Emergency Cashout Arrangements

Transmission Workstream
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Emergency Cashout Arrangements - Background

- ◆ MP0149 and Ofgem decision letter
  - ◆ Further work required:
    - ◆ To incentivise Shippers to avoid emergency

    - ◆ To encourage non UKCS gas into the UK during an emergency

    - ◆ Provide greater assurance that spiralling costs are appropriately managed.

- ◆ Conflict between objectives
  - ◆ Prices needed to attract Non UKCS Gas into UK versus the impact of spiralling Emergency cashout prices

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Key principles to consider

- Incentivise Shippers to avoid emergency

- Encourage Non UKCS gas into the UK / further demand-side reduction

- Emergency cashout price to reflect the cost of gas on the day

- Mitigate market manipulation and spiralling prices

- Reduce risk of shipper defaults resulting from extreme cashout prices

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Type of emergency – under prevailing arrangements

- ◆ Progressive
  - ◆ With the market having time to react prior to emergency Cashout price is likely to be *high* and is frozen at this level throughout the duration of the emergency.

- ◆ Rapid
  - ◆ Market unable to significantly react in the work up to the emergency. Cashout price is likely to be *low* and is frozen for the duration of the emergency.

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Frozen Vs Dynamic price

- Prevailing arrangements apply frozen emergency cashout price.
  - If emergency is prolonged but stable, cashout price may not reflect cost of gas on the day.

- Dynamic, may respond to the price of gas on the day.
  - More likely to elicit the responses required to limit the extent of the duration of the emergency.

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Objectives we are seeking to address

- Remain compliant with GS(M)R obligations
- Introduction of a dynamic price able to react to the changing state of the emergency
- Encourage non UKCS gas into UK
- Incentivise demand side turndown
- Improved price discovery
- Transparency of trade activity
- Reduction of trade 'churn factor' during a GDE
- Mitigate the potential for market manipulation and spiralling prices.
- Mitigate Shipper credit risk from extreme prices on the day

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Shipper Transportation Activities

- Split in Shipper transportation activity on the system (entry/exit split) approx:
  - Entry shippers 76% entry to 24% exit split
  - Exit shippers 23% entry to 77% exit split

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Options

1. Chunky Marginal - Dynamic Emergency Cashout Price dampened by taking the top [5] GWh Volume traded

2. Physical only OCM during emergency

3. Administered Cashout price on D+1 of GDE stage 2 - the greater of closing SMP Cashout price and Emergency Cashout price on Day 1 of a GDE Stage 2+.

4. Panic periods - Where Shippers maybe unable to respond, applying a short term replacement price during the initial [day] of emergency.

5. Introduction of Emergency cashout replacement price at GDE Stage 4.

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Comparison - Objectives / Options

	Dynamic price (dampened)	Dynamic price OCM Physical during GDE 2+	First days GDE 2+ /administered price	Panic period	Price frozen at GDE Stage 4
React to changing status of GDE	☑	☑	☑	☒	☑ (Up to Stage 4)
Encourage non-UKCS supplies into UK	☒	☑	☒	☒	☑ (Up to Stage 4)
Encourage further demand-side reduction	☒	☑	☒	☒	☑
Improve price discovery	☑	☑	☑	☑	☑
Mitigate shipper credit risk	☑	☑	☑	☑	☑
Mitigate spiralling prices	☑	☒	☑	☑	☑ (after Stage 4)
Transparency of trade activity	☒	☑	☒	☒	☒

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Next Steps

- Further develop options at Transmission Workstream – July / September 2008

- Submit Proposal to UNC Mod Panel 18th October 2008

- Final report to 20th November UNC Mod Panel

- Implementation January 2009

- *Please feel free to contact National Grid to discuss options prior to July Transmission Workstream: Steve Pownall (steve.pownall@uk.ngrid.com or 07721 866251) or Claire Thorneywork (Claire.l.Thorneywork@uk.ngrid.com)*

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