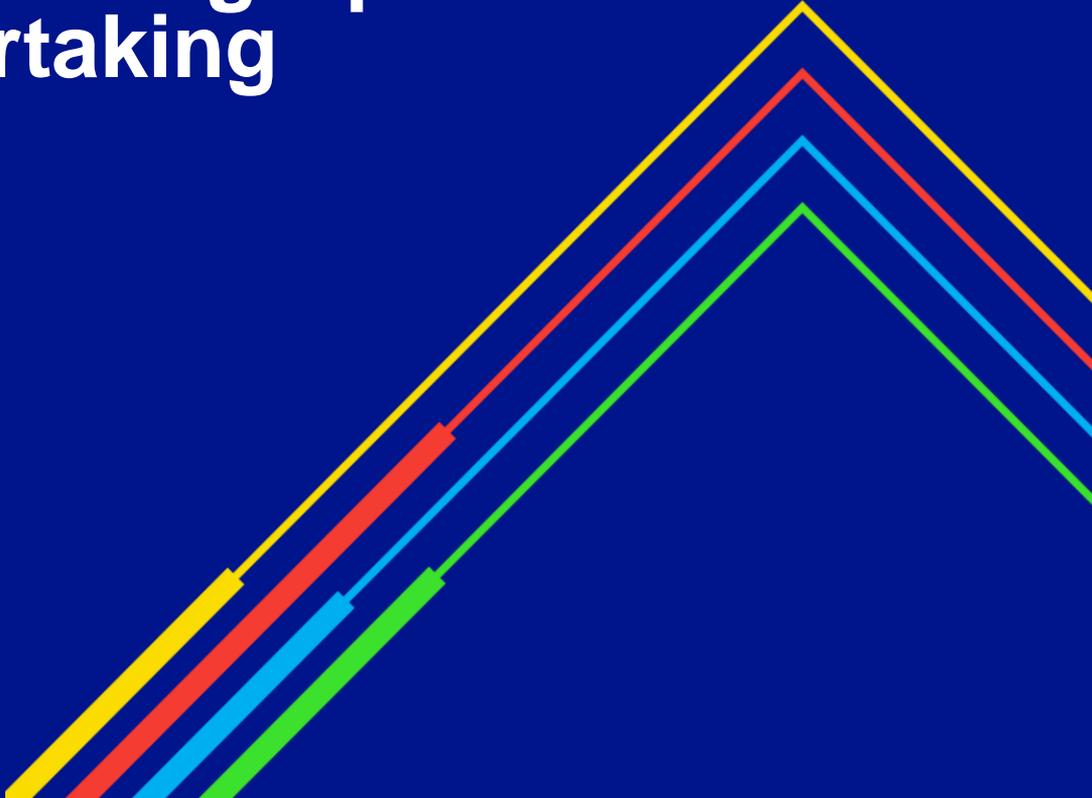


Energy Balancing During Operation of a Supplier Undertaking

Industry Workshop 3

Thursday 11th November 2021

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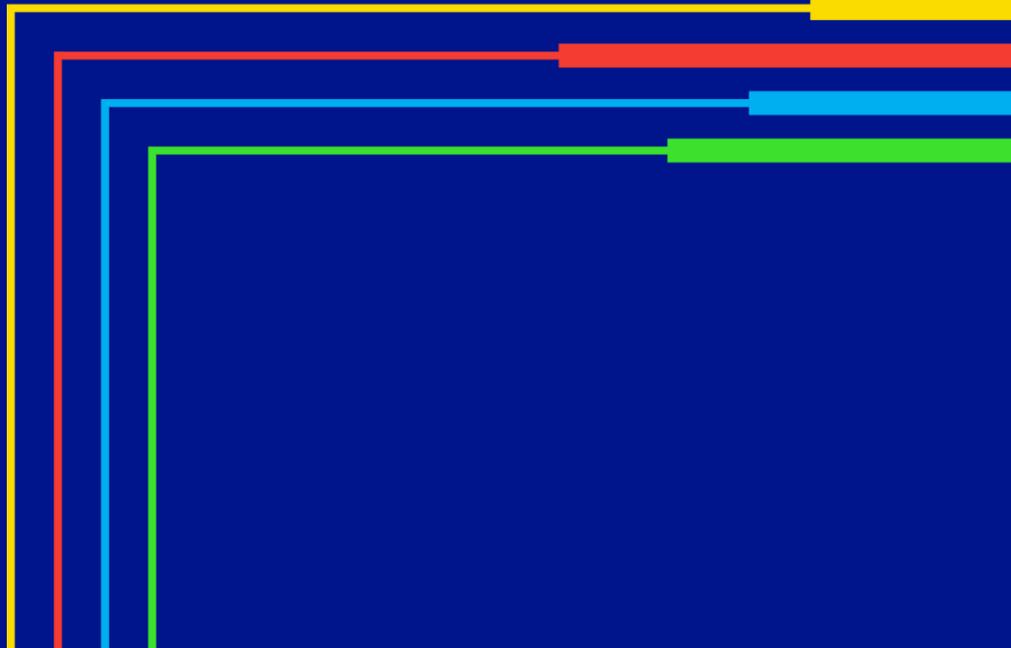


