

Gas SCR Working Group Minutes

Minutes from a working group held to go through cash-out business rules and legal text, set out key areas of the impact assessment and get views on the DSR Licence Condition

From
Date and time of Meeting
Location

Wholesale Markets
7th March 2013
Ofgem, 9 Millbank,
London

1. Introductions

- 1.1. Tom Corcut (TC) and Tom Farmer (TF), Ofgem, gave an overview of the process and policy thus far and set out the objectives of the workshop. They outlined the final policy decision on cash-out which reiterated the decision in July 2013 and a decision to proceed with design of a DSR mechanism.
- 1.2. One stakeholder asked if the policy decision within the decision document was for consultation. TC confirmed that the focus is on consultation on legal text and business rules but if there was material new evidence regarding the policy decision this would be taken into account.

2. Business Rules and Legal Text

- 2.1. One stakeholder noted that the business rules didn't refer to the price of DSR actions. Ofgem confirmed that the price of DSR actions would be included if and when DSR was implemented but the current drafting set out cash-out arrangements that would work without a DSR mechanism in place.
- 2.2. Another stakeholder questioned whether there was an assumption that entering stage 2 and firm load shedding occurred at the same time. Similarly market restoration and stage 4 may not occur at the same time.
- 2.3. Ofgem confirmed that on days within stage 2 where firm load shedding (FLS) does not occur the cash-out price would be calculated as set out in the business rules with the FLS price element being zero, and so cash-out prices set on the basis of other elements of the calculation.
- 2.4. **ACTION: Ofgem/NGG committed to checking the drafting to ensure these timings issues were accurately reflected.**
- 2.5. On discussion of the fallback price one stakeholder noted that the formula would mean that if there were zero trades on a day SAP would be set at 50% of the previous accepted value which they did not believe was the intention. Ofgem confirmed that this was not the intention and it would likely be appropriate to use the previous accepted SAP in these circumstances.
- 2.6. **ACTION: Ofgem/NGG to review calculation of fallback price.**
- 2.7. A stakeholder asked that as it could be before the end of the day before traders know if the criteria will be met. They asked if there would be a flag giving some form of warning that the cash-out price would be subject to change. NGG said this was something that they would discuss with ICE-Endex.
- 2.8. A stakeholder asked how a shipper would know their imbalance position within a given day. NGG confirmed that they would only know their position against a forecast.

- 2.9. A stakeholder asked if an interruption occurred part-way through the day how imbalances would be adjusted. They asked if the latest prevailing forecast would be used and if there would be any account for the time of day. Ofgem explained that imbalance adjustments for NDM interruptions would be calculated by comparing the latest daily forecast with the actual consumption on the day. The uplift would be calculated based on the difference. This means that an interruption occurring towards the end of the day would result in a smaller uplift, as the gap between actual and forecast consumption would be smaller.
- 2.10. A stakeholder questioned whether a more sophisticated way of calculating payments to NDM consumers potentially using annual load profiles should be used. NGG explained that the process proposed struck the balance between accuracy and what was practically possible without having to build a complex system, the cost of which could not be justified for a low probability event.
- 2.11. Regarding BR4.10 a stakeholder asked what proof an NDM would be required to submit to prove it had turned down. Ofgem responded that this was intended to capture and allow NDMs to be paid for involuntary DSR in stage 2 if they were capable of turning down and providing proof that they had done so. Therefore it was most possible for those that had advanced meters (AMRs) and could provide daily reads.
- 2.12. One stakeholder asked for clarification of how a GDE would progress through various stages. Ofgem offered to circulate a document setting out the different stages of an emergency.
- 2.13. **ACTION: Ofgem to circulate document setting out different stages of emergency.**

