

# Residual Balancing

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**Chris Aldridge**

Network Operations

**nationalgrid**

## SO Incentives - Gas mini-consultations

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- ◆ Operating margins, covering contestability and incentives.
- ◆ **Residual Balancing** and Shrinkage, including interaction.
- ◆ Publication mid August, four week consultation period.

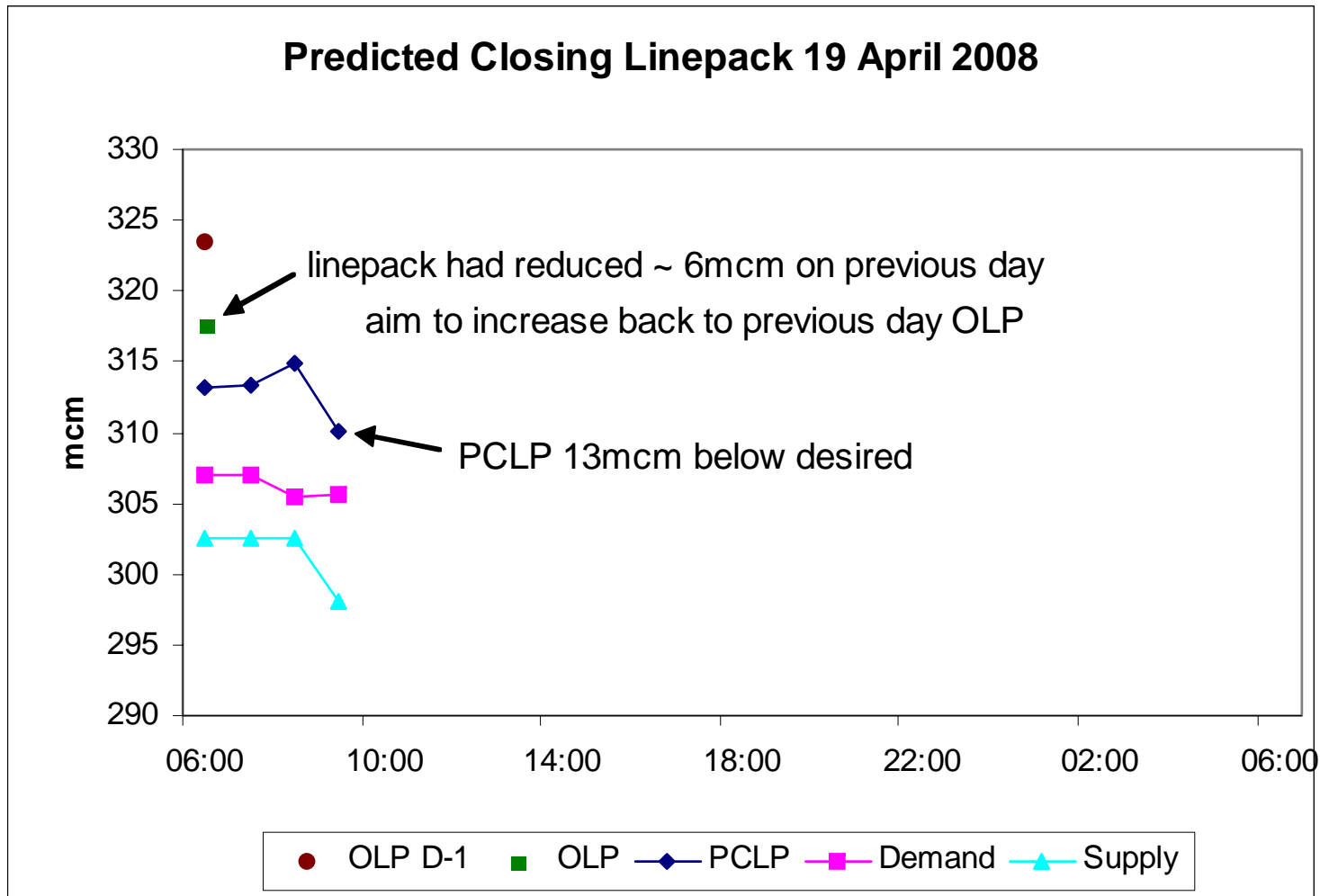
# Day in the life: Summary of Incentive Behaviour

