

## **Progressive and Rapid Emergency Cashout Arrangements Discussion Paper**

### **Introduction**

This paper is designed to briefly examine the various options that may exist to distinguish between progressive and rapid emergencies and the cash-out prices that may be applied in either scenario. The paper is presented simply for discussion purposes and does not necessarily reflect the views of the author or his employer.

A number of respondents to the recent emergency cashout modification proposals 21,42 and 44 questioned the appropriateness of a dual price cashout mechanism for all emergencies. In particular, it was suggested that a distinction should be made between an emergency that had progressively developed over time and an unexpected rapid emergency. Ofgem in its decision letter for modification proposal 21 stated their belief that whilst the probability of a Gas Deficit Emergency (GDE) occurring rapidly was highly unlikely, the treatment of sudden gas emergencies from a commercial viewpoint may merit further consideration.

### **How to define a Progressive and Rapid Emergency?**

Before examining the cash out arrangements that should be applied in a given situation, we must first examine whether it is possible to develop a credible and transparent distinction between a progressive and rapid emergency. It is also helpful to review some of the justifications originally put forward in favour of these proposals.

To simplify greatly, modification proposals 21,42 and 44 were designed, by the proposers, to generate cashout prices that would better incentivise shippers to balance their inputs into and offtakes from the network when the system is close to and during an emergency. In effect it was anticipated that relatively sharper cashout price exposure would incentivise shippers to appropriately contract with on/offshore suppliers and with end-users using demand side response contracts to either avert the occurrence of a GDE or reduce its extent and severity. Additionally it was proposed that relative to 30- day average SAP, they would better encourage the delivery of price-sensitive gas into the UK.

For the incentive properties of the dual cashout price structure in GDE's to be most effective, following implementation of modification proposal 44, shippers will need sufficient time to respond to these incentives if the objective is for example to avoid a GDE. Whether shippers have sufficient time to respond the situation may therefore be used as a means to distinguish between a progressive and rapid emergency. However any suggested distinction based on time-length and ability to respond, will need to be both credible and transparent. An option that may satisfy this could be to build on some of the proposals from the Demand Side Working Group (DSWG).

The DSWG have developed the principle of a Gas Balancing Alert (GBA) which is intended to provide a signal that the system is likely to require demand side response to avoid a GDE. The precise details have yet to be fully agreed, however, it is expected a GBA will be notified to the market D-1, if the trigger level is exceeded. It is anticipated this trigger will be "set by National Grid NTS based upon the assessment of likely available supply deliverability included within the Winter Outlook Report". The notification of a GBA under these circumstances is therefore expected to provide the market with an opportunity to respond prior to an emergency, hence this may be regarded as being a Progressive Emergency. It has been noted, however, that the methodology underpinning the trigger is static and mechanistic. Although this may be advantageous in terms of simplicity and transparency, it may limit the ability of Transco to notify the market of other scenarios whereby emergencies are likely to develop over time. Hence it has been suggested that Transco may wish to apply some discretion in the information used to trigger the notification of a GBA.

If we are extend the concept of a Progressive Emergency being associated with the notification of a GBA, by default we may define a Rapid Emergency to be one where a GBA has not been issued D-1, for gas day D. Some additional comfort may need to be provided regarding the time between notification D-1 of the GBA and the start of Gas Day, D, to ensure the market has a real opportunity to respond. This assurance could be provided via an acknowledgement that should a GBA be notified beyond [24:00] hrs on D-1 and an emergency subsequently occurs on 0, then it will be regarded as a rapid emergency. To summarise, a Rapid Emergency may be defined as an emergency where no GBA has been issued D-1, for gas day D or less than six hours have elapsed between the notification of the GBA and the start of the gas day.

***Is this an appropriate approach? Are there other options that could be use to distinguish between rapid and progressive emergencies that also satisfy the transparency and credibility criteria?***

### **Should different cash-out prices apply during rapid and progressive emergencies?**

It has been suggested that the application of the Emergency Curtailment Quantity (ECQ) process and the dual cash out price structure, particularly SMP Buy prices, during rapidly developing emergencies may be unduly onerous due to the inability of market participants to respond. This raises a number of discussion points.

*Do you agree with the view that the ECQ Process should be suspended during a Rapid Emergency?*

*Is the dual cashout price structure appropriate for Rapid Emergencies? If so, what cashout prices should apply and is SMP BUY exposure appropriate?*

*Is a single cashout price structure appropriate for Rapid Emergencies?*

*If so, what should this cashout price be? Should it be 30-day SAP, prevailing SAP or some other price?*

*Should the same cashout price be applied on emergency gas days following the day the Rapid Emergency occurred? If yes, does this satisfy Ofgem's price sensitive gas concerns? If no, what cashout price should be applied?*

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