Minutes

Gas SCR Technical Working Group 1

	From	Anjli Mehta	8 February 2013
	Date and time of Meeting	04/02/2013	
	Location	Church House	

1. Introduction

1.1. Ofgem announced that there would not be a workshop on the 18th February. We will in future aim to send papers more than 3 days before the meeting.

1.2. Pamela Taylor explained how the interactions with the work DECC are doing on the need for storage were being considered. Ofgem and DECC are both fully aware of the interactions between the two projects. Therefore DECC and Ofgem are ensuring they are both fully updated and are aiming for the announcements to be released at the same time.

2. Cash-Out Working Paper

2.1. Participants broadly agreed with the principle of treating Demand-Side Response (DSR) auctions as market balancing actions, as an approach to setting a dynamic cash-out price for short shippers.

2.2. Participants favoured dynamic cash-out as opposed to an administered cash-out. However there were concerns with a purely dynamic cash-out as participants were unsure how appropriately the market would function. Amongst participants there was consensus for dynamic cash-out along with some criteria to ensure robust prices were being set. Nevertheless it was noted that any criteria themselves were very difficult to develop, could be subject to gaming or perverse incentives and would be arbitrary.

2.3. There was general support for using a market derived VoLL through a potential auction process to set the cash-out price in Stage 2, although participants agreed this could not be the highest unsuccessful bid. There was agreement that using the clearing price of the auction would be more appropriate. One stakeholder did note concern that many DM's would have a VoLL higher than this level and therefore this approach would penalise them.

2.4. There was appreciation for the fact that it was important to balance the incentives between recompensing the consumer for costs incurred by interruption and maintaining incentives to participate in the auction.

2.5. Tom Corcut noted that the option of purely dynamic cash-out had previously been discussed and at the time participants were very concerned about not being able to forecast the level of liability imposed by this suggestion.

2.6. It was noted that under UNC435 the intention was that cash-out would remain dynamic until firm load shedding.

2.7. There was little support for "two-stage" VoLL where industrial and commercial consumers VoLL would be set administratively by Ofgem. Participants expressed that there would still be concerns about I&C VoLL acting as a target price.

2.8. Some participants were concerned that the correct valuation of NDM VoLL has not been achieved. Others argued that it was important that payments for involuntary interruptions did not pollute the cash-out regime. Pamela Taylor noted that cash-out was about sending more efficient price signals and therefore providing payment for involuntary disconnection was a principle tenet of Ofgem's policy. Nevertheless Ofgem has said that it will consider further the appropriate level of NDM VoLL.

3. Auction design working paper

3.1. Participants discussed the purpose of a DSR auction, and whether it was aiming to provide for demand-side discovery or to achieve a given security of supply standard. Several participants were of the view that the primary purpose of the auction is to avoid an emergency, but some also suggested that it should seek to provide another route to market for DSR, and so enable the demand-side discovery and facilitate the development of a market for interruptible contracts.

3.2. On timing of the auction, some considered that it was important that the auction was conducted with a long lead-time to give consumers time to invest in back-up fuel if they wished to do so. For similar reasons, some participants considered that it would be preferable for NGG to contract with bidders for multiple years. However, others recognised the difficulty of forecasting consumption patterns years ahead.

3.3. Participants had differing views on whether or not the supply-side should be incorporated into the auction. Some considered that it may encourage additional volumes into the market and allow the desired volume to be procured at least-cost – as from an operational perspective a 'turn-up' of supplies is equivalent to a 'turn-down' of demand. Others were mindful of the potential distortions that could be created by including the supply-side. There was consensus for a phased approach that began with the demand-side but had potential to expand to the supply-side in the future.

3.4. Participants discussed the relative merits of an auction or tender process, as well as various possible auction designs. Many considered that simplicity was very important to encourage participation, and so preferred a tender to an auction process. Ofgem highlighted that an auction may provide a greater opportunity for competition and price-discovery, and that an auction need not necessarily be complex for all participants. An auction could be designed so that those who wished could submit a single proxy bid, whereas others could develop more complex bidding strategies. A participant pointed out that publishing the results of a tender could provide some price-discovery.

3.5. Participants considered that the auction/tender should be 'paid-as-bid' rather than 'paid-as-clear', in order to provide NGG with a 'bid stack' which they could work through ahead of an emergency and which would provide for gradual price escalation. Ofgem noted that even with a pay-as-clear auction consumers could be disconnected in order of their VoLL.

3.6. Many participants considered that an option fee was required in order to provide a guaranteed revenue stream to fund investment by consumers in back-up fuel facilities, and to encourage participation. However some participants were sceptical of the need for option fees as it was noted that under the current regime DM's would receive nothing if interrupted in a GDE. It was also highlighted that an exercise-only approach would make it easier to assess bids and incorporate these into the cash-out mechanism. Additionally a participant raised concerns with paying option fees when the likelihood of exercise was close to zero as this would add to cost. One participant suggested that the option fee could be fixed.

3.7. Participants discussed various methods of determining which DSR to procure. These included determining a volume, price or budget, or combination thereof. Some participants considered that defining a budget would be the best approach, but there was no consensus on this.