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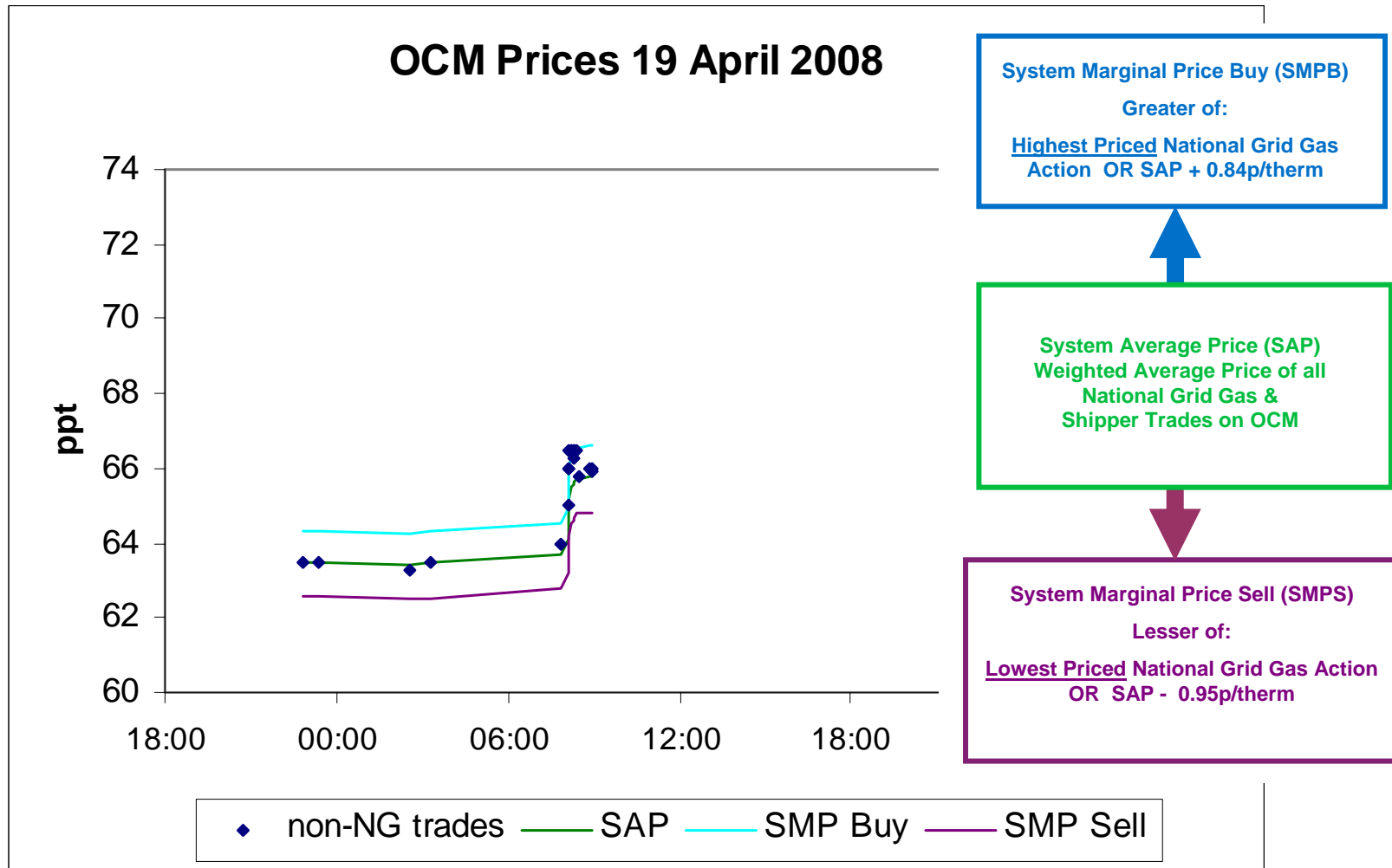
- ◆ To reduce balancing actions on the OCM (On-the-day Commodity Market)
- ◆ To minimise price spreads set between National Grid trades on the OCM
- ◆ To minimise change in opening to closing linepack

Discussion of incentive objectives and Market / National Grid priorities & licence obligations to follow

