

Transmission Workstream Minutes
Review of Emergency Arrangements - Workshop 3
Tuesday 02 June 2009
Ofgem Offices, 9 Millbank, London SW1P 3GE

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
Jeff Chandler*	(JC)	SSE
Kamel Magour	(KM)	Ofgem
Mark Cockayne	(MC)	xoserve
Mark Dalton	(MD)	BG Group
Richard Fairholme	(RF)	E.ON UK
Stefan Leedham	(SL)	EDF Energy
Steve Pownall	(SP)	National Grid NTS
Steve Rose	(SR)	RWE Npower
* by teleconference		

1. Introduction

JB welcomed the attendees to the meeting.

1.1 Review of minutes from the previous meeting (05 May 2009)

A comment on the intent of Action EAW003 was clarified; amendments to the minutes and action were agreed and are reflected as follows:

“3.3 Agree on scope for supporting analysis

Paragraph 2:

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) contact the NEC representative to discuss potential GDE triggers with a view to giving a brief on the position at the next meeting.~~

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~~ contact the NEC representative to discuss potential GDE triggers with a view to giving a brief on the position at the next meeting.

The minutes of the previous meeting were accepted.

1.2 Review of actions

The actions from the previous meetings were reviewed:

EAW001: Provide under-recovery example.

Update: National Grid NTS (SP) gave a brief overview and requested that any questions be forwarded to him after the meeting. **Action Closed**

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; and **EAW003:** National Grid NTS (SP) to contact the NEC representative to discuss potential GDE triggers with a view to giving a brief on the position at the next meeting.

Update: SP reported that, in discussion with NEC staff, it had been pointed out that, although there may be interactions between GDEs and CTCs, it would be very difficult to produce any meaningful scenarios as there were many variable factors that could trigger a GDE or a local gas supply emergency, depending on the location, and not one or two well defined triggers. SP offered to discuss this again with the NEC on his return. JB added that there was no historical data associated with gas emergencies to inform any scenario, as an emergency of this nature had not occurred; different actions may be required should the escalation be gradual or rapid.

SR commented that there was a claims process under the CTC when storage withdrawals are required. SP responded that payment was likely to be made through the OCM, as locational bids associated withdrawals at Storage Facilities would be taken. In that event, there would be no basis for compensation. JB reminded the meeting that the CTC definition excluded all cases that would be alleviated by beach entry. These would be classified as GDEs. **Actions closed.**

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

Update: BW said that the Authority would not have a view until the Final Modification Report had been received. However should it be necessary then it may be possible to fast track an RIA or perhaps agree to a shorter consultation period. At present an RIA was not considered to be likely. **Action closed.**

2. Discussion – detailed business rules

SP reported on the changes made to the document since the last meeting, and these were discussed. As the discussion progressed a number of issues were highlighted that would require further consideration.

1.1 – second bullet point: SR pointed out that ‘bought’ should be replaced with ‘delivered’.

2.2(a) – This had been introduced because of a technical issue identified by APX; a lead time of zero cannot be placed on the OCM, and to address that would require significant system changes.

The meeting discussed how the quantity to be claimed was derived. National Grid NTS had assumed that all offers on the OCM would be delivered as a result of NEC direction. These offers would either be taken by other Users to address their imbalance position or would be the subject of a compensation claim. Claims would only be accepted for Users with a surplus imbalance position and this would be limited to the extent of their surplus. SP did not believe there was an issue with the nominations/renominations process but would be happy to go through examples, of the way that this works, at a Workstream. There was concern that the complexities and subtleties of these emergency processes may not yet be fully appreciated by some parties and it was felt that it could usefully be presented at the Ops Forum. It was also suggested that an overview of the nominations/renominations process be included as an appendix to the Modification Proposal as an aid to understanding.

Action EAW005: An overview of the nominations/renominations process in an emergency to be included as an appendix to the Modification Proposal.

3.3 – As the UNC does not state what information should be provided it had been thought that a pro forma would be useful, which could be submitted to National Grid NTS.

3.3(e) – reference to ‘UK electricity market’ – SP said that although there was some reticence on the part of the lawyers with regard to the potential sharing of information between licences, the sharing of publicly available data should not be a problem. BW agreed that this was a reasonable assumption to make. The lawyers had also pointed out that a conversion or market rate may also be required between a European market and the OCM.