Agenda

	Agenda Point	Presenter
1	Welcome	PH
2	Review of minutes and actions from Workshop 2	PH
3	0789A EU Balancing Code Compliance	PH
4	0789A solution	DL/PH/NW
5	0789A: NGG cost recovery	PL
6	Implementation matters	PL
7	Consumer impacts of proposals	All
8	Consideration of proposals against UNC relevant objectives	All
9	Summary of actions and proposed way forward	All

0789A – Compliance with EU Balancing Code

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0789A Compliance with EU Balancing Code: Update on NGG View

0789A as currently drafted contemplates NGG conducting the gas procurement activity as part of its residual balancing role

If this were the case, forward trading prior to D-1 would not be consistent with the EU BC due to the obligation to use “short term standardised products”

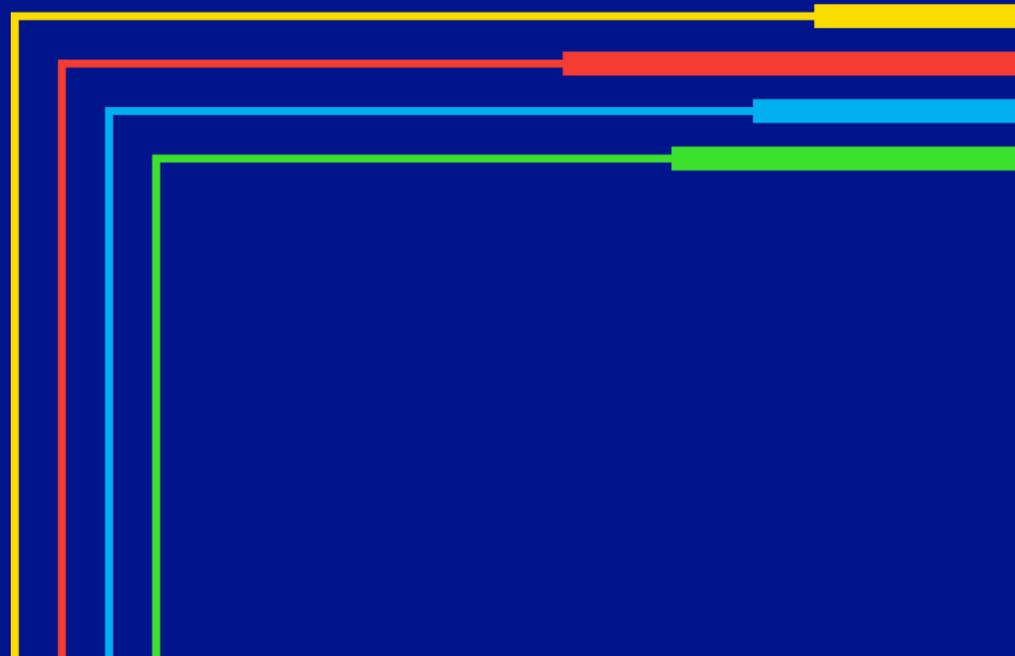
Should NGG take on the procurement activity, a preference has been established through the workshops for this to be a separate function to residual balancing and therefore not contributing to cashout prices

This would be excluded from the scope of the EU BC in a similar way to which shrinkage is (see definition of ‘balancing action’ in Art 3)

Forward contracting using tools other than OCM would therefore be permitted subject to the Licence SC9.14 requirements (Ofgem consent, UNC modification).