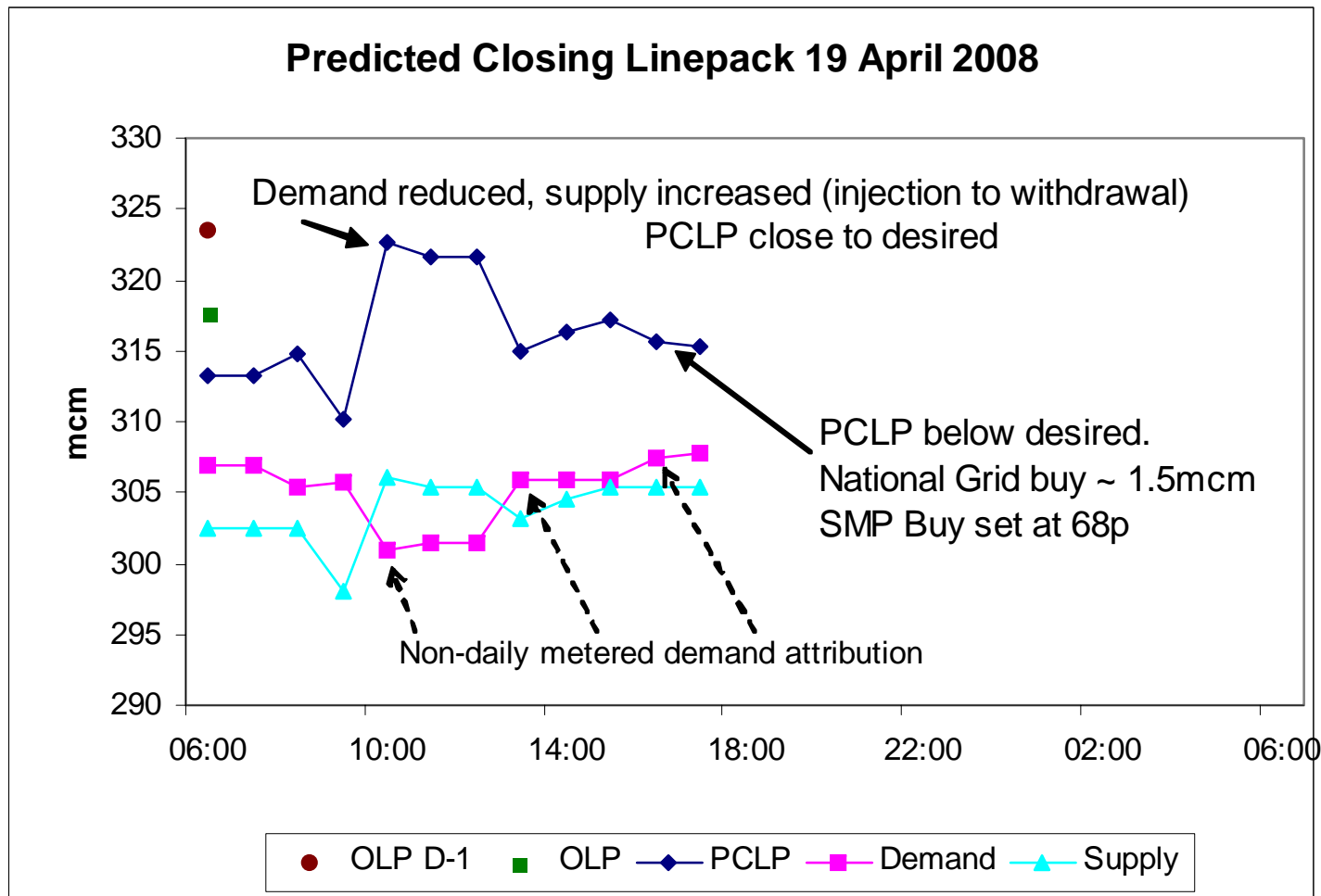
# Predicted Closing Linepack, DFN's and Demand Forecast



