

Transmission Workstream Minutes
Review of Emergency Arrangements - Workshop 2
Tuesday 05 May 2009
Energy Networks Association, Dean Bradley House,
52 Horseferry Road, London SW1P 2AF

Attendees

John Bradley (Chair)	(JB)	Joint Office of Gas Transporters
Mike Berrisford (Secretary)	(MB)	Joint Office of Gas Transporters
Ben Woodside	(BW)	Ofgem
Claire Thorneywork	(CT)	National Grid NTS
Chris Wright	(CW)	Centrica
Jeff Chandler	(JC)	SSE
Kamel Magour	(KM)	Ofgem
Richard Fairholme	(RF)	E.ON UK
Shelley Rouse	(SRo)	Statoil (UK)
Stefan Leedham	(SL)	EDF Energy
Steve Pownall	(SP)	National Grid NTS
Steve Rose	(SR)	RWE Npower

1. Introduction

JB welcomed the attendees to the meeting.

1.1 Review of minutes from the previous meeting (16 March 2009)

The minutes of the previous meeting were accepted.

1.2 Review of actions

The action from the previous meeting was reviewed:

EAW001: National Grid NTS (SP) apologised for inadvertently issuing the wrong recovery example (over rather than under) and committed to providing an example of under-recovery with a supporting high level explanation soon. **Carried Forward**

2. Extension of review to Storage Monitor Breach and Critical Transportation Constraints

National Grid NTS (SP) informed members that he had spoken with a representative of the Network Emergency Co-ordinator (NEC) regarding compensation arrangements. From an NEC perspective, at any time during Stage 1 or 2 of a Network Gas Supply Emergency, where they believe that maximising supplies is the priority, they may choose to reclassify the event as a Gas Deficit Emergency (GDE). Otherwise, it will remain as a Storage Monitor Breach. However, National Grid NTS may at its discretion remain in the market to fulfil its residual balancing role.

Further details can be found in the National Grid Exercise Prelude Briefing Pack and Report, which is available to view and/or download from the HSE web site at: <http://www.hse.gov.uk/gas/supply/information.htm>. This defines the stages of a Network Gas Supply Emergency as:

Stage 1 – Potential, which may include invoking interruption and utilisation of slightly out of specification gas;

Stage 2 – Declaration, which may include maximisation of beach gas and NTS storage gas supplies. At this point both the Storage Monitor Breach (SMB) and Critical Transportation Constraints (CTC) may ‘kick in’;

Stage 3 – Firm Load Shedding, which may include firm load shedding of end-users >25,000 tpa and storage withdrawal;

Stage 4 – Allocation and Isolation, which will include allocation of available gas across the Distribution Networks (DNs) and potential utilisation of isolation plans to reduce demand, and

Stage 5 – Restoration, which sees the utilisation of appropriate DN restoration plans at the request of the NEC.

SP continued by suggesting that where the On the Day Commodity Market (OCM) remains open, and National Grid NTS continues to utilise it, compensation claims would not apply. He noted that Critical Transportation Constraints (CTC) would normally relate to a specific part of the network and therefore the P70/P71 regime would not apply either – it is a GDE specific requirement. Additionally, current compensation arrangements also apply to SMB's where actions are taken to retain storage monitor levels.

JB pointed out that the rules surrounding a Network Gas Supply Emergency are clear and where appropriate actions can be undertaken at Entry to the system, this is NOT classified as a CTC. It should be noted, however, that a CTC can, at any time, change to become a GDE, where it is deemed necessary.

SL believed that it would be beneficial to understand the interaction between CTC's and GDE's. Whilst pointing out that the NEC rules (E1) are quite specific on this matter, SP agreed to take an action to discuss this with his NEC contact and thereafter develop some scenario examples in time for the next meeting.

Action EAW002: National Grid NTS (SP) to develop Critical Transportation Constraint (CTC) to Gas Deficit Emergency (GDE) interaction scenario examples in time for discussion at the next meeting.