0789A – Solution discussion

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Current understanding of 0789A proposal

Over the last 2 workshops we have discussed the scope of the alternative proposal and thinking has evolved from the original draft.

We therefore thought it worth summarising our understanding of the current position, ensuring a common view and further develop thoughts as an industry, to aid further refinement following the conclusion of these workshops.

Current understanding of 0789A proposal

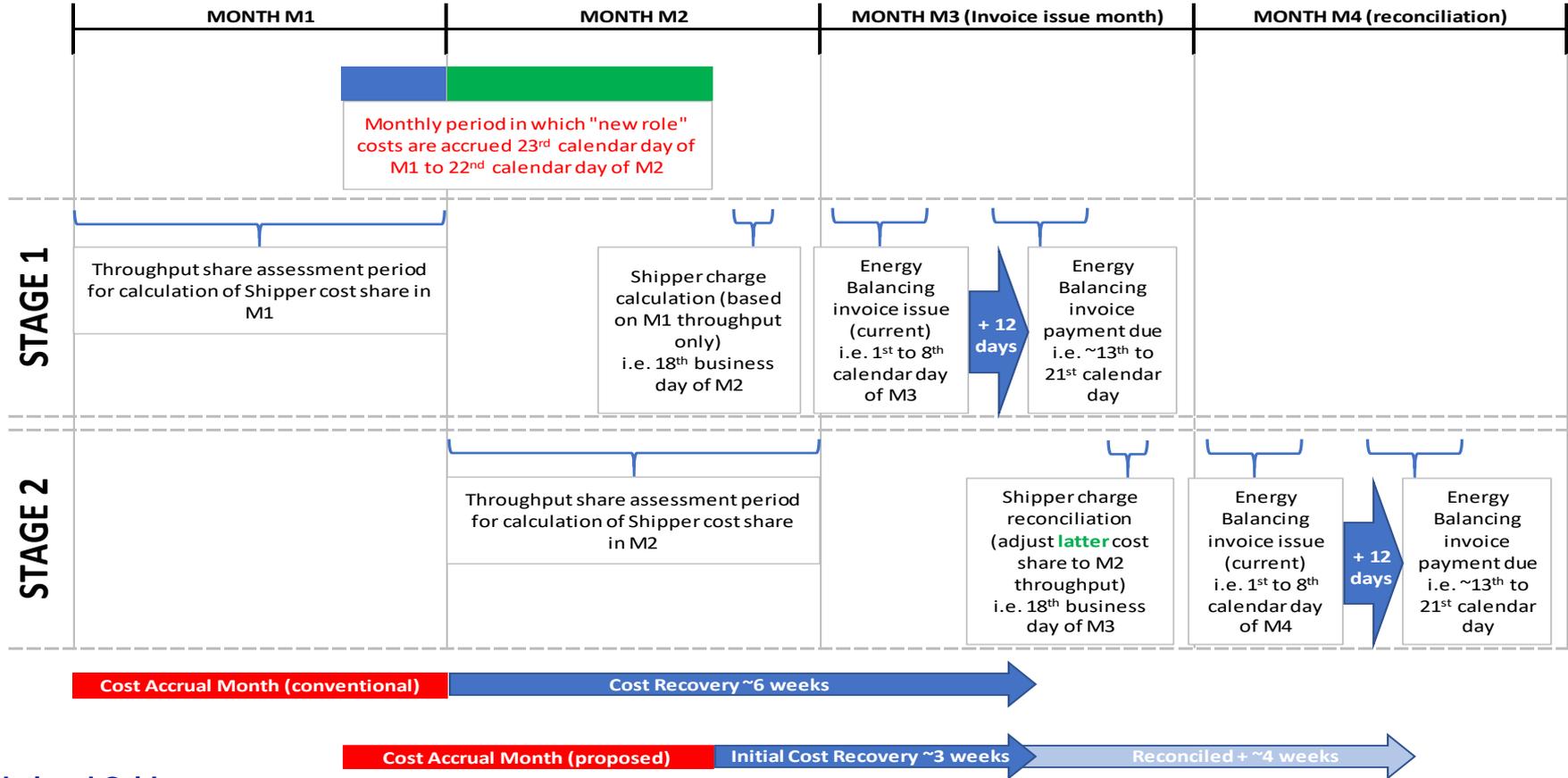
Core principles:

- Ringfenced role for NGG: ‘Contingency Supplier Demand Matching’
- Primarily aimed at where a Last Resort User isn’t appointed
- A transitional arrangement until a more enduring solution can be implemented
- Actions excluded from Residual Balancing – therefore don’t set marginal prices
- Ability to access other markets in addition to the OCM (i.e OTC / Exchanges)
- Demand forecast used to set volume requirement
- Office hours role – likely to therefore be some ‘forecast error’ as demand requirement evolves out of hours.
- Funded via Balancing Neutrality – NGG cash neutral

Questions / clarity required in solution – Discussion points

- **When does the role switch on and off?**
 - Once role active, the full volume to be covered, not net of any trigger point.
- **Transitional arrangement / duration** – both 0789 and 0789A are short term fixes therefore future enduring development needed and commitment to that
- **Permitted delivery contracts** – eg within delivery month?
 - Ability to sell back should trading position end up long at delivery
- **Volume forecast calculation** – best mechanism?
- **Trading strategy** – how mechanistic?
- **Cost recovery timescales** – (following slides cover some initial thinking with

0789A: Cost Recovery



0789A Cost Recovery

Points to note

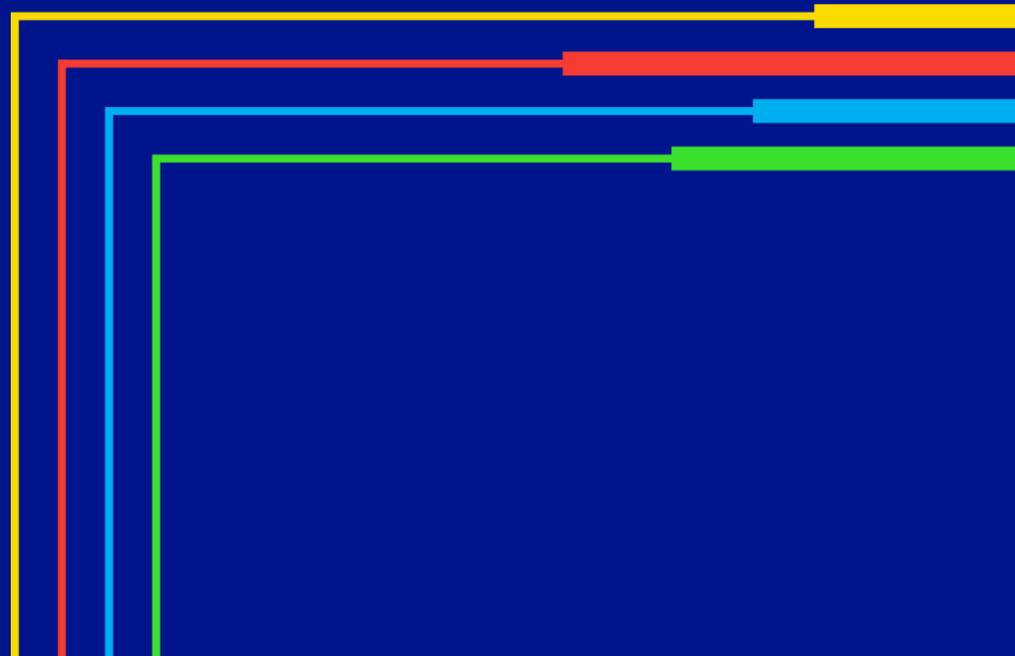
- Granularity of 'new role' costs input to Balancing Neutrality:
 - Monthly aggregate (apportioned equally across days) v actual daily figure

Implementation Considerations (initial assessment)

- Stage 1:
 - potentially misaligns cost timing (in latter period) and cost allocation; however
 - invoicing can be delivered via existing systems
- Stage 2:
 - 'corrects' allocation of costs for latter period; however
 - increases complexity of solution requiring further assessment / implementation lead time