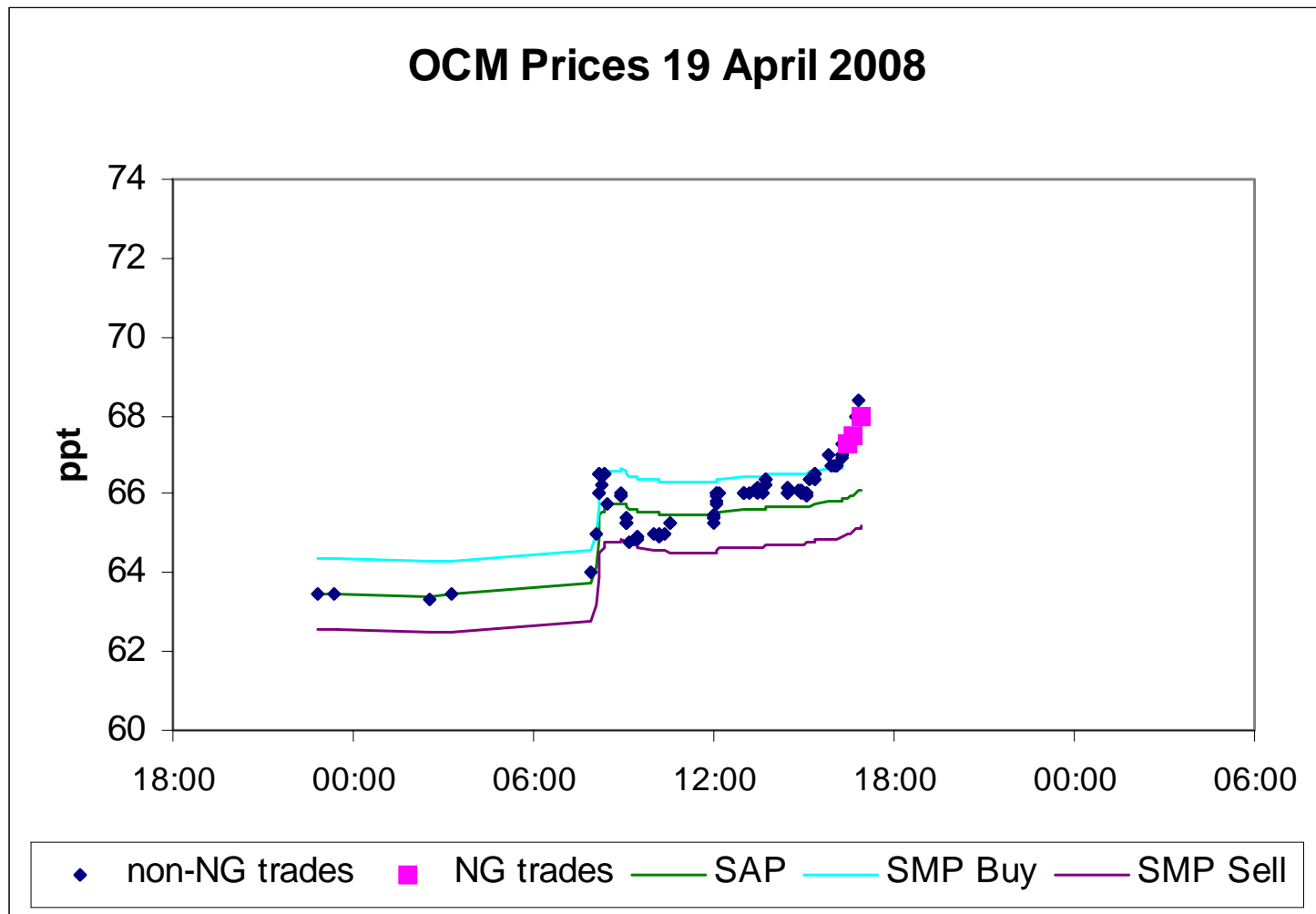
# OCM trade prices



