

Ofgem Security of Supply SCR – GDE Cash Out Reform and Involuntary DSR Payments



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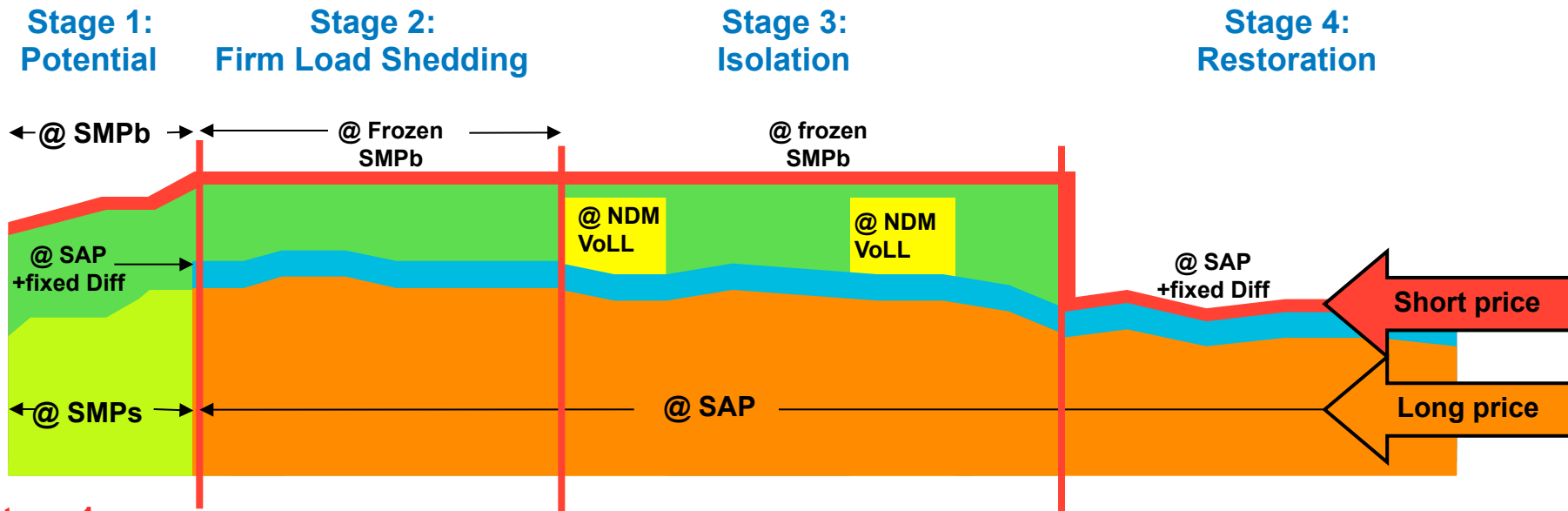
Background

- Project Discovery (2009)
 - Concerns regarding ability to attract gas supplies to GB in an emergency (frozen cashout price)
- SCR Aims
 - Minimise likelihood of a Gas Deficit Emergency (GDE) occurring;
 - Minimise duration if a GDE occurs; and
 - Make payments to firm consumers for curtailment
- SCR duration January 2011 to September 2014
 - Ofgem direction to modify the UNC under Section 36C of the Gas Act 1986; and
 - Supporting modifications of Shipper and Supplier Licences
 - DSR methodology – Licence obligation > UNC Mod 0504

Components

- Cash out prices – encouraging supply
 - Fall back SAP
- Neutrality – rectification of balancing position
 - DM ECQ
 - NDM Uplift (NDM ECQ)
- Neutrality - Payment arrangements for involuntary supply curtailment
 - Funding (via Energy Balancing)
 - Payments (via Energy Balancing)
 - Exclusion of commercial interruption
- Settlement timescales

1(a) Cash-out Prices



•Stage 1:

- NG in market; 'long' (SMPs) and 'short' (SMPb) prices set through normal arrangements

•Stage 2 and 3:

- 'long' price set @ SAP
- 'short' price set as greater of:
 - SAP + fixed differential
 - Prevailing SMPb set upon entry into Stage 2 or Stage 3 respectively
 - FLS price (including NDM VoLL £14 per therm (on days of network isolation in Stage 3))
- NB: Stage 2 may be entered into halfway through day, in this case SMPb will stand.

