Representation - Draft Modification Report UNC 0806

Change to Curtailment Trade Price Compensation in Section Q

Responses invited by: 5pm on 19 August 2022

To: enquiries@gasgovernance.co.uk

Please note submission of your representation confirms your consent for publication/circulation.

Representative:	Phil Lucas
Organisation:	National Grid NTS
Date of Representation:	17th August 2022
Support or oppose implementation?	Oppose
Relevant Objective:	**a)** Negative **f)** Negative
Relevant Charging Methodology Objective:	Not Applicable

Reason for support/opposition: Please summarise (in one paragraph) the key reason(s)

National Grid NTS ('National Grid') views voluntary curtailment arrangements as a key tool to avoid the need to declare a Gas Deficit Emergency (GDE).

The proposed changes are likely to result in an increase to the value of payments made to consumers who are subject to *involuntary* curtailment in a GDE (i.e. Firm Load Shedding). Hence, in our opinion implementation of this Proposal would, as a minimum reduce, or potentially remove altogether, the existing commercial incentive for shippers and consumers to enter into *voluntary* curtailment arrangements either bi-laterally in the form of commercial interruption arrangements or via the 'central' Demand Side Response (DSR) mechanism. Further explanation of the nature of the existing incentive is provided in the 'additional analysis' section of this representation.

Given the adverse impact on the establishment of voluntary curtailment arrangements, we do not believe that implementation will better facilitate relevant objective (a) nor objective (f).

We recognise that our recent industry engagement on Gas DSR has shown that there are challenges to participation in the current scheme and we are continuing to work with industry stakeholders to consider the changes that are needed to increase such participation. Our preference is therefore to strengthen incentives for voluntary DSR rather than dampen them.

Implementation:

As noted in the Draft Modification Report, the Emergency Curtailment Trade Price (ECTP) is input into the relevant systems as a single figure manually and thus no change to central systems is needed in order to implement this Modification.

The applicable ECTP is calculated by National Grid which is then notified to the CDSP. A lead time of one week is needed to make a change to this process.

Impacts and Costs:

National Grid would not incur material costs in implementing this change.

Further, no analytical or ongoing costs would be incurred as a consequence of implementation.

Legal Text:

National Grid is satisfied the legal text meets the intent of the solution.

Modification Panel Members have requested that the following questions are addressed:

Q1: Do industry parties have any additional comments relating to impacts on CCGT and/or other I&C customers in respect of this Modification Proposal?

Whilst the Modification is focused heavily on the impacts to power generation sites, the proposed change to the calculation of the ECTP (as defined in the current UNC) would apply in respect of *all* the relevant sites impacted by Firm Load Shedding (and indeed to all Shippers that would be subject to an Emergency Curtailment Trade). To this extent, the concerns we set out in this representation regarding the adverse impact on the establishment of voluntary curtailment arrangements apply equally across all consumers within the relevant Annual Quantity (AQ) banding (i.e. all sites with an AQ in excess of 58.6million kWh).

Are there any errors or omissions in this Modification Report that you think should be taken into account?

National Grid has not identified any such errors or omissions.

Please provide below any additional analysis or information to support your representation

<u>Scope and Rationale Set Out in the Proposal</u>

In its Modification, the Proposer limits its stated justification for change to:

a) the current "curtailment compensation" (in the UNC known as the 'DSR Payment' under TPD Section Q6.4); and
b) gas fired electricity generation (power generation)

In terms of the former, it is worthy of note that ECTP (the definition of which the Proposer expressly seeks to revise) is in fact used for **two** distinct and separate processes within Section Q the TPD:

- the **Emergency Curtailment Trade** (TPD Section Q6.2) recognises that a Shipper who is short going into an emergency may have its daily imbalance liability reduced because of the curtailment of demand in an emergency. This would limit the targeting of costs to Shippers contributing to an emergency and weaken the incentive to contract for adequate supplies and demand response. This trade therefore effectively increases the Shippers 'demand' position by the curtailed quantity to maintain effective cost targeting and retain the incentive to contract for adequate supplies.

- the **DSR Payment** is paid to consumers (via Shipper/Suppliers) in recognition of the involuntary curtailment of their gas supply in an Emergency. In broad terms, Daily Metered Points ('DR System Exit Points') receive the curtailed volume multiplied by the ECTP.

Each of the distinct processes mentioned were introduced at separate points:

- the Emergency Curtailment Trade by UNC Modification 0044 implemented in October 2005; and
- the DSR Payment by the Ofgem Security of Supply Significant Code Review implemented in October 2015

In both cases, the unit rate was intentionally set at such a level as to maintain an incentive for the establishment of voluntary curtailment arrangements for consumers to reduce offtake ahead of an emergency[1]. To this extent, the intention was not to 'compensate' consumers for consequential losses arising from the curtailment nor specifically reflect the price of gas at the point of curtailment.

We note that whilst the Proposer sets out a rationale for change to the level of **DSR Payments** there is no equivalent rationale for the consequential change to the value reflected in the **Emergency Curtailment Trade**.

Further, as the rationale that *is* set out is limited in scope to **gas fired generation** there is no identified rationale for the adjusting the likely level of DSR Payments to non-power generation consumers.