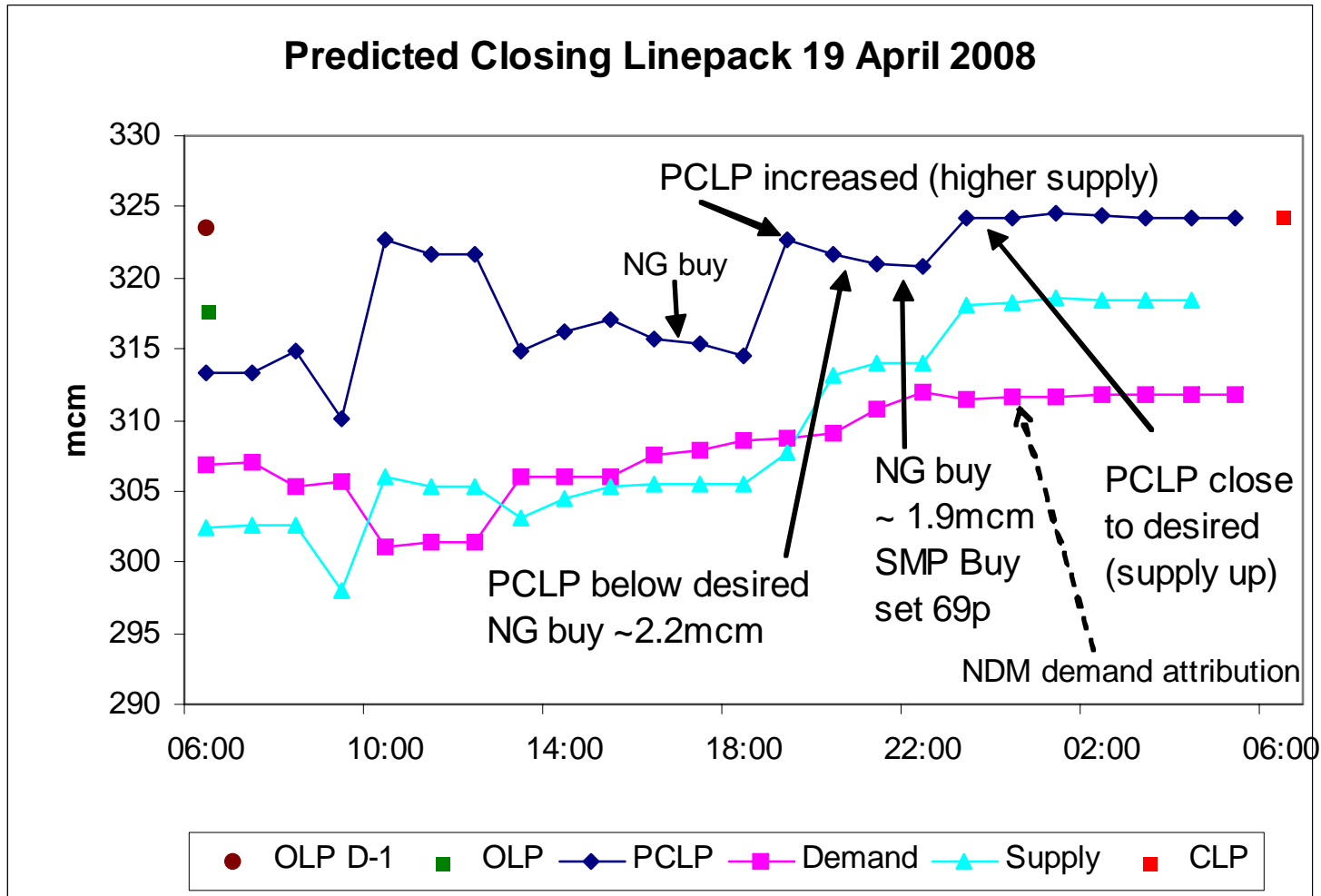
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