

**Transmission Workstream Minutes**  
**Review of Emergency Arrangements - Workshop 4**  
**Wednesday 24 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
Angus Paxton	(AP)	Poyry Consulting
Ben Woodside	(BW)	Ofgem
Chris Wright	(CW)	Centrica
Claire Thorneywork	(CT)	National Grid NTS
Dylan King	(DK)	ConocoPhillips
Jeff Chandler	(JC)	SSE
Julie Cox	(JCx)	AEP
Kamel Magour	(KM)	Ofgem
Mark Dalton	(MD)	BG Group
Michael Doherty	(MDo)	Centrica
Richard Fairholme	(RF)	E.ON UK
Shelley Rouse	(SR)	Statoil (U.K)
Sofia Fernandez Avendano	(SFA)	Total Gas & Power
Stefan Leedham	(SL)	EDF Energy
Steve Pownall	(SP)	National Grid NTS
Steve Rose	(SRo)	RWE Npower

**1. Introduction**

JB welcomed the attendees to the meeting.

**1.1 Review of minutes from the previous meeting (02 June 2009)**

The minutes of the previous meeting were accepted.

**1.2 Review of actions**

The actions from the previous meetings were reviewed:

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

**Update:** This was in hand and would be included as an appendix to the Modification Proposal. **Action carried forward**

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

**Update:** Consideration had been given to scaling up and its effects and it was believed that to include this would give rise to perverse incentives; therefore it would not be included in the Proposal. There were no further comments from the meeting.  
**Action closed**

**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.

**Update:** Covered under the presentation. **Action closed**

**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.

**Update:** Covered under the presentation. **Action closed**

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

**Update:** Comments had been received from one party and these had been addressed. National Grid NTS will finalise the Modification Proposal with the intention of presenting it to the Transmission Workstream on 02 July 2009 and the UNC Modification Panel on 16 July 2009. **Action closed**

## 2. Discussion – detailed business rules

JCx was concerned that the Proposal would lead to inconsistencies with the work that was going on in the European arena to address Security of Supply issues and the alignment of emergency plans across European states. A White Paper was expected to be issued in July. SP responded that this should be seen as a stepping stone, which was trying to address a longstanding and current issue and achieve better alignment to the GS(M)Rs. It could be demonstrated that the Proposal had merit for this winter as there was no real claims process in the UNC at present. BW supported SP's view that there was a need to get this in for this winter and there was no reason to stop pursuing a practical solution to a recognised issue. Ofgem report to the Transmission Workstream on any progress on the European front and National Grid NTS bear developments in mind. JCx was still concerned about what would need to be done should future developments mean that the outcome of this Proposal (assuming it is approved and implemented) has to be unravelled. CT responded that it was possible that European developments would result in the whole of UNC TPD Section Q being reviewed.

### 2.1 EDF Energy Presentation in response to Action EAW008

SL presented 9 different options, and stated that he had no personal preference for a particular solution. He pointed out that setting a price for automatic payment of claim does not inform a party what price it was getting for its gas – it was just dictating the process that was followed. If a party's position was around the trigger price it may choose to submit at just below that level and slip into the automatic process. It was unlikely that Ofgem would validate claims that were progressing through the automatic process. The post emergency claims price trigger does not provide incentive to supply more non UKCS gas - the whole Proposal and claims process was doing that. A trigger price could be designed that provided additional clarity but the main drivers would be a liquid market and the ability to put in a claim and get it paid.

The main criteria for the post emergency claims price were that it should not be open to manipulation; it should be transparent; it should be simple; and it should be market based. EDF's internal discussions had attracted feedback that indicated that too many processes were becoming very complex and there were concerns that these were creating barriers to existing business and new entries.

The Options were then described and discussed.

**Option 1** – Received no comments.

**Option 2** – If the GDE lasted for a long time the frozen price could end up higher than the market price, so all could go through validation at the end. Everything would be above SAP price.

**Option 3** – This was possibly more effective than frozen SAP.

**Option 4** – SP questioned whether APX rules prevented trade between subsidiary companies. SL said that in practice it was very hard to differentiate between such parties. This option was seen as quite complex and parties have to monitor prices continually. BW was not sure it would be effective. Most trades would have gone through below that price but above the WAP.

Responding to a question from MDo, CT said that if a party was long it would be cashed out at frozen SAP at M+15 – anything above goes into the claims process. That party's claim would be registered 6 days after. The proposal is that a party can only be scaled down not scaled up. SP pointed out that there was a risk if a party over inflated the amount of gas taken, as it could end up short.

JCx had noted elsewhere that DECC should be contacted if a party requires more non UKCS gas (referred to in a National Emergency Plan document) – the assumption being that no further action would then be required?

