

Transmission Workstream Minutes
Review of Emergency Arrangements - Workshop 1
Monday 16 March 2009
Energy Networks Association, Dean Bradley House,
52 Horseferry Road, London SW1P 2AF

Attendees

John Bradley (Chair)	JB	Joint Office of Gas Transporters
Lorna Dupont (Secretary)	LD	Joint Office of Gas Transporters
Ben Woodside	BW	Ofgem
Claire Thorneywork	CT	National Grid NTS
Chris Wright	CW	Centrica
Ian Moss	IM	APX
Joy Chadwick	JC	ExxonMobil
Johnny Amos	JA	Ofgem
Mark Cockayne	MC	xoserve
Peter Bolitho	PB	E.ON UK
Shelley Rouse	SR	Statoil (UK)
Stefan Leedham	SL	EDF Energy
Steve Pownall	SP	National Grid NTS
Steve Rose	SR1	RWE npower

1. Introduction

JB welcomed the attendees to the meeting.

2. Prevailing Emergency Claims Arrangements Overview

SP, on behalf of National Grid NTS, gave a presentation outlining the background to the decision to review and further develop the Emergency Claims Arrangements. It was envisaged that a Modification Proposal would be developed in time for next winter, but it would not be expected to be 'urgent'. A timetable was put forward, with a suggested implementation date of 01 October 2009. The primary objectives were defined, following which JB asked the meeting if these were acceptable.

PB commented that, although it was useful to be focussing on the claims process, there was a need to think about it holistically and with a view to compatibility relating to the roles of National Grid NTS and the Energy Emergency Executive Committee (E3C). E3C was linked to Project Discovery, which was about doing 'the right thing in an emergency for UK plc' but it was not set up to discuss commercial aspects.

SP made the observation that if, for example, an emergency occurred in the next few days the current claims process set out in the UNC may not be sufficiently well defined.

PB referred to implemented Proposals 0044 "Revised Emergency Cash-out & Curtailment Arrangements", 0052 "Storage Withdrawal Curtailment Trade Arrangements in an Emergency" and 0054A "Modification to Codify Emergency Curtailment Quantity (ECQ) Methodology" and pointed out that other incentives were supposed to provide support. There was a need to understand the whole suite of incentives that currently exist, ie the overall incentive properties in conjunction with existing mechanisms.

The existing arrangements were then briefly described and the issues identified. There was a discussion centred on whether the assessment should be based on financial loss

or market value. It was thought that LNG imports may force the view towards market value. The speed of progress of an emergency may also have an effect on what price was received and it was questioned whether frozen cashout was appropriate? (Mod 0149A: "Gas Emergency Cashout Arrangements: Keeping the On the Day Commodity Market open during a Gas Deficit Emergency"). It was recognised that many parties were not happy with outcome of Modification 0149A. It was suggested that there may be alternatives – if cash-out prices were set at a very high level it might remove the need for a claims process. PB pointed out that there was a robust claims process established under the BSC which may be worth looking at.

SP then asked again, for this purpose should it be financial or market value? PB said that, ideally, a party should cover its costs and therefore it should relate to the market value.

SL commented if parties were using the market could it be used to manipulate prices for gas? He referred to stolen gas – this was seen to be a financial loss, but not an opportunity for shippers to make a gain - and perhaps the same principles may need to apply. It was recognised that parties were tracking their positions very carefully these days – an emergency would force parties to look even more carefully at their trading counterparty if known and possibly different markets would benefit from differently directed trades. A simple process upfront, with appropriate checks supporting it, was what was required.

JC commented that a mechanised approach makes it very hard to be flexible in different scenarios. SP asked, do you base it on mechanised or market value type rules, which may be harder? JC responded that it only needed to reasonably compensate those who have co-operated in the emergency.

SR1 questioned why you cannot just use a NBP trade, and was advised that was because it is not locational. SR1 also questioned why in Stage 2 with maximum nominations a User with a long position was unable to claim? Was this because it could be posted on OCM? SP responded that it can be offset, but the rules around that needed to be considered and perhaps needed to be suspended during the GDE.

If normal nomination rules apply, the Shipper would know its demand and nominate accordingly at Entry Points. Then if flow was actually higher due to the Emergency's Command and Control situation there would be challenges to make sure nominations were 'normal' nominations. PB commented that physical nominations should reflect what a Shipper is reasonably expecting to deliver – if an OCM offer was accepted then the physical would be offset.

SR questioned how a claim would be validated. He responded that validation would be on physical offers as it was Users able to make such offers who would be contributing to resolve the emergency - though any User could accept the physical offer.

