

Reserve Review

Preliminary Update

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Agenda

1 - Timetable of review

2 - Reserve Workshop

2.1. Feedback - NGT & Industry

2.2. Headline Steers

3 - Bilateral meetings

3.1. Response

3.2. Overview and Feedback

4 - Going Forward

1 - Review Timetable

Where we are now

23rd February

: Reserve Workshop

7th - 25th March

: Bilateral focus meetings

13th April

: **Interim Operational Forum - Progress Feedback**

15th June

: Extended Operational Forum

Mid August

: Issue of Reserve consultation - Outlining background, options and NGC proposals

The review stage

End September

: Propose Industry code changes where appropriate

Process dependent on affected codes

2 - Reserve Workshop

- Thank you to all those who attended - Approx. 50 industry members

Overall - We viewed the day as a success as it provided :

- A good knowledge base to continue the review
- Constructive and positive input from the breakout sessions
- Good engagement in an open floor debate

2 - Reserve Workshop

Headline themes from the Reserve workshop breakout session

- Not all reserve could/should be bought on-the-day / day-ahead with some classes of providers needing the long term firm income to justify the existence of their plant
- NGT should take into account a forecast provision of available headroom in assessing the quantity of procurement of reserve on the day
- The pricing structure of reserve should be based around an option (availability element) plus utilisation (energy element)
- Recognition that the choice is between few products, hence liquid market, Vs freezing out / penalising different classes of providers who do not fit the product
- Importance of the interaction with cashout
- Transparency : Participants wanted a clearer / closer to real time understanding of the requirement, availability of actions, and actions taken to satisfy the requirement

3 - Bilateral Meetings

April 2005 - Ongoing

- Thank you again... A good response to the invitation
- To date we have held 10 bilateral meetings with a variety of interested parties, including vertically integrated, independent, non-physical and demand side companies.
- A Standard Agenda was used to further engage in the areas raised in February's Workshop

3 - Bilateral Meetings

Agenda Outline

1. Reserve workshop

Clarifications and feedback

2. Further Areas for Discussion

Information Provision

Market Behaviour

Timing of NGT actions

Mechanisms & Products

3 - Bilateral Meetings feedback

Reserve Workshop

Participant Clarifications

- Why are you conducting a review?
Not externally or event driven - A holistic look at current mechanisms
- Why was the scope on the day so limited?
To help thought processes. On-the-day actions were our preferred focus of attention, with the year-ahead standing reserve contract form well-established

Participant Feedback - Spectrum of Opinions

- Informative session & constructive process
- An appreciation of the complexity of the issue

3 - Bilateral Meetings feedback

Areas for further discussion

Information Provision

Majority View: **Interpretation and Timeliness**

1. Providers generally satisfied with current level of the information content
 - Improvements concentrated on interpretation and timeliness of provision
2. General concerns over the media of communication
 - Consideration of downstream system costs

“Finding the balance”: Information should be released if:

1. Removes commercial advantages by facilitating a level playing field
2. Improves market efficiency by enabling accurate assessment of commercial & operational risk profile

Bilateral Meetings feedback

Areas for further discussion

Market Behaviour

Majority view: **NGT actions should be complementary to market operation**

1. Loading of plant / contingency plant is a consequence of the market operation under NETA, and in particular of increased vertical integration in the market. Explicitly, the potential for BM income is viewed as a 'bonus' rather than a driver in plant scheduling decisions
2. There was concern over any proposals which may increase the potential for pollution in the energy market.

Bilateral Meetings feedback

Areas for further discussion

Timing of NGT actions

Overall: **Participants need to understand the potential routes to market as a whole**

1. A recognition of the distinction between the drivers behind year-ahead procurement and day-ahead/within-day procurement of reserve
2. Concern over within-year procurement: Drivers, assessment, value in relation to 'Year-Ahead' Procurement
3. Day-ahead/Within day procurement : Participants expressed an understanding of the trade off being between liquidity and certainty in managing NGT's contingency requirement, with the consequential effect to overall required volume

Bilateral Meetings feedback

Areas for further discussion

Mechanisms & Products

Mechanism majority view : Participants valued the current non-firm within day procurement mechanism, allowing NGT to minimise the number of within-day actions it takes.

Mechanism counter View : Desire to establish a firm within-day mechanism to offer generation/demand to NGT with a commitment by NGT to procure a minimum volume

**Desirable Product :
Features** Product design should be equitable and comparable with participants understanding the value assumptions behind NGT decision making.

Further points

This presentation only forms a brief overview of the feedback received from the bilateral meetings held over March/April, with all of your input being used to now help develop our proposals for any potential changes to the current arrangements

Changes to arrangements are being considered within the current market arrangements and in line with NGT's License obligations

We are still open to dialogue throughout this process, and participants will have an opportunity to comment on NGT's initial thoughts on the direction of development at the 15th June Operational Forum

What's Next...

Going forward - So, how are we pulling all this together?!

Still on track for June Operational Forum

: The June Operational Forum will inform our direction on developments in these areas for inclusion within the August consultation document

Why haven't you got an answer now?

There is no simple answer! By understanding Industry participant drivers through this process of engagement, we can better propose a design which provides the correct balance between the desired stakeholder attributes and is complementary to market behaviour given 4 years of market operation under NETA

Timetable Recap

What's Next...

23rd February

:Reserve Workshop

7th - 25th March

: Bi-lateral meetings

13th April

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:Propose Industry code changes where appropriate

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