SL questioned if the claim price and offer price had to match up. Quantities can be scaled back; the price put on market is supposed to be the indicative price; offers can be re-priced until close out on the gas day. JCx commented that complexities seem to be accumulating on the operations side, especially where the end user is not the same party as the Shipper. This was supposed to be a better and easier process to encourage more gas, but it is not doing this. She questioned whether an end user was realistically going to put in place more commercial arrangements with their Shipper for an emergency that probably would never happen? CT reiterated that this Proposal offers recompense and gives an incentive to set a contract. AP thought that it will build all costs into Shippers' prices. SP pointed out that 'anomalies' will be assessed separately. It was giving Shippers opportunities to post their long positions and address any imbalance.

JCx indicated that there may be an issue relating to sites coming off first, with no idea of recompense as this depends on Shippers' actions – the uncertainty may mean that sites may not come off early.

There was a short discussion on actions required at the stages of an emergency. At Stages 1 and 2, National Grid NTS would perform its normal residual balancing role taking gas from the OCM, which would be cleared at the end of the day. At Stage 2, parties will be maximising beach supplies, seeking demand side turndowns, and short Shippers will be taking up gas to address imbalances.

SL pointed out that this Proposal deals with the extra gas in the Shipper's control, ie if very long on gas and getting financial recompense for it. BW added that it was putting more clarity around the claims arrangements.

**Option 5** – There appeared to be an assumption that everything left on the OCM is 'valid' – this was not so as validation is not applied until a counterparty seeks to take up that bid or offer. This option may be transparent but was open to manipulation.

It was then pointed out that here could be another option:

**Option 4a** Weighted average of all claims on the day - This would be slightly more market based than 5.

**Option 6** – It was pointed out that TTF and Zeebrugge prices tend to track NBP prices except where there is no Interconnector available.

Some Continental hub prices are only available to UK companies if they pay the applicable subscriptions and therefore could be considered as none transparent. BW thought this proposed option may be a breach of Competition Law and was checking this with the legal department. SP considered that creating a trigger price, based on a Continental hub price did not constitute the type of price linkage that would cause concern.

There was discussion of the relevance of a Continental hub price when an emergency included parts of the continent. SL responded that whatever is causing the emergency is often the key to what action will be required.

**Option 7** – Assumes that CCGTs are setting the marginal price. SP was concerned that this was biased towards CCGTs and there were a number of complex questions that would need to be resolved such as which of the half-hour electricity balancing periods do you use?

**Option 8** – It was pointed out that the price is not known until D+6. This option gives a relatively simple filter.

SP said that the indicative Weighted Average Price (WAP) on OCM is likely to indicate the lowest price that the trigger would be at M+15.

JCx asked if APX can publish the indicative WAP in real time. This was confirmed.

JCx commented that setting the value of x in this option may be driven by how much work Ofgem intend or are prepared to do on the validation of any claims.

AP questioned how many claims would actually be made - realistically it would not be thousands. A sensible process could be instituted, even if the price was set at 0 and everything could be processed for say £50,000, which would be much smaller than the value of the gas being claimed for.

CW then suggested that perhaps a more mechanistic approach was called for, if small volumes were involved or even if it came to high volumes and low prices – perhaps claims should just be paid?

**Option 9** – WAP below – pay/above – validate.

Returning to Option 7 – SP and CT said that they needed to consider the interaction between the BSC and gas side; there may be an issue with the percentage aspect, as previous proposals had always been rejected because of arbitrary percentage figures.

In terms of Option 8, BW responded that a percentile level, eg 80%, could be fixed; this could produce a reasonable reflective market cost because people would want to get their claims paid without going through lengthy validation and perhaps the top 10 - 20% would be assessed.

The discussions had made it clear that there was no neat solution to be discovered in these options. JCx felt transparency to be an important criterion but agreed that it might not be the crucial element. At this point in the discussions Option 4 seemed to find most favour, but there was no consensus.

Following questions from the Chair the meeting agreed to discount options 1, 2, 3 and 6, leaving options 4,5,7, 8 and 9 for further consideration.

CW was concerned regarding any price threshold set in the claims approval process within Ofgem. Would Ofgem have the right of veto **and** the right to set a price or just the right to accept/reject? SP pointed out that a party will have to justify the price put into its claim.

It was suggested that a set of guidelines on what criteria would be applied within the economic test/validation would be welcomed. A work group may be required to develop this further. If all claims are around a similar figure they are likely to go through and be paid. Economic assessment mechanisms need to be looked at by Ofgem who could set out some criteria. CW emphasised that the Proposal needed to capture this more clearly and Ofgem needed to facilitate the development/production of the guidelines.

SRO thought this to be particularly relevant to any Shipper who was short; exposure to high cash out prices has a very negative effect on smaller parties. In his view although

the claims process is vague now, this proposal may not be any better as the circumstances of an emergency cannot be foreseen and may vary considerably.

Further views on the remaining options were sought.

Options 7 and 8 – still carried the issue of transparency;

Option 9 – was felt would be known too late to affect provision of gas;

SRo commented that if one envisaged maximising beach supplies and bringing in the gas there would be virtually no claims.