3. Considerations for the drafting of the Modification Proposal

SP highlighted issues that would require consideration, the majority of which had surfaced in the previous discussion.

3.1 Detailed Claims Validation Process – within main UNC or UNC ancillary document?

It was agreed that this would be covered under item 4 below.

3.2 Assumption: basis for assessment of emergency claims – mechanistic validation rules and cost recovery is based on *market value*

SP opened by stating that whilst the Uniform Network Code (UNC) focuses on the cost recovery aspects, he believed that LNG prices etc. needs to be linked to the relevant market value.

BW indicated that Ofgem would like to see the development of more detailed and robust validation rules and suggested that current thinking is looking at three (3) potential high level market value options, as follows:

1. OCM Price (based on either the highest or average price);
2. A European/Global Price Comparison (opportunity costing), and
3. An Equivalent Price (Shipper submitted or alternative achievable location based price equivalent).

In acknowledging that utilisation of a market value approach would need some form of linking, in relation to the European/Global option, SP believed that comparison with the Spanish market price for example could see the use of either TTF or Zeebrugge comparisons. SL also believed that the option of utilising other market comparisons was the right way to go. Furthermore, he favoured Ofgem's suggested use of percentage ranges for validation as these could be a workable option. In response, SP indicated that he remained unsure whether or not utilisation of

arbitrary percentage ranges would really work, especially when the problems could be compounded by not knowing the actual European/Global market prices at the time of an emergency.

In acknowledging the potential limitations of a percentage approach, BW remained convinced that a two stage validation mechanism would work. In this, compensation claims that 'match' a set of prescribed limits would automatically go through to processing; those that do not match, would progress to some form of arbitration/validation. SP pointed out that the current claims process could be described as 'opaque' and this proposal seeks to add clarity and transparency which can only be a good thing. It was noted, however, that opportunity cost may be difficult to access. BW suggested that inclusion of some elements of the Transportation costs within claims may prove beneficial although clear guidance would be required.

In considering what should or should not be included within Code, JB suggested that views appear sympathetic to either the market value or market comparator option and having a guidance document will potentially provide for simplified governance arrangements. CT supported this and stated that a more flexible approach to governance should be adopted. However, views differed as to whether the standard governance route of asking the Uniform Network Code Committee (UNCC) to make decisions relating to potential changes to the guidance document, would be appropriate. JB reminded members that issues such as these are being considered by Ofgem as part of its wider Code Governance Review. BW indicated that he sees the guidelines as providing some form of a non exhaustive list of factors relating to the claims process. RF remained of the opinion that he would prefer to see the claims process provisions to going into Code. In any event, it is the Authority who will have the final say, even following a decision by an appointed assessor.

Moving on, SP informed members that xoserve are keen to take up the mechanistic aspects associated with the claims process as a means to identifying claims related costs. However, they are not so keen on looking closely at the validation of claims per se. SL added that he did not believe the reviewing of claim level caps was an xoserve or Authority role, as there is already an appropriate process in place in the form of the Disputes Process, which could be utilised effectively.

In discussing the claims process, members acknowledged that parties will need to justify their respective claims and would favour an up-front assessment approach. It was hoped that Shippers would not resort to terminations as an alternative to the proposed processes.

In closing, it was noted that the question of whether or not the market value and assessment aspects should go into Code remained largely unanswered, but perhaps the 'primary' elements could go into Code with the supporting processes governed outside of the Code. CW reminded members that in an emergency, the markets will move far quicker than Code can, and would, be able to react.

3.3 Agree on scope for supporting analysis

SP opened by asking what level and type of analysis would be expected, or deemed to be appropriate. In response, BW suggested that perhaps data relating to cash flow based on various scenarios would be beneficial, although it remains questionable as to the real value of any 'inter market price comparison' data being included. SP indicated that under/over recovery information would indirectly provide cash flow related information. BW suggested that highest-lowest cash price indicators may also be beneficial. CT added that frozen 'high' and 'low' (slow burn) price comparisons could also prove helpful. SL indicated concerns about this aspect as behaviours are, and can be, heavily influenced by companies' PR perspectives during an emergency. During a GDE, the net position of shippers would be short.

