

Gas
Transmission

Mod 0806: Change to Curtailment Trade Price Compensation in Section Q

9th June 2022
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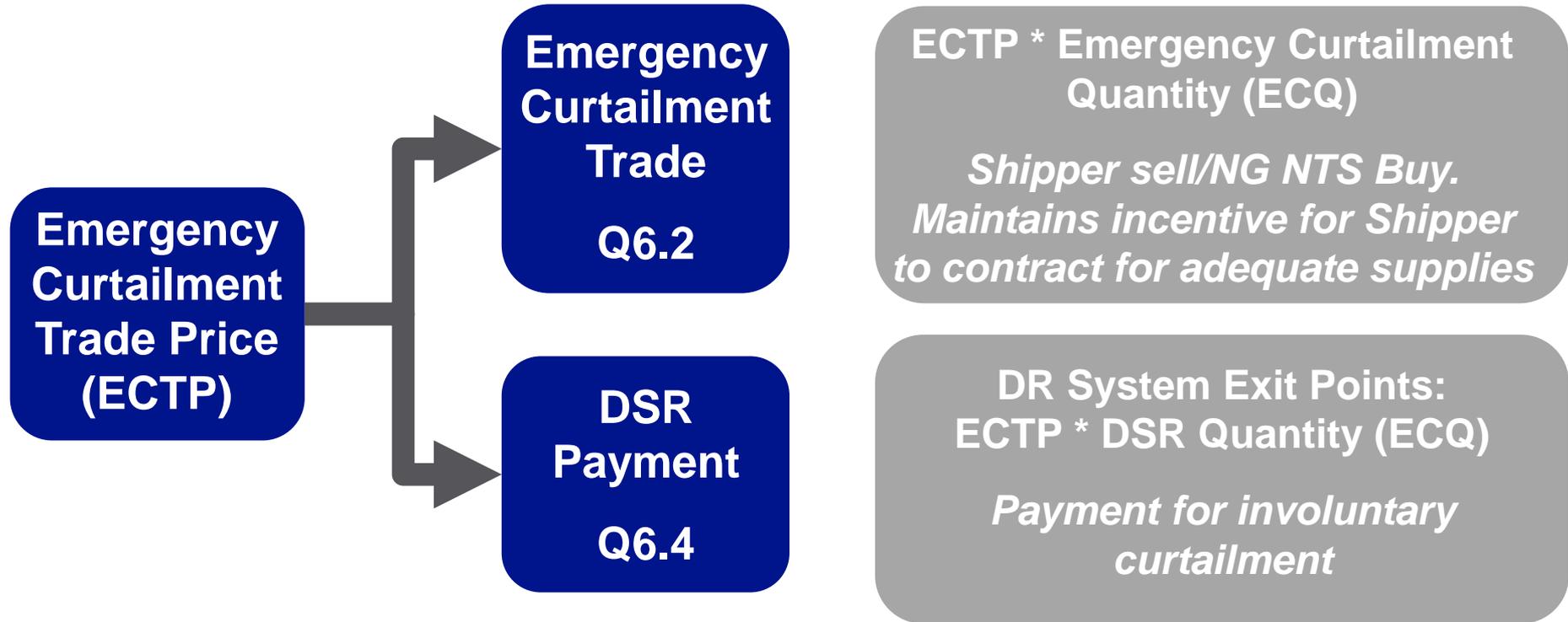
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Solution

“In [TPD] paragraph [Q]6.1.1 (c), change the calculation of the **Emergency Curtailment Trade Price** from the arithmetic mean of the System Average Prices for each of the 30 Days preceding the Day to the System Average Price of the Day preceding the Day”.

