

## Option Analysis

	<b>Issue</b>	<b>Pros</b>	<b>Cons</b>	<b>Comment</b>
1	Fix volume sought	<p>Creates certainty and lets market clear.</p> <p>Predictable for customers if a clear methodology created.</p> <p>Capable of being adjusted and refined – learning from experience (e.g. increase volume in light of initial outcomes)</p>	<p>Who sets volume and how?</p> <p>Inefficient price expected – no incentive for economic bidding (unless volume is small).</p> <p>Hard to set a transparent and unambiguous methodology for establishing the appropriate volume.</p> <p>Link back to cashout to recover uncapped costs a concern.</p>	Accept all bids until volume acquired.
2	Fix NTS maximum budget	<p>Creates certainty and lets market clear.</p> <p>Capable of being adjusted and refined – learning from experience.</p> <p>Avoids excessive costs.</p>	<p>Who sets budget and how?</p> <p>Outcome unlikely to be efficient.</p>	Should we cap NG's willingness to pay for DSR actions?
3	NTS to contract directly with Customers	<p>Customers more comfortable contracting with NTS – confidence it is a physical contract and not commercial.</p> <p>Avoids need for arrangements to move the DSR arrangements at change of supplier – avoids a barrier to change.</p>	<p>Increases complexity.</p> <p>Need to create a new contractual route and mechanisms (e.g. T&amp;Cs, credit and invoicing, communication routes).</p> <p>NTS would need to gear up to</p>	

		<p>Speed of communication and hence response enhanced – avoids hand-offs between parties.</p>	<p>communicate quickly with multiple customers – a big increase in their customer numbers and their management.</p> <p>May require an amendment to the Gas Act.</p> <p>Would need to have back-to-back arrangements with Shippers to manage gas positions.</p>	
4	Supply side inclusion	<p>Non-discriminatory – allows same opportunity as is offered to demand side.</p> <p>Allows some gas to reach market that would not otherwise do so – e.g. cushion gas (more likely to respond to a definitive SSR scheme than to the existing market mechanisms); or gas from elsewhere (Russia, Far East) that would not otherwise reach GB (an incentive to sign long term contracts).</p> <p>Facilitates an efficient outcome, with supply side solution used if more economic than DSR – additional storage/linepack may be developed on the back of the option.</p>	<p>Increases complexity as have to consider additional issues in market design.</p> <p>Unnecessary – already has a route to market in response to cashout signals, with supply being price responsive. Can be bid into OCM.</p> <p>Could cause distortions e.g. withholding of contracted volumes in a tightening market to take advantage of higher price.</p> <p>Want producers to be supplying at full rate ahead of a GDE – not holding it back for NTS to call on.</p> <p>Price curves are very different – the supply price would be lower than where DSR reduction kicks in.</p> <p>NTS may lose operating margins gas in</p>	

			<p>preference to this service – gas is being reserved in store for NTS to use at short lead time.</p> <p>Risk of having to pay twice for gas – withdraw gas from market in order to offer it to this mechanism, paying an option fee for time when not called – not a genuine supply increase.</p>	
5	Fix prices (option and exercise)		Who sets price and how?	
6	Fix option price			
7	Fix exercise price			
8	Option fees reflected in cashout on day of exercise			
9	Split SO Commodity charge equally between entry and exit			
	Should DN customers be included?	<p>Increases scope of market by including LDZ DM sites.</p> <p>Avoids discrimination between NTS and DN connected sites.</p>	<p>Potential to pay twice – for DN interruption and DSR.</p> <p>May reduce the volume available for DN interruption as customers prefer DSR service.</p> <p>NTS has no contact with DN sites and no visibility of the response to any call for DSR; and DN may not know what NTS has called for and so understand</p>	

			demand on its network.	
	Compensation: those with accepted bids get their exercise price	Compensation based on market revealed value.  Only those who interrupt get paid.		
	Compensation: those with rejected bids get their stated exercise price at bottom of price stack, nothing further up unless a claim is approved by Ofgem.	Incentivises bids based on true costs – VOLL – as may otherwise get no compensation.	Hard to see how Ofgem would assess which bids are acceptable – cost reflective.  Weakens incentive to bid at lowest possible price if expect to receive compensation in any event at a higher price.  Those with a genuine high VOLL may receive no compensation.	
	Compensation: those with rejected bids get a proportion of the cleared exercise price (potentially with a claims process in addition)	Incentivises bidders to seek to offer low price as better off if accepted.  Compensates all those who face involuntary interruption.	Doesn't reflect true cost to those with a high VOLL, unless a successful appeal arises.	
	Compensation: those with rejected bids get no compensation	Incentive to participate at lowest possible price.  Low cost.  Easy to administer.	Not cost reflective.  Not equitable.  Unduly discriminatory.	
	Compensation: those who choose not to take part in process get	Encourages participation.	Disadvantages smaller, resource constrained customers who don't	

	nothing	Low cost. Easy to administer.	have time and knowledge to submit a bid.  Not cost reflective.	
	Compensation: those who choose not to take part in process get [something]	All are compensated for curtailment.	Weakens incentive to participate.  The higher the cost, the bigger the risk of a shortfall relative to amount collected through cashout.	
	Compensation: those not eligible to take part (i.e. NDM) get nothing	Low cost. Easy to administer.	Not cost reflective.  Not equitable.  Unduly discriminatory.	
	Compensation: those not eligible to take part (e.g. NDM) get compensation for one day (as per SCR)	All are compensated for curtailment.  Expensive.	Hard to establish a single NDM VOLL.  Potential for high administration costs e.g. if SOQ related.  Not an issue for a DSR/SSR mechanism (more appropriately dealt with through other processes, e.g. Licence changes).	