BW suggested that perhaps any claim justification mechanism should include identification of 'a price that could have been achieved elsewhere' component. SP agreed to take an action to produce a generic analysis for incentives and market price comparison (European/Global/Adjacent to UK markets/LNG) and Entry Point Cash Out analysis (imbalance data relating to potential GDE triggers).

In closing, JB summarised discussions as agreeing that the main principles will go into Code with the supporting processes being included within an ancillary guidelines document.

Action EAW003: National Grid NTS (SP) to produce a generic analysis for incentives and market price comparison (European/Global/Adjacent to UK markets/LNG) and Entry Point Cash Out analysis (imbalance data relating to potential GDE triggers) in time for discussion at the next meeting.

4. Discussion – detailed business rules

SP opened the discussion by pointing out that the content has been amended slightly from previous versions and may require additional adjustment to include identification of who will be appointed as the claims assessor/reviewer. JB suggested that perhaps the UNC Committee could make that decision rather than National Grid NTS doing so. Members wondered if having a list of potential assessors included within a guidelines document would be helpful, although it was acknowledged that potentially keeping such a list up to date could become an onerous task, especially in light of the fact that appointment of an assessor will only really be needed in cases where extreme price offers exist.

SP then ran through the various sections of the document, and members noted the following items of interest:

- Any trades placed on the OCM during stage 5 of an emergency will not be allowed;
- APX processes will be applied, and it is premature to rule out 'specified rate' during an APX;
- WAP relates to an indicative price;
- The 'Market Transaction ID' is taken off the OCM, and takes effect at the point at which you place an offer;
 - concerns remained that this potentially infers you have to interrupt first before placing an offer, especially if you are a power station;
- The intention is not to identify actual markets within the Code, but rather the fact that the markets are linked;
 - consideration of UK specific definitions maybe required at some point;
- Consideration of electricity versus gas markets is really an Authority decision, or perhaps a claim assessor decision;
- Close-out period is at the end of an emergency, which will align with the 'end-of-day';
- The average weighted price maybe different to the OCM price;
- In 4.0.3, this will need to clarify the daily imbalance outside of a GDE, and
- In 4.0.4, this relates to your close-out imbalance for the day and is consistent with how neutrality is currently calculated.

In closing, members remarked that it is all related to having confidence in your balancing position on the day and highlights a problem associated with accurate targeting of costs. National Grid NTS's demand forecasting accuracy will be a key feature, although it is

acknowledged that the actual targeting is difficult and placing incentives on Shippers to improve their contact information maybe unreasonable.

BW agreed to ascertain whether or not, the Authority intend to undertake a Regulatory Impact Assessment in due course.

Action EAW004: Ofgem (BW) to ascertain whether or not, the Authority intend undertaking a Regulatory Impact Assessment in due course.

5. Next Steps and Diary Planning

It was agreed that the next meeting (now confirmed as 02 June 2009 at Ofgem Millbank) would be devoted to a more detailed discussion of the proposed Business Rules.

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

6. Any Other Business

None.

Appendix 1**Action Log – “Review of Emergency Arrangements” Workshop 2: 05 May 2009**

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
EAW001	16/03/09	4.2	Provide under-recovery example.	National Grid NTS (SP)	Example to be provided asap. Carried Forward
EAW002	05/05/09	2	Develop Critical Transportation Constraint (CTC) to Gas Deficit Emergency (GDE) interaction scenario examples.	National Grid NTS (SP)	Update at the next meeting.
EAW003	05/05/09	3.3	Produce a generic analysis for incentives and market price comparison (European/ Global/Adjacent to UK markets/ LNG) and Entry Point Cash Out analysis (imbalance data relating to potential GDE triggers).	National Grid NTS (SP)	Update at the next meeting.
EAW004	05/05/09	4	Ascertain whether or not, the Authority intend undertaking a Regulatory Impact Assessment in due course.	Ofgem (BW)	Update at the next meeting.