0789A Impact on System Management Principles Statement and Procurement Guidelines

NGG Initial Views



Impact on Procurement Guidelines Statement – NGG Initial Views

Part C1 sets out that NGG requires System Management Services to enable it to fulfil its obligations in relation to Shrinkage, OM, Capacity Management, Gas Balancing, System Operation

- Expect a need to add 'Contingency Supplier Demand Matching' to this list

Part C2.1 references NGG's prohibitions from purchasing/trading energy except for the purposes of balancing and constraint management

- May need to recognise the new role in this section

Part D 3.6 contains a table of each system management service and the means of procurement

- Expect a need to add the new procurement activity and how it may be procured to this table

Impact on System Management Principles Statement: NGG Initial Views

Part C1: System Management Measures and Other Actions

This section summarises the system management actions and tools that may be deployed so may benefit from a description of the new procurement activity

Part C2 covers use of forward contracting generically

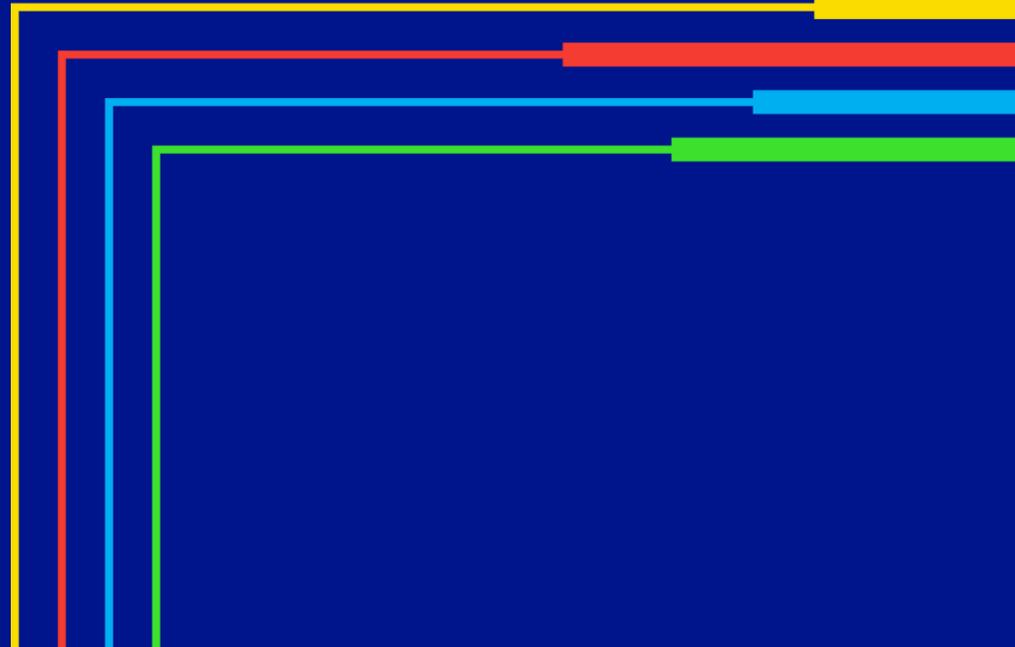
Part D1 'Energy Tools' enables use of OCM and/or other markets for system management

We have not identified any barriers within SMPS or PGs, rather additional text to reference the procurement activity and the means of deployment may be beneficial

