



Modification Proposals 260 – Revision of the Post-Emergency Claims Arrangements **Comments from AEP¹**

The Association welcomes the opportunity to comment on the draft modification report. The proposal addresses two issues i) it seeks to reduce uncertainty surrounding the claims process for gas delivered to the system during an emergency; ii) it targets the cost of those claims on Users with short positions. The Association offers support for this proposal, since with respect to the first issue there may be a marginal improvement over the current arrangements where there may be uncertainty over the outcome of the claims process. However we have concerns over whether the targeting of the cost of claims is appropriate particularly when Users may have a short position through no fault of their own.

The proposal seeks to introduce a bulletin board for posting surplus gas volumes and prices which if not accepted be the starting point for a claim. Claims may only be submitted where the User has a long position. Claims will be paid 'automatically' where the associated price is below 80% of the volume weighted price of all valid claims. Other claims will be subject to an economic assessment. The increased transparency and mechanistic elements of the proposal increase the certainty over payment for any claims and may encourage additional supplies into the UK and further demand side response.

However there are a number of issues which may to some extent offset this benefit.

- Claims can only be made for long positions – Users balance positions may not be known to them with any degree of certainty in the run up to and during an emergency. Users facing supply deficits in an emergency through no fault of their own may incur additional costs in making their position less short but cannot claim for these.
- Operations staff may be unfamiliar with placing OCM Physical Market Offers that will be necessary to make a claim – NG has noted that refresher training may be necessary. Since claims may only be made for Physical Market Offers placed as a quantity rather than a rate. Operations staff may initially list demand side reduction as a rate but then if the offers are not taken

¹ The Association of Electricity Producers (AEP) represents large, medium and small companies accounting for more than 95 per cent of the UK generating capacity, together with a number of businesses that provide equipment and services to the generating industry. Between them, the members embrace all of the generating technologies used commercially in the UK, from coal, gas and nuclear power, to a wide range of renewable energies.

and it seems like stage 4 firm load shedding is likely then actually interrupt the demand and place it on the OCM as a quantity. This adds complexity to operational decisions at a time when operational procedures should be as simple as possible.

- These arrangements seem to assume that they will create further incentives for a User to contract for demand side response from its customers, however in practice such incentives have been in place for some time yet it is reported there is little interest in agreeing such contract in advance. It is not obvious that the incentive to agree these contracts will increase given uncertainty over User balance positions, customers' willingness to self-interrupt and price uncertainty.

We consider that the proposal furthers the relevant objectives;

SSC A11.1 (a) efficient and economic operation – Where the improved certainty over the claims process and transparency of the Physical Offers posted may lead to additional gas being delivered or additional demand side response, although we have reservations as to whether this will actually happen.

SSC A11.1 (d) securing effective competition – Transparency of Physical Market Offers will provide Users with more information to assist in managing their balance position and financial exposure.

Focusing the cost of claims onto short Users, even though this may be through no fault of their own may in extreme circumstances lead to shipper defaults, which may not be consistent with this objective and may in the event of an emergency lead to urgent modifications being raised to address this or even government intervention.

Clearly this aspect of the emergency arrangements should have been considered as part of a wider review of the emergency arrangements which was expected to commence this summer but appears now to have been delayed until after Project Discovery, reports at the end of the year. We continue to urge Ofgem and DECC to progress this holistic review as soon as possible and in the context of the proposed EU Gas Security of supply Regulation.

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