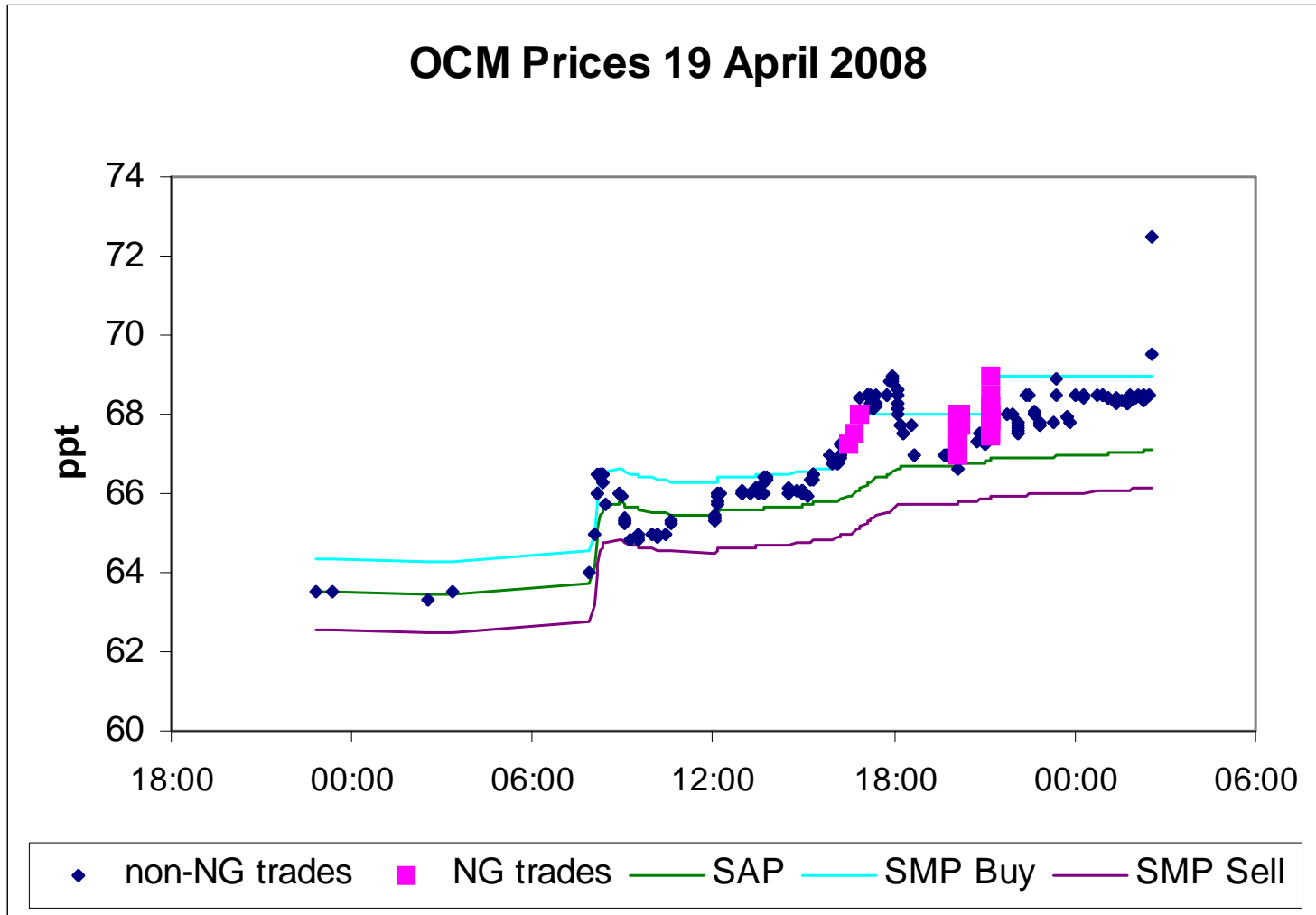
# OCM trade prices