3. Impact Assessment

- 3.1. Martin Winter (MW) from Pöyry gave a presentation outlining the approach taken to measure the costs and benefits of cash-out reform and the DSR mechanism. The presentation was a brief overview but a more detailed explanation is found in the report published on Ofgem's website.
- 3.2. It was clarified that the intention is that DSR is exhausted pre-stage 2 and therefore given that NGG is required to act in an economic and efficient manner bids would be taken in price order.
- 3.3. In terms of participation MW clarified that the modelling included different participation levels with the biggest difference coming from smaller players.
- 3.4. He also clarified that the varied levels of electricity generation were accounted for ie the 1 in 50 year modelled included a number of high wind days and low wind days.
- 3.5. Stephen Jarvis (SJ), Ofgem, highlighted that Pöyry's analysis provided a quantitative estimate of the costs and benefits of DSR and cash-out, but explained that there were a number of costs and benefits that could only be captured qualitatively. SJ was also highlighted that this IA built on the previous cash-out IAs.
- 3.6. A stakeholder asked for clarification on the costs to consumers. Ofgem clarified that the cost of cash-out was 1p/annum for a typical domestic consumer. This was as a result of introducing the ECQ process for NDM consumers and payments to NDMs and DMs in the event of an emergency. Ofgem estimated the costs of cash-out plus DSR mechanism at 6p/annum for a typical domestic consumer as this also included the setting up and running costs of the DSR.

- 3.7. A stakeholder asked what the estimated reduction in probability of an emergency occurring was. Ofgem acknowledged that this modelling had not produced the same outputs as previous work done by Ofgem. Ofgem had taken on board stakeholder feedback from previous IAs and chosen an approach of examining the benefit in the event of an emergency.
- 3.8. One stakeholder asked if cash-out reform offered value for money compared to other security of supply options. Ofgem explained that all options had been examined at the start of the Gas SCR process, through Ofgem's report to Government in 2012 and Government's examination of the case for storage. The decision to proceed with cash-out and DSR was the culmination of this process. In particular, the costs and benefits of cash-out are directly proportional to the risks to security of supply.

4. DSR Licence Condition

- 4.1. This session began with a discussion of views on the decision to proceed with an obligation on NGG to develop a DSR mechanism. One stakeholder suggested that splitting the timing of cash-out and DSR could limit a shipper's ability to fully assess the cost and impact of the change. A more developed DSR would enable shippers to assess better whether or not to appeal the licence modifications as opposed to the uncertainty that could arise under the current process.
- 4.2. One stakeholder also commented on Ofgem's current view on gas fired generators in the DSR mechanism. Ofgem explained that they had a route to market as they could bid on the OCM and the PEC process would be available to them. Further, including gas-fired generation could risk reducing liquidity on the OCM.
- 4.3. David McCrone (DM), Ofgem, explained the objective of the licence condition and the intent of the principles.
- 4.4. A stakeholder questioned whether there should be any requirement on shippers to post consumer bids. Ofgem and NGG confirmed that further licence and UNC changes may be required after the methodology was developed. However on this particular point there could be two views 1) shippers should be compelled through licence conditions or 2) if shippers did not respond to consumers' needs then consumers may seek to change their shipper/supplier.
- 4.5. NGG questioned the wording of the final principle regarding the obligation for NGG to act in an economic and efficient manner. NGG suggested that instead of "to operate the pipe-line system in an efficient economical and coordinated manner" it should potentially refer to operation of the system.
- 4.6. **ACTION: Ofgem to review use of words especially "pipe-line system".**

5. Next Steps

- 5.1. DM set out the timelines for cash-out and proposed timeline for the DSR mechanism.
- 5.2. One stakeholder questioned whether it was realistic to expect Xoserve to implement the system changes for October 2015 given the pipeline of work it is expected to undertake. NGG explained that a lot of the cash-out reform didn't require system changes as some of the processes would be carried out manually in the event of an emergency. It was also noted that Xoserve have had significant advance warning of the implementation timelines for the Gas SCR.
- 5.3. NGG also set out the next steps from their perspective. They explained that they haven't decided the exact route through which to develop this proposal but are considering a development mod or the key issues route. They would like to engage

with shippers and end users from May 2014 to Jan 2015. Over the next two months if stakeholders had engagement proposals they would welcome suggestions.

6. AOB

6.1. One stakeholder asked for clarity on the differences between a GDE and transportation constraint. He provided an example of a TFA on an entry point. NGG explained that this would be likely a local emergency. Ofgem agreed to circulate something to clarify.

6.2. **ACTION: Ofgem/ NGG to clarify what is a GDE.**

7. Summary of Actions

Action	Organisation
Check code and BR drafting to ensure not suggesting Stage 2 and FLS are same thing and Stage 4 and market restoration	Ofgem / NGG
Review calculation of fallback price	Ofgem/NGG
Circulate document setting out different stages of emergency	Ofgem
Check wording in licence condition regarding "operation of pipeline system	Ofgem
Clarify what is a GDE	Ofgem/NGG