0789

Implementation principles

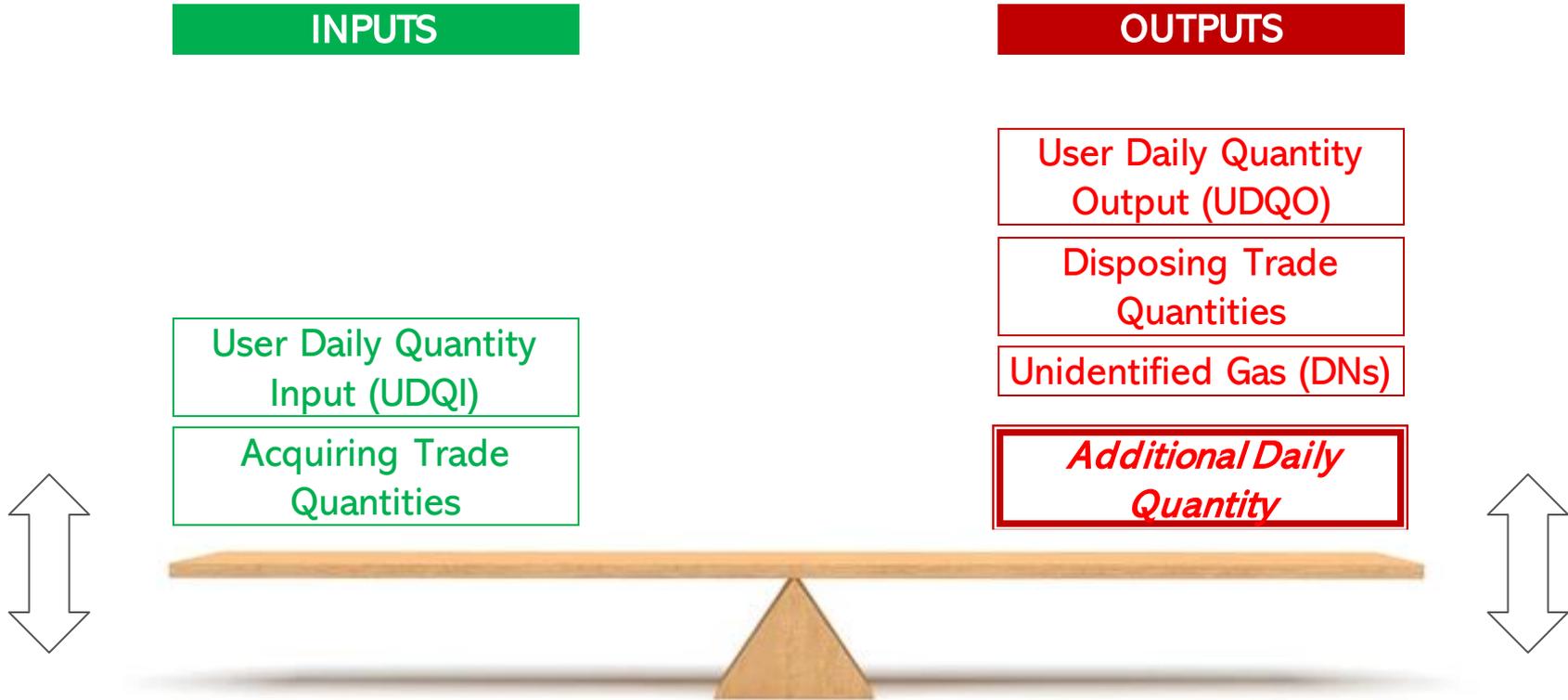
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0789 Implementation Principle

- Increase the output side of a Shipper's daily imbalance
 - incentivises increase of input side
 - matching increased output minimises exposure to cash-out at marginal price
- **Additional Daily Quantity (ADQ_d) added to output side of Shipper's daily imbalance**
 - ADQ_d is a proportion of the forecast demand of the Supplier/s acting under the Supplier Deed ($FDRS_d$)
 - Communicated to Users twice for each day (estimate on D-1, finalised value on D)
 - Proportion is equal to the Shippers throughput share from M-2 (being the most recent closed out throughput data)

0789 Implementation (TPD Section E5.1.1)



0789 Implementation Method

- Additional Daily Quantity (ADQ_d) added to output side of Shipper's daily imbalance
 - actioned via a Shipper Disposing Trade - recorded in Gemini
 - matching Acquiring / Disposing Trade Nominations generated by National Grid
 - National Grid generates the Shipper's Disposing Trade Nomination on its behalf
 - National Grid account name TBC (will be unique and communicated)
 - Disposing Trade Nomination will appear on Shipper's account in Gemini
 - initial Trade Nomination generated by 16:00 on D-1 (constituting the D-1 notice); and
 - updated (if ADQ_d quantity changes) by 13:00 on D (constituting the D notice).
- Net impact on daily imbalance calculation is to increase Shipper's output

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