There was another view that everything should be validated, as this would be the most transparent.

SL pointed out that in an emergency there were many, and sometimes obscure, drivers of behaviours – economics, public relations, and other actions/agreements that went on behind scenes; at the time the price of it may be considered to be far less important than whatever else is going on.

CW agreed that validating everything would cover most emergency scenarios. Other suggestions included paying claims over an even spread; or just checking out 'exceptional' claims.

SP reiterated that this was trying to make the UNC more transparent and information will be published prices/volumes on market on GDE day to help. Claims would have to be justified to Ofgem in market terms as well as meeting the party's own internal criteria).

JCx said that whatever is agreed we need to be reasonably confident it will work at end of day and is a sensible process to go through.

JB then asked which option, if any in the view of the meeting, would be better than current state and better able to facilitate the relevant objectives. The following alternative approaches were felt to be worthy of further consideration:

- 1) Everything to be validated by Ofgem and assessed according to certain criteria
- 2) All claims to be paid unless disputed by Shippers
- 3) Maintaining a set period in which to investigate any exceptional claims
- 4) Having a transparent trigger level.

DK thought that more clarification was required as to how Ofgem intend to validate as this would give more assurance.

SP said that National Grid NTS would require a trigger – perhaps to be set at 90 percentile of the claims? It needs to be set to get gas taken so parties are closer to the balancing position and closed out at the end of the day.

SR commented that perhaps everything not taken should be scrutinised and validated, but CW pointed out there may be credit difficulties at such a time which may mean some parties are not in a position to take gas although it would alleviate their positions.

At this point, it was concluded that no consensus would be reached within this meeting. BW pointed out that the issue is becoming more acute year by year.

It was recommended that the Proposal should include what will happen to rejected claims, and the need for refresher training etc for industry was reiterated.

JCx pointed out that locational effects need to be reconsidered and suggested that considering only locational bids in an emergency might be a valid approach.

## **2.2 National Grid NTS' response to RWE npower's suggested changes**

From the previous discussion it was apparent to SR that SP had addressed some of the points raised by RWE npower, however smearing costs to short Shippers remained of

concern. Could a “smearing factor” be included in the calculation, by which only a portion of the costs would be borne by short Shippers. The remainder would be borne by Shippers as a whole. SL commented that this could be set post event, although other attendees did not support this view.

There was a brief discussion on smearing. Smearing on all Shippers was the status quo.

SL acknowledged that short Shippers would prefer it to be smeared over all parties. CW added that if a smear is anticipated it could affect prices.

SP noted the views expressed but remained of the opinion that the costs should be targeted to short Shippers; National Grid NTS was under Licence obligations to achieve better cost targeting and following internal debates the view was that the Proposal will target short Shippers. SRO responded that an urgent Mod may be raised to change that view.

SP will consider which option on which to base the trigger for the Proposal.

### **2.3 Business Rules**

JB asked if there were any points that remained unclear. There were no comments other than those raised in the discussions, the assumption being that all previous points would be resolved.

SRO requested that it be made clear in the Appendix to the Proposal that physical nominations should be reduced as contract nominations were made.

SRO also raised a question on rate change for physical nomination. SP clarified that the rate change option is suspended if you go into a GDE.

In light of today’s discussions, changes will be made to the Business Rules and these will be attached to the Proposal. SP envisaged that there would be an opportunity for a work group to develop the legal text in parallel to the progress of the Modification Proposal.

SP then referred to the change to the Storage Monitor Methodology and the need to amend the GBA elements in UNC; there will be a Proposal based on that required change.

## **3. Any Other Business**

SP referred to the presentation given by Peter Parsons on storage monitors, which would be aggregated across the three storage types. It was proposed that information on days’ storage stock availability with “traffic light” indicators. This would be raised as a topic at next Transmission Workstream and then developed as a UNC Proposal through Workshops. SL suggested that revising the current information provision by amending NCORM might be a better route. SP agreed to consider this.

## **4. Next Steps and Diary Planning**

BW thought it unlikely that Ofgem would carry out a Regulatory Impact Assessment (RIA), but would probably consult on the guidelines required in support of this Modification Proposal.

National Grid NTS will finalise the Modification Proposal with the intention of presenting it to the Transmission Workstream on 02 July 2009 and the UNC Modification Panel on 16 July 2009.

No further meeting was required.

Any actions remaining outstanding will be overseen and progressed by the Transmission Workstream.

**Action Log – “Review of Emergency Arrangements” Workshop 4: 24 June 2009**

<b>Action Ref</b>	<b>Meeting Date(s)</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
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)	In hand.  Carried forward
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)	Closed
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)	Closed
EAW008	02/06/09	2.0	Business Rules 3.10 - 312 - Devise three or four options (detailing any advantages and disadvantages) for setting the thresholds and the rationales for each option.	EDF Energy (SL)	Closed
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	Closed