3.3(f) – This was to do with an economic test and allows or gives the opportunity to a claimant to set out why they think it should be as it is. RF referred back to 2.5 and suggested that having more information on the range of prices may be worthwhile – would the claims assessor see more than the WAP?

A free format field was considered to be a useful addition to a pro forma to enable the inclusion of any other relevant information by the claimant.

3.4 – The Transporters’ Agency will undertake the mechanistic parts of the validation process; this would improve the monitoring of financial exposure and credit indebtedness.

SP said that, for the purposes of the proposal, any claim where prices seem over inflated or unjustified would probably be sent off to Ofgem for consideration.

BW asked how the mechanistic side would work. SP responded that this was detailed in sections 3.5 – 3.11 of the rules but there would need to be further discussions with xoserve and APX.

3.5 – CW questioned the definition of ‘duration’ and SP confirmed that this did not mean the entire Gas Day.

3.7 and 3.8 – The concept of ‘scaling-back’ was discussed. If the market did not respond, the GDE would move up to Stage 4. There was concern that allocation between sectors would then be much more difficult. If a change was noted between the GDN forecast and what was coming in, an assessment would have to be made as to how that was driven. Allocation would have to be made across all EUC bands, followed by allocation to Shippers, who would then be told what to balance against, and there was room for significant error. SP pointed out that if an Entry Point failed, the vast majority of Shippers will be long.

It was pointed out that there may be a potential mismatch between the perceptions that Shippers and National Grid NTS may have of imbalance positions. For example, their assumptions of reduction in domestic demand, as a result of public appeals might differ. If the Shipper’s view of its balance position was correct and National Grid’s was not, would a Shipper have to put in a claim based on National Grid NTS’s view? If so, how would it seek redress this error once the correct position had been established? Demand in the domestic demand sector would be unknown as there would be no reliable means of predicting how domestic sites would respond to public announcements during a GDE.

Whilst some members queried the need for scale back, JB suggested that there may be undesirable effects if scale-back were not carried out and this was generally recognised. Some members considered that Shippers would base their figures on what they thought the demand was, but due to the uncertainty surrounding NDM demand, would probably not know until D+5.

It was pointed out that some contracts, eg NBP contracts, do not allow for Force Majeure and parties still have to deliver. SP said that the proposal was trying to encourage parties to put in contractual arrangements around emergencies. NBP contracts could be renegotiated; Shippers seemed doubtful of the possibilities that may then arise.

RF referred back to the overstatement of claims and questioned whether the opposite might also need to be considered, ie the understatement of a claim, and would this be brought to the claimant’s attention and then be addressed by ‘scaling-up’. CT responded

that the proposal was attempting to recompense parties for financial loss and the concept of scaling up would require further consideration to see what the effects might be.

Action EAW006: National Grid NTS (CT) to consider the concept of scaling up and its effects.

3.10 – It was questioned why the Post-Emergency Claim/justification was to be sent directly to Ofgem rather than to a claims validator/assessor (3.10 (c)). SP indicated that this was because this replicated the current arrangements and in the Licence where the Authority will oversee the claims. Some members thought that it might be more sensible to send it to the claims validator/assessor first.

Some members questioned whether they would have sight of all validated material. SP responded that it was the intention to publish all market reference prices, etc, and a brief discussion on prices followed. In a GDE, SAP and SMP, on which cash-out is based, are frozen at Stage 2. However there may be some Shipper to Shipper transactions on the OCM at various prices and there was concern that a party could potentially trade between itself and another part of its group.

If the price was below the market reference price, the claim would go through and would not pass to the claims reviewer. If it passed validation it would get paid; if it failed validation then it would get looked at more closely. It needs to be clear which price was being referenced and the parameters outside of which a claim would be sent to the claims reviewer. The Weighted Average Price of accepted locational bids was suggested by some attendees.

The incentive on short Shippers would be to take the price below the SMP. The proposal was to encourage the delivery to the UK of additional supplies that were not under the direction of the NEC, and to give parties reassurance that they would get paid for it. This was not currently the position under the UNC; it was a pragmatic step forward to attempt to attract gas into the UK in a GDE.

JB reiterated that the threshold between 3.10(b) and 3.10(c) required more thought.

3.11 – It was questioned whether all markets would be relevant on the Day and SP responded that this was under consideration by the legal team. SP suggested that it should be made mandatory on a party to supply a market reference and justify it; this suggestion received support.