# Predicted Closing Linepack, DFN's and Demand Forecast



# OCM trade prices



# Day in the Life: Balancing the NTS

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## Section summary

- ◆ National Grid has physical and commercial drivers which result in it needing to take actions 'later' in the day
  - ◆ Physically – Risk of Supply Failures / Demand Forecast errors
  - ◆ Commercially – Shipper position unclear
- ◆ Information to the market is driven by what the market tells National Grid
- ◆ National Grid takes commercial 'title' actions on the OCM to evoke a physical response from the market
- ◆ Marked response at NDM allocation times (driven by LDZ forecasts). Potential to look into further 'runs' if this would be valued by shippers

# How then is National Grid incentivised to minimise balancing costs?

## Existing Price Performance Measure ( PPM )

Objective

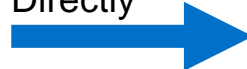
**“To deliver pricing efficiency ”**

Indirectly

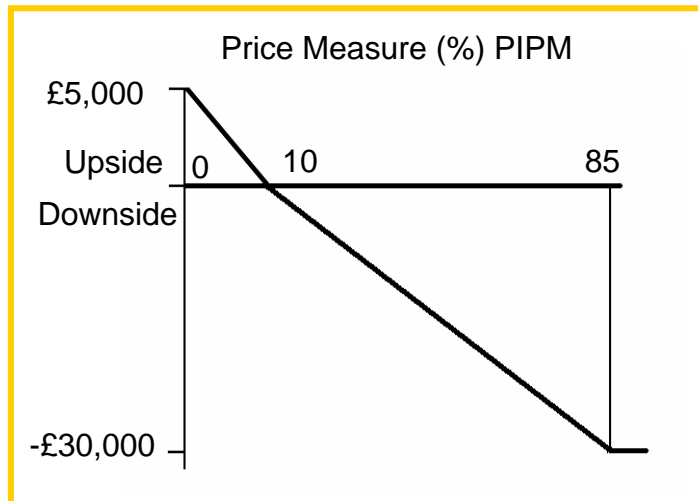


Overall cost minimisation

Directly



Minimise market intervention



$$\text{Price Measure} = \frac{\text{Spread of price of NG trades}}{\text{SAP}}$$

◆ Is this still the best approach to deliver pricing efficiency?

# Existing Linepack Incentive Objective & Design

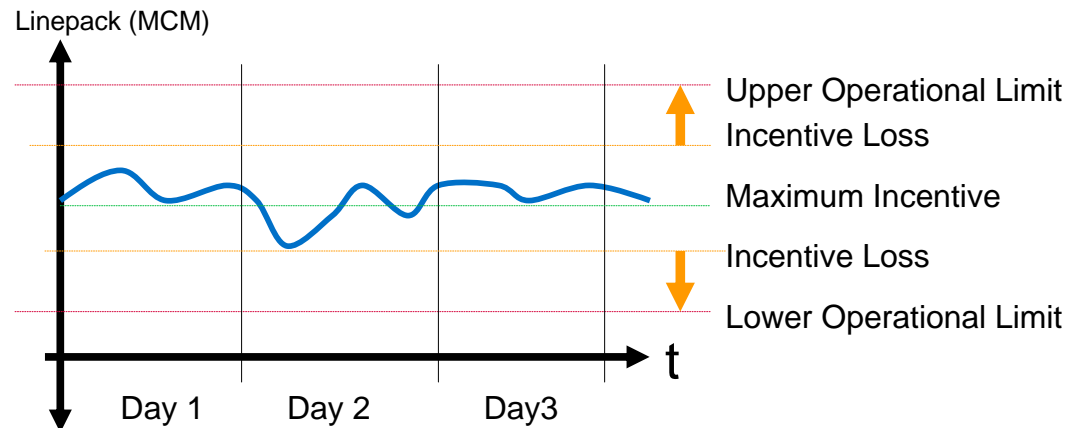
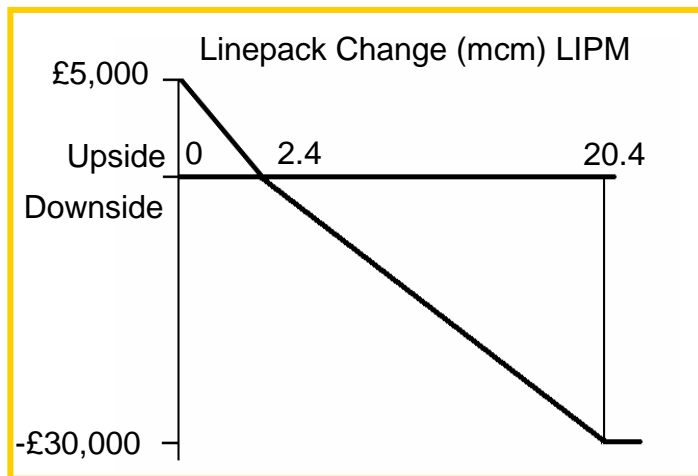
## Objective: Pros

Cost targeting to each gas day  
'Polluter Pays'

