### **Issue 105 Digital Meeting Etiquette**

- Welcome to the Issue 105 meeting 3 we'll start shortly
- No video please to conserve bandwidth
- Please stay on mute unless you need to talk use the Raise hand feature in the Menu bar in Microsoft Teams if you want to speak, or use the Meeting chat



• Lots of us are working remotely – be mindful of background noise and connection speeds

### **Slido Guidance**

- In order to make our Workgroups more engaging and to ensure that all participants' voices are heard we've started using the Slido plug-in for MS Power Point.
- Everyone should be able to vote and answer questions live during the presentation using Slido

Requirements:

- Internet access
- Web browser
- Participants can join at slido.com with #6887651





Issue 105 'Further considerations following implementation of BSC Modification P448'

Meeting 3

06 March 2023

### **Meeting Agenda**

Objectives for this meeting:

- Decide whether a Code Change should be recommended to address the unintended impacts to cash-out prices following the implementation of P448
- Review BSCP18 and the Network Gas Supply Emergencies Guidance Note and agree whether further guidance is required
- Provide an update on the information provided by a representative of the Gas System Operator and agree whether further action is required
- Consider and agree next steps

Agenda Item	Lead
1. Welcome and meeting objectives	Keren Kelly (Elexon) – Chair
2. Meeting 2 recap	Kayleigh Neal (Elexon) – Lead Analyst
3. Unintended impacts to cash-out prices	Simon Dickie (Elexon) – Market Design
4. Workgroup discussion	Workgroup
5. P448 guidance	John Lucas (Elexon) – Market Design
6. Workgroup Discussion	Workgroup
7. Risk Mitigation for D+1 onwards	Lauren Jauss (RWE)
8. Update on Gas Operating Margins Contracts	Kayleigh Neal
9. Workgroup Discussion	Workgroup
10. Next steps	Kayleigh Neal
11. AOB and Meeting close	Keren Kelly

### Meeting 2: Recap

- Gas Operating Margins contracts
- Unintended impacts to cash-out prices
- Generator behaviour

No.	Action	Owner
1.	To provide examples of how different market participants are impacted by the cash-out price in line with the different scenarios presented at the second Issue 105 meeting.	Elexon
2.	To inform the Workgroup once the Guidance Note on Network Gas Supply Emergency Acceptances has been published. This action remains open from first Issue 105 meeting.	Elexon
3.	Provide information on what cash-out prices might look like in Europe in the event of the gas shortage impacting wider than the UK.	Workgroup Member
4.	To provide information on: a) Questions and answers from a recent Gas Exit Constraints webinar b) Volumes able to be offered as Operating Margins	National Gas representative



# UNINTENDED IMPACTS TO CASH-OUT PRICES

In the previous workgroup we looked at various market scenarios and what the cashout price may look like, depending on what is done with the P448 bids.

Now we can look at the impact of different (normal or high cashout) market signals and their effect on various elements of the power market.

#### Likely Cashout price under different scenarios

	P448	P448 Priced High	P448 Not in stack	P448 using MIP
Short/Sudden curtailment	Normal	Normal	High	Normal
Long/Sudden curtailment	Normal	High	High	Normal
Short/Rising Market	High	High	High	High
Long/Rising Market	Normal	High	High	High

### P448 state of play



### Impacts of a sudden gas curtailment

Short/long/Sudden curtailment	Normal	High
Party with short position	No incentive to do anything. Stay short. Intra day/Day ahead will stay normal as no need to buy at expensive price	Incentive to trade out short position. Intra day/Day ahead will rise quickly to where cashout is expected
Party with Long position	Try and sell long position rather than get normal cashout price. Maybe no buyers with incentive	Less incentive to sell as cashout is high
Non BM Generator	No incentive to sell power	Incentive to sell power and therefore help the market
Curtailed Gas generators	No impact	No impact
BM generators	Is there an incentive to sell power in the BM?	Incentive to sell power in multiple markets (day ahead/intra day/BM)
Interconnector users	No incentive to sell power	Incentive to sell power and therefore help the market
NGESO	Balance the market	Balance the market

If the cashout price is normal, then there is little incentive for the market to react to the gas emergency.

Is this appropriate for P448?

