ofgem

Minutes

Gas SCR Working Group minutes

The minutes from a working group held to discuss outstanding policy issues around the Gas SCR business rules, and to get views on some elements of a demand side response tender.	From	GB Markets
	Date and time of Meeting	28th November 2013
	Location	Ofgem, 9 Millbank, London

1. Introductions

1.1. Tom Corcut (Ofgem) welcomed everyone to the working group. The aim of the day was to cover some of the key elements of the Gas SCR business rules and seek feedback on some key policy issues on the Demand Side Response (DSR) mechanism.

1.2. The working group would also discuss several notes on the DSR tender sent out to attendees by Ofgem following the previous working group.

2. Business rules

Contingency arrangements

2.1. Tom Farmer (Ofgem) presented on the contingency arrangements that would be implemented if there was no DSR tender in place.

2.2. One participant asked for clarity over Ofgem's concerns that prices could fall within a Gas Deficit Emergency (GDE). It was explained that if National Grid Gas (NGG) take an action in stage 1, this would set the cash-out price (ie, be the marginal action). In stage 2, if cash-out was set by the System Average Price (SAP). It is possible that moving to an average price from a marginal price could result in cash-out prices falling though the severity of the situation was increasing. As a result Ofgem proposed that prices in stage 2 would be at least the level they reached at the end of stage 1. Similar approaches would apply to the transition between stages 2 and 3.

2.3. A participant asked whether, in the case of payments to Daily Metered (DM) consumers, the proposed 30 days average SAP was calculated on the basis of a fixed period prior to the start of the emergency, or rolling as if it was rolling it could be very high in a slow emerging emergency or towards the end of and emergency. Ofgem agreed to consider the implications of this further.

2.4. On how long and short cash-out might vary through a GDE, one participant asked whether the fixed differential applied to SAP would vary over time. It was clarified that the fixed differential would be the same as currently applies in cash-out prices, and would be a set amount. If "SAP + fixed differential" was the highest price of the elements making up cash-out, then it would set the cash-out price on that day.

2.5. One stakeholder confirmed they would prefer payment to DM consumers being set at 7 day SAP. They felt that a 30 day period might result in too low a level of payment for large consumers.

2.6. A participant questioned whether a rolling 30 day SAP would always be lower than SAP (as would be necessary to maintain incentives for commercial interruption), particularly in the event of an extended GDE. It was agreed that there is a potential for this and the alternative would be to use a price calculated on the basis of a fixed period prior to the emergency. The participant then said it was not clear in the business rules which

30 days were to be used. Another participant noted that the current Emergency Curtailment Quantity (ECQ) arrangements use a rolling 30-day price.

Criteria and fall back price

2.7. Tom Farmer presented the criteria proposed for assessing if SAP is robust, and the fall back price to be used if the criteria were not met. There was general agreement with the need for criteria to ensure the robustness of SAP.

2.8. One participant questioned why two out of three inputs to the fall back price were based on trades from a day where prices had been deemed as not robust. It was noted that the use of the median and weighted average balance each other out, and the combination of three inputs lessens the risk of any skew. Ofgem agreed to circulate a note clarifying the rationale for this price.

2.9. On the criteria of a minimum five counterparties, one participant asked if these needed to be unrelated counterparties, noting that some groups may have several subsidiaries which hold separate gas shipper licences. Ofgem took an action to confirm this definition within the business rules and legal text.

Shortfall

2.10. David McCrone (Ofgem) presented the proposed approach for managing shortfall. In the case of insufficient short shippers, there will first be an additional charge to short shippers. If a residual shortfall remains, payments to consumers will be limited to what has been recovered. In the event of a default (and other neutrality charges in stages 2, 3 and 4), costs will be smeared to neutrality using a 365 day average throughput. Ofgem agreed to circulate a worked example of the short shipper targeting mechanism.

2.11. One participant asked what would happen if a shipper attempted to bring gas into GB but were restricted from doing so due to a transportation constraint. They said a mechanism was required to identify if they would be classed as short.

2.12. Another participant asked if short shippers could trade after the day of the GDE and so avoid the additional short shipper charge. Ofgem agreed to consider both these points.

Payments to NDM consumers

2.13. David McCrone presented the proposed approach to paying NDM consumers that had previously been communicated to stakeholders – particularly the load bands used to determine the level of payment for each consumer group. There were no new comments and this was confirmed as now being in the business rules.

3. DSR

3.1. It was confirmed that both Ofgem's proposals for a tender, and NGG's alternative proposal, were still being considered and neither had been ruled out at this stage.

Trigger point

3.2. There was general agreement on the use of a Gas Deficit Warning (GDW) as a trigger for DSR. One participant noted that the DSR providers would need sufficient lead times after a GDW was declared in order to be able to provide a response.

3.3. Another participant said that a GDW was a suitable trigger point but they had concerns that this signalled that NGG was effectively declaring an emergency and this would impact prices. Participants recognised the importance of information provision to provide clarity on the likelihood of DSR being required.

Response type

3.4. There was an extensive debate on whether DSR should be an agreement to turn down by or turn down to a specified volume.

3.5. One participant felt that it was essential for the System operator to be ensured of a physical reduction in demand when a bid was exercised. They did not think that this was possible under a 'turn down to' approach.

3.6. The group was asked how a turn down to bid could be priced into cash-out. It was agreed that this needed to be achievable in order for an option to be considered.

3.7. Participants representing the demand side did not favour a 'turn down by' approach. They said that a turn down to approach was required in order to be able to protect a minimum level of gas usage required to maintain plant integrity. They felt that tranche bidding was still possible under a turn down to approach.

3.8. Demand side participants also considered that a fixed volume to turn down by would be difficult to guarantee. This would particularly be the case for those users with variable consumption. This may in turn limit participation in any DSR mechanism.

3.9. Ofgem were invited by demand side participants to visit their site to further understand the complexities around providing DSR. Ofgem agreed to consider this invitation.

3.10. The discussion on this topic concluded without reaching a consensus. Ofgem will continue to consider the possible solutions with support from NGG and large users.

Costs and benefits

3.11. A participant said that the main reason preventing commercial interruptible contracts being agreed was the lack of trust in shippers. The key factor for consumers is ensuring that the exercise of DSR is due to near-emergency reasons, and so directed by NGG as SO. They also noted that providing DSR was not their primary business so any solution must be simple for them to take part.

4. Next steps

4.1. Participants were asked to provide any further comments on the business rules without a DSR mechanism discussed in the workshop to GB.Markets@ofgem.gov.uk by 13th December 2013.