•Stage 4:

- 'long' price set at SAP
- 'short' price set at SAP + fixed diff

1(b) Cash Out Prices: Fall Back SAP

- GDE Stage 2+: Fall-Back SAP will be applied where SAP fails to meet the following criteria:
 - the total volume traded is below 250,000 therms/day; and/or
 - there are fewer than 5 trades on the day; and/or
 - there are fewer than 5 counterparties on the day

- Fall-Back SAP:
 - 25%: The volume-weighted average (VWA) of executed trades (i.e. the normal SAP calculation)
 - 25%: The median of executed trades; and
 - 50%*: The SAP from the last day on which none of the ‘fall back’ criteria were triggered
 - *NB: if no trades then 100% on last element

2(a) Balancing Neutrality Mechanism

- What is balancing neutrality?
 - UNC section F1.1.2 (d)

“**Balancing Neutrality Charges**” are amounts payable by or to National Grid NTS, so that it does not gain or lose by the payment and receipt of Market Balancing Action Charges, Daily Imbalance Charges, Scheduling Charges and other amounts specified in and in accordance with paragraph 4;”
 - Mechanism for distribution of imbalance cash flows and recovery of SO costs
 - Net cash flow is approximately £20m per annum to the industry

2(b) Rectification of Balancing Position

- Emergency Curtailment Quantity (ECQ) methodologies (NDM and DM) used to determine User UDQO had GDE curtailment not occurred
 - Reduced NDM allocation reduces Shippers' UDQO, reducing Shippers' financial exposure to high cashout costs and market prices.
- Deemed User trade with SO for curtailed volume (DM: existing; NDM: new 'NDM uplift')
 - All volumes applied at average SAP price of previous 30 days
- Commercially interruptible Supply Points that have been curtailed will be excluded from UDQO calculation

3(a) Involuntary DSR Payments: Funding

- Funding from Balancing Neutrality
 - Significant imbalance charges from supply deficit (short Users)
- DSR Fund determined
 - DR curtailment funds for DM Supply Points
 - DR curtailed volume x 30 day average SAP
 - each day subject to Stage 3 isolation
 - NDR curtailment funds for NDM Supply Points
 - NDR curtailed volume x NDM Value of Lost Load (VOLL)
 - VoLL = £14/therm or 27.77p/kWh
 - First day of curtailment only
- Commercially interruptible Supply Points that have been curtailed are not entitled to payment

3(b) Involuntary DSR Payments: Payment Allocation

DSR Fund will be allocated as follows:

- DM
- as per DR Curtailed Volume
- NDM
- Requires calculation to determine change in NDM demand as a result of curtailment
- The NDM DSR Fund will be calculated based on the forecast demand offtake less the LDZ allocation * NDM (£14/therm)
- The NDM fund will be prorated to all involuntary curtailed NDM based on the relevant SOQ

3(d) Involuntary DSR Payments: NDM Proration

NDM Domestic:

- Domestic Market Sector Flag (regardless of Load Band)
- Average Domestic SOQ used as the value for the DSR payment

NDM Non-Domestic:

- Within the 3 non-domestic load bands [0-73.2, 73.2 – 293, 293 – 732 MWh] the average SOQ for the relevant Load Band will apply;
- Supply Points > 732 MWh will utilise individual SOQ

3(e) Involuntary DSR Payments: Shortfall of payments

- Shortfall in required DSR funds

- Initially targeted at short shippers

$$\frac{\text{Shortfall}}{\text{Greater of}} \times \text{Volume of shippers short position}$$

the total volume of involuntary DSR, or
Total volume of short shippers imbalance position

- Remaining shortfall pro-rated across end consumers reducing involuntary DSR payments

- Non-payment of EBI

- Existing Neutrality Mechanism and Energy Balancing Debt Recovery arrangements will apply

- However, smear based upon UDQO and UDQI over previous year and not for the relevant day (as is the case under existing rules)

3(f) Involuntary DSR Payments: Commercial Interruption

- A Supply Point with a Commercial Interruption contract with a Supplier is excluded from payment arrangements
 - Interruptible volume also excluded from rectification of balancing position
- User (shipper) required to inform NGG (via Xoserve) of existence of such contracts
 - 30 days prior to October in each Year; or
 - as soon as reasonably practicable if this agreement was made later

4 Settlement Timescales

Charge	Calculation	
Short imbalance cashout	Imbalance Volume X relevant cashout price	M+28
Targeted shortfall cost for required DSR Fund	Imbalance Volume X weighted Unit price	
Involuntary DSR Payment	Curtailment Volume X (DM: 30 day average SAP) / (NDM: VoLL) NB: prorated if shortfall remains	M+M4 (18 month closeout)

Questions and Contacts

- Any questions?

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