#### Impacts of a gas curtailment in a rising market

Short/long/Rising Market	Normal	High
Party with short position	Intra day/Day ahead will be rising quickly as prices rise, but if cashout is normal then no incentive to do anything	Incentive to trade out short position. Intra day/Day ahead will rise quickly to where cashout is expected
Party with Long position	Try and sell long position rather than get normal cashout price. Maybe no buyers with incentive	Less incentive to sell as cashout is high
Non BM Generator	Incentive to sell power, but may struggle to find buyers with a normal cashout price	Incentive to sell power and therefore help the market as the price rises. May not be many left to call on when the curtailment begins
Curtailed Gas generators	No impact	No impact
BM generators	Is there an incentive to sell power in the BM?	Incentive to sell power in multiple markets (day ahead/intra day/BM) May not be many left to call on when the curtailment begins
Interconnector users	No incentive to sell power	Incentive to sell power and therefore help the market
NGESO	Balance the market	Balance the market

In a short rising market the cashout will likely be high so there would be incentive to bring more generation on line, but if it is long then the addition of the P448 bids may suppress the price as it stands, removing the incentive.

#### Conclusion

- In a short rising market, the cashout should always be high. Is this the only realistic scenario?
- If the cashout price is normal when a gas emergency occurs, what is needed for it to send the right market signals to bring generation online?
- Including P448 bids in the stack suppresses the cashout price in some scenarios. Is this the desired outcome?
- Removing the bids from the stack should result in high cashout prices in all scenarios

#### **Questions:**

- Does the P448 solution need to be changed?
- Do we need the cashout price to be high in a gas emergency, to make sure parties respond appropriately?
- Should the bids be removed from the stack?



## P448 GUIDANCE

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### **BSC Procedure BSCP18 ('Corrections to Bid-Offer Acceptance Related Data')**

BSCP18 contains the processes for *ex post* corrections to Bid Offer Acceptances, Bid Offer Data and Final Physical Notifications

New section 3.5 sets out the process steps for Network Gas Supply Emergency Acceptances

New Appendix 1 describes the process, including:

- The types of Emergency that fall within scope
- The types of BM Unit that can use the process
- Overview of process
- Role of Lead Party (and/or Subsidiary Parties)
- The types of contractual arrangement that can be considered a firm contractual position (and hence qualify for protection from Imbalance Charges)

Appendix 2 describes draft Terms of Reference for the Network Gas Supply Emergency Settlement Validation Committee (NGSESVC):

- Based closely on existing Claims Committee
- Indicative only, BSC Panel can set ToR as they see fit

### **Guidance note: Network Gas Supply Emergency Acceptances**

- Describes the background, process and work of the NGSESVC (in slightly less formal language than BSCP18 Appendix 1)
- Explains the Credit Cover aspects
- Provides additional detail on what Lead Parties need to do, including the contact details for informing Elexon that a Load Shedding Acceptance has been received



# Issue 105 Risk Mitigation for D+1 onwards

6<sup>th</sup> March 2023

### The Emergency Curtailment Quantity (ECQ) is an amount a gas User's contracted position is reduced by for settlement

The ECQ Methodology says:

For the 1st Gas Day the estimate of the ECQ will be based on:

- *i)* For those relevant System Exit Points for which Offtake Profile Notices (OPNs) are provided to the Transporter, the estimate will be based on the <u>OPN prevailing at the time of the Emergency</u> <u>Curtailment</u>;
- *ii)* For those relevant System Exit Points that do not provide OPNs or, where OPNs are not available, the estimate will be based on <u>historical allocations</u>;
- National Gas have confirmed that the historical allocation will be the previous week's gas offtake
- OPNs can only be submitted day ahead, and therefore an OPN prevailing at the time of the Emergency Curtailment will not be available for D+2 (and may not be available for D+1 if the Emergency Curtailment occurred the previous day before an OPN was submitted)

### **Gas Interruption Problem Scenario**

- At the time of an interruption, the end time is not necessarily known
- If a gas generator has offtaken more gas in the previous week than it has contracted for during the period of the interruption, it now has the risk that <u>if</u> the interruption lasts beyond the period for which OPNs are available, it will simply be short gas @ the 30 day average SAP price.
- Reasons for a reduced running profile could include a planned outage (before emergency was anticipated) or change in gas to power spreads for offpeak periods



# What are Appropriate Courses of Action for a Generator During an Interruption in this Scenario to manage D+2 gas position?