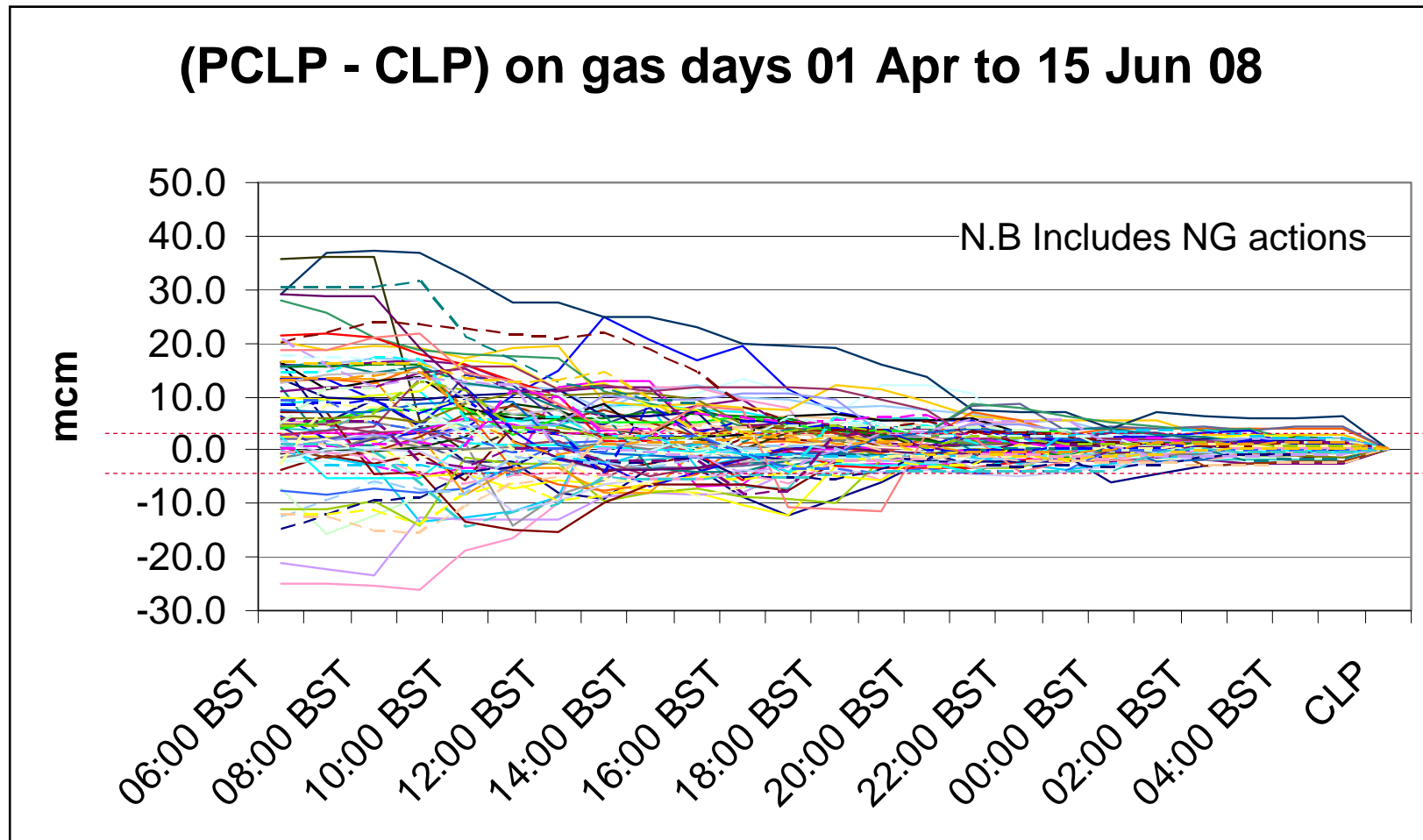
## Downside: Potential Cons

May not be the least cost solution  
Could encourage greater levels of intervention by NG

- ◆ Scheme Introduced after PPIM and was designed to balance National Grid's Risk / Reward
- ◆ Are these pros and cons still balanced?



# Con: Issues of balancing within commercial limits



◆ When to Balance?

# Balancing Incentives & Design - Summary

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- ◆ A pricing incentive is still viewed as the most appropriate mechanism to reduce market invention and to reduce overall balancing costs
- ◆ The scheme parameters of both PPM & linepack have not been updated since the market conditions seen in 2001
- ◆ Physical (system security) and commercial drivers influence our actions
- ◆ The balance of the pros and cons of the linepack incentive need to be considered in light of industry priorities
- ◆ There are number of ways in which National Grid could potentially explore the value of using its physical ability to manage imbalance by an offering to the market

# Incentives from April 2009

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- ◆ More slides at [www.nationalgrid.com/uk/Gas/soincentives/IndustryWork/](http://www.nationalgrid.com/uk/Gas/soincentives/IndustryWork/)
- ◆ Mini-consultation document on Residual Balancing and Shrinkage published mid August - please let us know your views.