Given the above, we believe the justification for the change is deficient given the scope / impact of the change

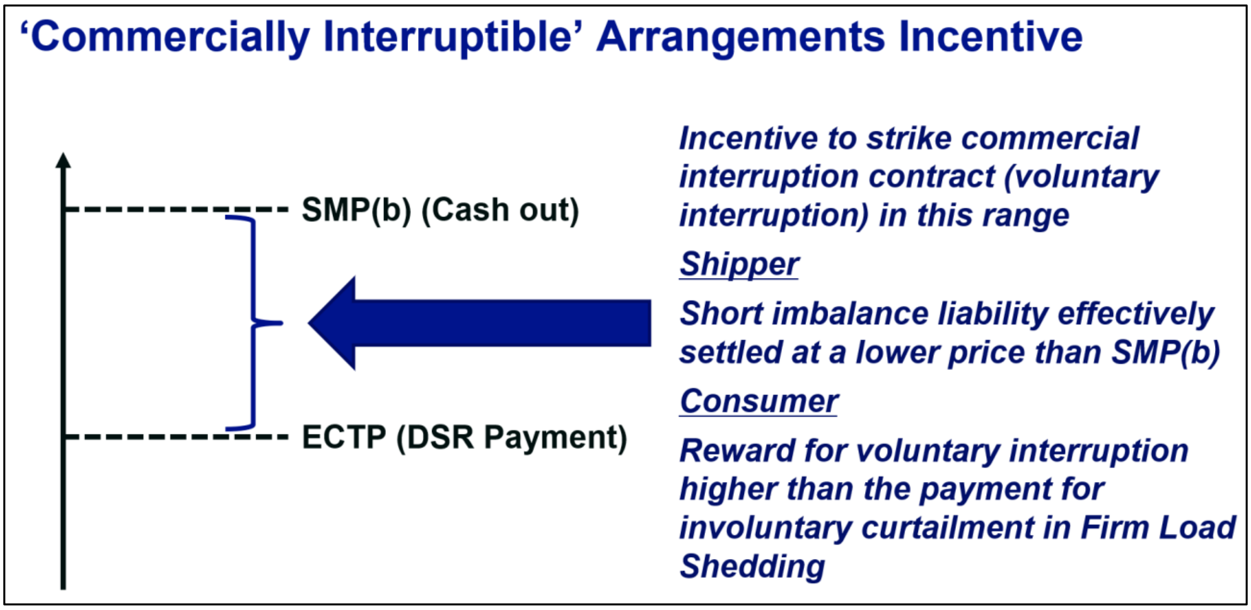
[1] See Ofgem decision letter for UNC Modification 0044 – page 19: "*The effect of this should be to provide stronger commercial incentives on shippers to contract for commercial interruption both prior to and in an emergency (and also to take supply side steps to resolve their imbalance position), rather than waiting for [National Grid] to curtail significant loads*" and Security of Supply SCR Final Policy Decision – para 3.11: "*our key consideration is ensuring that incentives to strike commercially interruptible contracts are not eliminated…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*"

Price Incentive to Establish Voluntary Curtailment Arrangements

As set out above, National Grid views voluntary curtailment arrangements as a key tool to avoid the need to declare a Gas Deficit Emergency (GDE).

With respect to the nature of the existing incentive to enter into such voluntary arrangements, 'short' Shippers (those providing insufficient supplies to the system, to meet the demand of their customers) during an emergency will be cashed out at the System Marginal Price (buy) (SMP(b)). As this price is expected to be escalating heading towards, and into, an emergency, this is expected to be higher relative to the average of the System Average Price (SAP) for the 30 days preceding this point, this being the rate at which payments are made to consumers for involuntary curtailment (i.e. the ECTP).

Given this, there is an incentive for Shippers and Consumers to agree (where practical) mutually beneficial voluntary curtailment arrangements. The following illustrates this incentive:



The mutual benefits are:

- for the **Shipper**: 'short' imbalance is effectively settled at a lower rate than the SMP(b) (i.e. the contract price the Shipper pays the consumer to voluntarily curtail offtake)

- for the **Consumer**: the payment it receives for voluntary curtailment (i.e. the contract price) can be a more accurate reflection of the cost of interruption which is likely to be higher than the payment it would receive for involuntary curtailment (i.e. the ECTP)

The impact of the proposed change, which is expected to increase the rate of the ECTP, therefore reduces or eliminates the price differential between the SMP(b) and the ECTP to the extent that the incentive to agree any such arrangements at a price between these two levels for voluntary curtailment is reduced or potentially eliminated.

As outlined above, our preference is to develop measures that serve to avoid the need to declare a GDE as a preferred outcome and believe that all such measures to maintain an operational balance should be afforded the opportunity to bear fruit. Whilst the Proposer advances arguments suggesting that implementation of its change may also assist in the prevention of a GDE, this is contingent on changes in commercial behaviours in terms of the forward contracting of gas. However, we have not seen any evidence that the proposed change would in practice change gas procurement behaviours as described.

Whilst such a behaviour change may or may not be borne out as a consequence of implementation, we believe that the incentive to enter into voluntary curtailment arrangements *will* be adversely impacted by implementation. Given this, we believe that the two outcomes in terms of ECTP (i.e. (a) increasing the ECTP for involuntary compensation in order to incentivise the forward procurement of gas; and (b) maintaining a lower ECTP for involuntary compensation in order to incentivise the establishment of arrangements for voluntary curtailment) are mutually exclusive.