### 1. Do nothing. Go short gas from D+2 onwards.

- Generator is exposed to highly volatile flat gas price.
- Might be able to claim compensation under UNC arrangements
- 2. Buy gas to cover potential shortfall?
  - Not risk mitigating because generator doesn't know they will be definitely be interrupted until D+2 onwards.
    Might go long gas at very high price.
- 3. Buy gas and sell power to align contracted position with gas system operator's expected offtake
  - Might not be any gas liquidity anyway
  - Might be expensive if generation margins associated with extra gas is still negative, but also might not be.
    Margins may have become positive in the meantime.
  - However, depending on market conditions *could* be an option
  - BUT Additional selling of power during interruption is NOT ALLOWED UNDER P448 in conjunction with NGSE Acceptances

### The P448 Solution Excludes PN Volumes Relating to Sales of Power After a Gas Interruption has been Declared

#### Grid Code BC 1.4.2

In the case where a BM Unit is affected by a Network Gas Supply Emergency load shedding event, once Stage 2 or higher has been declared, then their Physical Notifications shall represent the User's best estimate of the contracted power position of the affected BM Unit at the time of the event, taking into account any mitigating actions to reduce the difference between the contracted power position and the volume to be shed.

#### **BSC 6.1.3**:

...the [NGSE?] Panel shall:

- (a) validate whether the Trading Charges calculated in relation to each Network Gas Supply Emergency Acceptance can reasonably be regarded as complying with the following principles (the "Network Gas Supply Emergency Adjustment Principles"):
  - ...
    - 3) that exclude any positive Energy Contract Volume Notifications relating to sales of energy made after the Bid-Offer Acceptance Time of the Network Gas Supply Emergency Acceptance 'k';

Note that consultation responses to P448 suggested that Generators should be allowed to update their PNs, when a load shedding instruction lasts longer than initially notified

### Questions for the Workgroup on Possible Code and Methodology Change

- 1. Do the workgroup believe that the UNC and/or associated methodology documents should be reviewed for change or that clarification of compensation arrangements is required for periods when OPNs are not available? (Yes/No?)
- 2. Should the BSC and Grid Code be amended to allow generators to update their PNs to be aligned with the gas volume they are expected to be interrupted for even if they have not contracted this position yet?
- 3. Any other suggestions on how to mitigate this risk through code change?



# UPDATE: GAS OPERATING MARGINS CONTRACTS

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### Gas Exit Constraints webinar Q&A – December 2022

**Q**: Where a site that has been taken to 0 under OM arrangements is told to stay off in an emergency, would that be a load shedding instruction rather than OM instruction?

A: The activation of OM gas arrangements and the load shedding instruction to cease taking gas are two separate things. The licence obligation on the GSO to secure OM gas is intended to allow material gains while the GSO waits for the market to respond to an imbalance. The declaration of a stage 2 NGSE means the market has failed to rebalance the system and legal direction is required to reduce demand and increase supply. A site currently nominated down to 0 through contractual means (OM) will still be phoned when Stage 2 load shedding is taking place on the NTS and directed not to return to take gas until a stage 4 NGSE (restoration) has been declared and the legal instruction to cease taking gas is revoked.

**Q**: Will there be a clear cut over for a CCGT which is called under an OM contract versus load shedding in a stage 2 gas emergency?

A: Yes, the site would be contacted under a stage 2 NGSE and directed not to return to take gas until a Stage 4 NGSE (restoration) has been declared and the legal instruction to cease taking gas is revoked.



## NEXT STEPS

ΕLΕΧΟΝ

### Progression plan

Event	Date
Issue raised	22 December 2022
Workgroup Meeting 1	24 January 2023
Distribution of Meeting 1 summary and actions	30 January 2023
Workgroup meeting 2	16 February 2023
Distribution of Meeting 2 summary and actions	23 February 2023
Workgroup meeting 3	6 March 2023
Distribution of Meeting 3 summary and actions	13 March 2023
Workgroup meeting 4	W/C 27 March 2023
Present Issue Report to Panel	May 2023

### Workgroup Meeting 4 Slido: #6887651





# ELEXON

### THANK YOU

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6 March 2023

APPENDIX 1 – CASH OUT SLIDES FROM MEETING 2 FOR REFERENCE

#### Scenario 1: Short Market / Sudden Curtailment



#### Scenario 2: Long Market / Sudden Curtailment



#### Scenario 3: Short / Rising Market



#### Scenario 4: Long / Rising Market