Utilisation of 'Emergency Curtailment Trade Price' in TPD Q



Source and Rationale

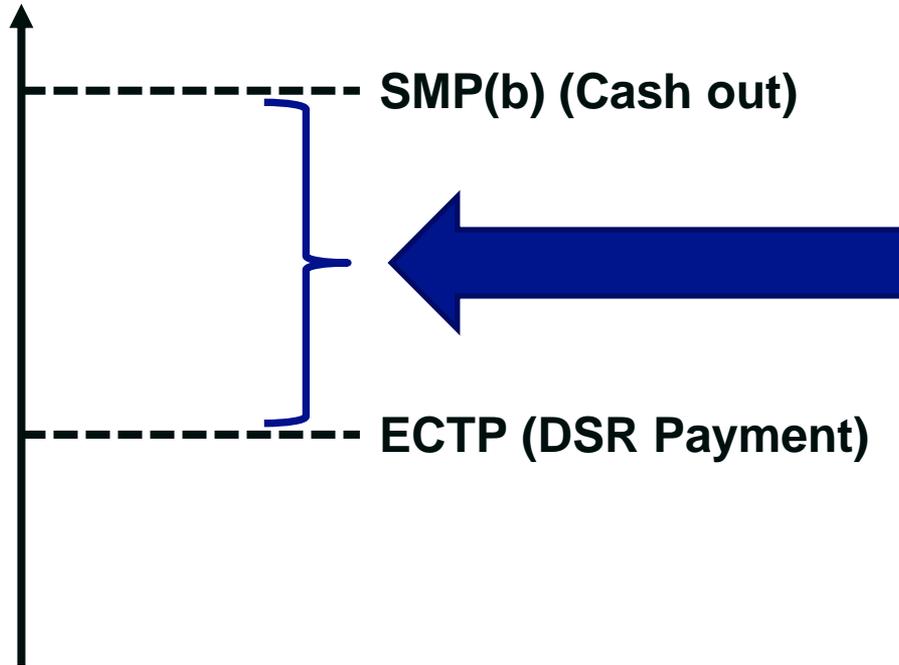
■ DSR Payments - Ofgem Security of Supply Significant Code Review (2011-2014)

Final Policy decision: "...key consideration is ensuring that incentives to strike commercially interruptible contracts are not eliminated. ...[the] approach is to set this price so that it is expected to be below the level of cash-out prices on the day of an emergency – using the average SAP of the 30 days prior to the GDE ("30- day SAP"). Such an arrangement means shippers and DM consumers can potentially agree mutually beneficial interruption – at a price between the involuntary DM price and the shipper's expected cash-out price...this means that they can gain from signing commercial interruptible contracts with suppliers – whilst suppliers also face incentives to offer these contracts."

■ ECQ – Modification 0044 (October 2005)

Ofgem decision: "...to provide stronger commercial incentives on shippers to contract for commercial interruption both prior to and in an emergency (and also to take supply side steps to resolve their imbalance position), rather than waiting for Transco NTS to curtail significant loads."

'Commercially Interruptible' Arrangements Incentive



Incentive to strike commercial interruption contract (voluntary interruption) in this range

Shipper

Short imbalance liability effectively settled at a lower price than SMP(b)

Consumer

Reward for voluntary interruption higher than the payment for involuntary curtailment in Firm Load Shedding

Proposer Rationale and Initial NG Views

- *In 2014 coal fired generation offered an alternative to CCGT generation. No longer the case so CCGT unlikely to agree to be commercially interruptible and not be in a position to offer DSR via the central mechanism – i.e. 2014 rationale no longer valid*
- NG continues to believe that voluntary curtailment remains an important mechanism to avoid a GDE. Whilst the proposer illustrates why voluntary curtailment may not be practical/commercially efficient for CCGTs, this change would apply at *all* relevant Exit Points
- We are concerned this would erode/remove the incentive to enter into ‘commercially interruptible’ arrangements at *all* relevant Exit Points
- Our preference is for Shippers/Consumers to reconsider the value that such arrangements may offer (i.e. for the price incentive to be retained)

Proposer Rationale and Initial NG Views

- *Penalties for failure to generate in electricity market far outweigh current DSR Payments (for involuntary curtailment) and any benefits of being commercially interruptible (i.e. voluntary curtailment) hence CCGTs likely preference is to continue generating as long as possible*
- ECTP was never intended to compensate for electricity market liabilities nor indeed the price of gas at the point of curtailment
- ECTP purposely set at a lower level than such to incentivise establishment of 'commercially interruptible' arrangements between Shippers/Suppliers and consumers

Proposer Rationale and Initial NG Views

- *Current gas arrangements incentivise prompt purchase of gas to limit impacts of curtailment. No incentive to purchase further in advance. Increasing compensation levels would incentivise purchase of gas further in advance which may help prevent a GDE*
- As yet we are unclear how higher volumes of gas purchased on a ‘forward’ basis will help prevent a GDE
- Assessment of supply and demand (from an operational balancing perspective) takes account of nominations and operational flow notifications (TPD D1.3)
- In practice, Delivery Flow Notifications (DFNs) would need to be higher than they otherwise would have been (i.e. if existing gas procurement behaviours were maintained)