SP said that essentially OCM would function as a bulletin board. The OCM could also help to match up long/short positions and add transparency to costs.

SL thought that there was potentially an opportunity to make a profit by doing this; for example, by posting a physical offer on the OCM at £10 which was not taken (too high) by the end of the GDE day. It would then go through the CV process and the party would potentially make an unreasonable profit simply by setting the amount at a very unattractive rate? CT responded that the objective was to try to encourage people to balance on the day and bring gas in.

PB thought there might be parallel markets – the OCM and a new type of market that would be cleared after the claims process, because costs were targeted at a sub group of parties. Normal market conditions would not apply and costs would be smeared. These new arrangements may be targeting costs more closely but this does not, by itself, make it fairer than current arrangements? SP thought that cost targeting was more transparent in the proposed arrangements – the question was should the short

Shippers be targeted or not, bearing in mind there is a Licence obligation to fairly target costs?

It was recognised that varied emergency scenarios would inevitably make a difference to how and to whom costs should be targeted. These proposed arrangements would probably not cover all scenarios that may occur and costs may then need to be targeted differently. SP commented that it was the main Entry Point Shippers that carry the risks, eg if Bacton failed then the NBP and Entry Shippers were at most risk.

PB pointed out that in an emergency the market does not work, and perhaps more radical thinking was required - perhaps National Grid NTS should take on the role of procuring price sensitive gas for UK plc. PB thought that the solution lay here and not focussed on Shippers.

CT pointed out that the proposed ring fenced compensation arrangements were an attempt to reflect what the costs would be. She pointed out that a GDE had never been experienced so it was difficult to set UNC principles on how cash-out should be set to achieve the same outcome. PB agreed that ring fencing was useful.

Addressing the concerns that Users with short positions would encounter very high costs, JB pointed out very high costs could result from current UNC provisions as the frozen cash-out price could be high. Even the energy balancing neutrality mechanism might cause high costs to be levied on Users.

SL observed that by its very nature a GDE means that there will always be parties who are in a short position; sorting out the claims process was a good development and targeting the costs would be a step further.

PB thought that the question asked should be: how could price sensitive gas be attracted to the UK in an emergency? Then a mechanism should be found for targeting the costs after the event. SP was of the view that cost targeting was to be preferred to energy balancing neutrality mechanisms, to incentivise changes in behaviour. At the moment, once the cashout price is frozen there is no incentive for Users with a short position to address their imbalance. JC commented that in an ordinary market the price goes up, which would be an incentive to attract price sensitive gas to the UK, the reverse may be true if the market were 'broken'.

SP then gave an overview of the proposed arrangements, and the advantages and disadvantages identified so far. There were concerns that a Shipper(s) in a short position could potentially fail and this would affect smearing of any costs.

It was acknowledged that credit may be a problem for short Shippers in an emergency situation; parties may not know their exact positions.

SP clarified that over-recovery would be smeared back to everyone who was long.

Restraints on unreasonable prices would be aspects of competition law and validation via the claims validation process.

3. Ofgem response

BW gave a brief presentation on behalf of Ofgem, highlighting issues that would require consideration, (the majority of which had surfaced in the previous discussion).

It was acknowledged that a flurry of late offers could have a significant effect.

SL was in favour of simplification (less targeting, and use of energy balancing neutrality mechanism) rather than additional complexity, which would create its own problems.

CW wondered if claims would be settled on a day by day basis/process or would they be batched.

SP suggested there would be a close-out period, followed by a validation period. This would allow claims to be collated in the same month for energy balancing neutrality processes, as it would be a neutrality invoice.

PB thought that there may be a number of claims expected in the first few days of a GDE but then the position would stabilise fairly quickly. However, settlement may be delayed as disputes would be inevitable if parties considered themselves to be seriously financially 'out of pocket'. SP envisaged a 'pay now - dispute later' concept.

4. Walk-through of examples

SP described and explained the various examples.

4.1 Interaction between Nominations/Renominations and OCM Physical Renominations

SP explained how it would work from a Nominations/Renominations perspective.

JC queried how this would work if the ordinary market was working at the same time. SP responded that if a party thought it was going to be long then it would reflect this on the OCM, eg a Producer who had flowed maximum gas, but was not sure if all had sold within the day could put this on the OCM in order to give itself the opportunity to make a claim. Other options may also be available to a party in that position, such as placing the gas into another market to be sold, or onto the OCM NBP market.

SL observed that parties were really being incentivised to use the OCM in that case. JC observed that if a party had bi-lateral arrangements and was forced to flow in response to the Command and Control situation and thereby forced to use the OCM, it may be undermining the OTC market.

