Business rules: sections 3 & 5
 - Code drafting: paragraphs 6.4

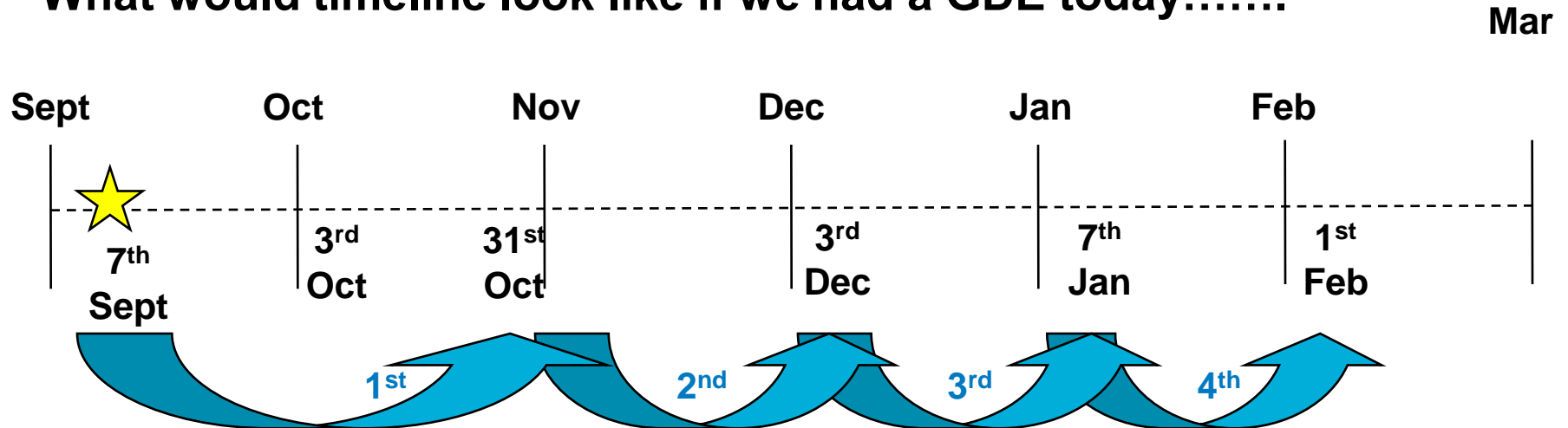
Payment Timescales



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Timescales for Payment of DSR

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



Timescales developed to mitigate risk associated with non payment of EBI

Legal Drafting

- Business Rules
 - Business rules: sections 5 & 8
- Legal text
 - Paragraphs 6.4.7

DSR Payments to shippers

- Payment made to shippers who are the registered user of the exit point at time of payment and not at the time of the emergency
 - Aimed at covering customers that have changes supplier / shipper or for shippers that have defaulted
 - Legal text 6.4.6

Process Close out

- No adjustments or additional charges made after the process close
- Close out is 18 months after the emergency curtailment
- Legal text
 - Paragraphs 6.4.11

The End



Comment



Concern



End



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