3.12 – The Market Reference List was discussed and there appeared to be some element of confusion over the use of the list. The list had been provided to try and capture what markets Shippers might use to justify their claims, and further suggestions would be welcome. It was noted that BEB had been inadvertently excluded from the list. RF asked if xoserve had/would have access to all of the different hub information. If it was not published, could it be classed as a market reference? It was pointed out that the longer a GDE lasted, the further one may have to go to source additional gas and this may lead to more obscure market references being called upon, eg LNG, from distant locations. It was suggested that the scope could be expanded to include markets such as LNG. Consideration may therefore need to be given to matching locations to market references to be used and the validation of price against location.

Action EAW007: Business Rules 3.12 - Further consideration to be given to matching locations to market references to be used and the validation of price against location.

Any claim below the market reference price at a hub listed on the table would go through; a specific justification would need to be submitted if any other reference was used. This would be up to the individual Shipper; it would apply to claims that fall outside of WAP. Anything above market price would be sent to Ofgem.

There were suggestions that Ofgem could control the List and appoint the claims assessor but this was not agreed.

SR suggested that defining a role for the claims assessor would add clarity. BW suggested that the Market Reference List could form part of the guidelines for an assessor.

At the conclusion of this discussion, it was agreed that the points raised would require further consideration and that it might be helpful to devise three or four options (detailing any advantages and disadvantages) for setting the thresholds and the rationales for each option. SL volunteered to complete this task.

Action EAW008: Business Rules 3.10 – 3.12 - Devise three or four options (detailing any advantages and disadvantages) for setting the thresholds and the rationales for each option.

3.14 – Details of all claims will be published (excluding Shipper identification).

3. Next Steps and Diary Planning

There were still concerns that the incentives set out in the theoretical model may not work if it came to the reality of a GDE, as so many decisions and behavioural response were unknowable.

It was recognised also that another complexity was being added (questioning the mechanistic approach) as putting a physical OCM offer on the system was not something many Shippers do every day and this could prove a challenge under what may be very difficult circumstances. It was felt that refresher training on this might be welcomed. It was also suggested that the NEC may need to look more closely at how ECQ is operated, P70s, and other less frequently utilised tools that may be called upon in an emergency. These areas of potential shortcomings might be covered at the Ops Forum.

The attendees agreed to review the draft modification proposal and submit any comments to the Joint Office by 17:00 on Friday 12 June 2009.

Action EAW009: Review the draft modification proposal and submit any comments to the Joint Office (Enquiries@gasgovernance.com) by 17:00 on Friday 12 June 2009.

National Grid NTS will then finalise the Modification Proposal with the intention of presenting it to the UNC Modification Panel on 16 July 2009.

The next meeting will take place at Ofgem's Offices, starting at 10:00 on Wednesday 24 June 2009. Details of future meetings may be found on the Joint Office website at: www.gasgovernance.com/Diary

4. Any Other Business

None raised.

Action Log – “Review of Emergency Arrangements” Workshop 3: 02 June 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)	Closed
EAW002	05/05/09	2.0	Develop Critical Transportation Constraint (CTC) to Gas Deficit Emergency (GDE) interaction scenario examples.	National Grid NTS (SP)	Closed
EAW003	05/05/09	3.3	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 <u>contact the NEC representative to discuss potential GDE triggers with a view to giving a brief on the position at the next meeting.</u>	National Grid NTS (SP)	(Action reworded at meeting 02/06/09) Closed
EAW004	05/05/09	4.0	Ascertain whether or not, the Authority intend undertaking a Regulatory Impact Assessment in due course.	Ofgem (BW)	Closed
EAW005	02/06/09	2.0	An overview of the nominations/renominations process in an emergency to be included as an appendix to the Modification Proposal.	National Grid NTS (SP/CT)	
EAW006	02/06/09	2.0	Business Rules: 3.7/3.8 - Further consideration to be given to the concept of scaling up and its effects.	National Grid NTS (SP/CT)	
EAW007	02/06/09	2.0	Business Rules: 3.12 - Further consideration to be given to matching locations to market references to be used and the validation of price against location.	National Grid NTS (SP/CT)	
EAW008	02/06/09	2.0	Business Rules 3.10 - 312 - Devise three or four options (detailing any advantages and disadvantages) for setting the	EDF Energy (SL)	

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
			thresholds and the rationales for each option.		
EAW009	02/06/09	3.0	Review the draft modification proposal and submit any comments to the Joint Office by 17:00 on Friday 12 June 2009.	ALL	