CW asked if there was any reason why the claims process could not consider any other market. SP thought it was a question of commercial exposure and the ability to calculate an appropriate indicative price. It was preferred to keep everything as transparent as possible.

JC asked if a User had posted an OCM bid, and that bid was not taken, was it possible to do an over the counter trade to reduce that User's imbalance? SP responded that a User could do this.

It was clarified that only the physical offers that remain on the OCM at the end of the day would be accepted in a claim.

SP reiterated that Stages and posting times would need to be considered and the validation rules still needed to be discussed.

SL pointed out that, under normal circumstances, the most attractive markets appeared to be the most liquid ones. SP responded that non physical markets will be operating and still offered liquidity. SL observed that encouraging the use of one market may have unintentional consequences on other markets.

IM asked what if the Shipper does not believe itself to be long, and therefore does not post anything on the OCM. SP responded that it would get cashed out at SAP. This might be an issue at Stage 4 but claims may be prevented from being posted at this Stage.

There was a view that whether short or long, Users would need to know their positions with more certainty. Whilst it was acknowledged that the Transporters would continue to have the opening and closing reads for a day, User would not always know very accurately what their position is in such a situation.

4.2 Cash-flow Examples

SP explained how the various elements would be expected to work. It was noted that there was no example for under-recovery.

Action EAW001: Provide under-recovery example.

BW asked if the System was reinstated once a 'long' position had been re-established. SP responded that the GDE would be over and the NEC would decide when Stage 5 was to be invoked. There was a brief discussion on the progress of an Emergency and a point would be reached in the GDE where the System was back to balance or even temporarily slightly long, which could lead to under-recovery.

JC was concerned that there appeared to be no claims process for Shippers who were short through no fault of their own and wondered should this also be considered going forward. PB said that Shippers' positions would need to be looked at when the GDE was first declared and that this might be used as a baseline. SP pointed out that there were many reasons for short positions, depending on the Entry Points. JC again pointed out that this proposed process only addresses one aspect of one defined Emergency scenario – there could be many different types of emergency. SL suggested that if everything in their power had been done by Shippers to meet the shortfall, then parties should not be penalised.

PB thought there would be value in looking at what sort of events could lead up to a GDE; the arrangements could be reasonable but a different type of GDE could make the arrangements seem unreasonable or inappropriate. Incentives only work if there is potential to effect a change in behaviour. Should this be limited to certain circumstances?

5. Review of Draft Business Rules

SP outlined the proposed Business Rules and a short discussion ensued.

Paragraph 2.02(a): This was being discussed with APX.

Paragraph 2.04: In relation to the demand side, SR asked if a party had a bid on the OCM would it be subject to ECQ; SP responded that it would not be if it was put on a P70 form.

Paragraph 3.04: It was thought that the validation rules should be incorporated into the UNC.

Section 4.0: SP pointed out that this had yet to be adjusted for SAP and this would be addressed in the next draft.

Section 5.0: Consideration needed to be given as to what should be published and where.

PB asked if Ofgem would have the final decision in respect of the CV process; BW responded that this was possible but would not necessarily be the case.

The meeting then discussed the possibility of xoserve taking on the role of Claims Validation Assessor. MC observed that there were advantages to having information readily available from the credit perspective. SL questioned how market values would be validated, and was xoserve happy to make this judgement. PB thought instead that a demonstrably independent market assessor should be separately appointed (with a legal/market background). CT responded that discussions had taken place with Ofgem and xoserve and it was recognised that this would be separate from its normal role. PB referred to the electricity industry which had developed a process of open hearings for

making and challenging claims and the role appeared to require technical expertise associated with a legal background. SP responded in the affirmative when CW asked whether the CV process would be subject to the UNC Dispute Resolution processes. SL agreed with PB that an appropriately qualified independent assessor was required, together with a demonstrably fair and open process that was capable of accepting challenges. However, there would be costs associated with the provision of such assessors.

6. Consideration of impacts

Due to time constraints this was deferred to a future meeting.

7. Next Steps and Diary Planning

It was agreed that the next meeting should be devoted to a more detailed discussion of the proposed Business Rules.

Two further meetings have been arranged and will take place at the Energy Networks Association, 6th Floor, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF

Workshop 2: Wednesday 22 April 2009 (10:00 – 13:00)

Workshop 3: Tuesday 05 May 2009 (10:00 – 13:00)

Details of future meetings may be found on the Joint Office website at: www.gasgovernance.com/Diary).

9. Any Other Business

None raised.

Action Log – “Review of Emergency Arrangements” Workshop 1: 16 March 2009

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
EAW 001	16/03/09	4.2	Provide under-recovery example.	National Grid NTS (SP)	