UNC Workgroup 0435 Minutes
Arrangements to better secure firm gas supplies for GB customers

Thursday 06 December 2012

Elexon, 350 Euston Road, London NW1 3AW

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Anjili Mehta	(AM)	Ofgem
Charles Ruffell	(CR)	RWE Npower
Chris Wright	(CW)	Centrica
Claire Thorneywork	(CT)	National Grid NTS
Danielle Stoves	(DS)	Interconnector UK
Darren Lond	(DL)	National Grid NTS
Erika Melen	(EM)	Scotia Gas Networks
Fergus Healy	(FH)	National Grid NTS
Fiona Strachan	(FS)	Gazprom
Gerry Hoggan	(GH)	ScottishPower
Graham Jack	(GJ)	Centrica
Jeff Chandler	(JC)	SSE
Julie Cox	(JCx)	Energy UK
Lewis Hodgart	(LH)	Ofgem
Lorna Lewin	(LL)	DONG Energy
Lorraine Weir	(LW)	National Grid NTS
Mark Cockayne	(MC)	Xoserve
Mark Dalton	(MD)	BG Group
Matthew Hatch	(MH)	National Grid NTS
Mike Wassell	(MW)	National Grid NTS
Nick Wye	(NW)	Waters Wye Associates
Phil Hobbins	(PH)	National Grid NTS
Richard Fairholme*	(RF)	E.ON UK
Shelley Rouse	(SR)	Statoil
Tom Farmer	(TF)	Ofgem
Will Cutler	(WC)	DECC

**via teleconference*

1. Introduction

TD welcomed all to the meeting.

1.1 Review of Minutes

The minutes of the previous meeting were accepted.

1.2 Review of Actions

0435 11/02: National Grid NTS (DL) to provide an Operating Margins presentation, covering option and exercise fees and volumes involved.

Update: Presentation provided, see 2 below. **Closed**

0435 11/03: All to consider whether it would be beneficial for National Grid NTS to be able to contract directly with customers.

Update: Under consideration. **Carried forward**

0435 11/04: Ofgem (TF) to provide clarity around Ofgem's SCR position with regard to essential requirements for DSR and consumer compensation.

Update: AM reported that an SCR meeting had been arranged for 14 December 2012 to review the relative merits of Ofgem's proposed approach and to consider any alternatives. She confirmed that invitations have been issued for single representative attendance; teleconference facilities will be available. TF believed that a clearer view would be reached following this. TF reiterated the SCR concerns and queried if there were any alternatives forthcoming.

NW asked what sort of progress might be expected over the next few months. AM responded that the potential further measures paper had just been published, and that Ofgem was reviewing responses to its consultation; a clearer view on progress was more likely after the 14 December meeting. A decision on the SCR was unlikely to materialise before Christmas 2012.

NW then asked WC if it would be appropriate for Ofgem not to be doing anything before DECC has reached its conclusions. Refusing to be drawn on the subject, WC responded that there was definitely a need for both parties to work in parallel and for a holistic view to be taken.

Responding to RF, AM confirmed that no gas SCR decisions were expected at the December GEMA meeting. **Carried forward**

2. Operating Margins (OM)

LW gave a presentation, explaining the purpose and use of Operating Margins (OM) gas, the three categories under which it is used, and from where it may be sourced. LW confirmed that OM was utilised from the time of the 'event' until the end of the gas day. Historically provision has been through storage, including LNG, but provision has recently diversified to include other providers who can offer demand turndown.

OM will still be required as a short-term response to address demand volatility in certain circumstances where the market may not be able to react quickly enough (rapid changes over a short time period). Areas for review had been identified, including contract types and the interaction between Operating Margins and Modification 0435. There appeared to be no market appetite for a longer-term contract so it was still being booked on an annual basis.

Provision of OM cost circa £23m; CW asked how this was socialised. DL said it goes through the SO incentives (recovered through a commodity charge). TD asked how often OM was used. LW replied that it was last used in January 2010 (a locational issue – compressor failure). CW asked why OM was limited to covering a maximum period of 24 hours and LW explained that if the 'event' continued for longer than 24 hours it become an Emergency, and other processes would be triggered. Effectively OM is a short-term system support product that can be used to manage an event until such time as the market can respond. It was then questioned whether National Grid NTS should continue to restrict it to a 24hour product. LW described various scenarios that could use OM and then appropriate tools relating to firm load shedding.

CW recognised there would be some overlaps with Modification 0435, which is focused on an incident created by issues with commodity, rather than transportation, availability; it would only be available in the event of a commodity related problem.

DL confirmed that, contrary to the proposal in Modification 0435, the OM price does not feed into the cash out price. CW stated that he would not want to see a change in the cash out price because of a locational transportation issue. He did not see Modification 0435 as being a network balancing tool; consideration therefore needed to be given as to how DSR and balancing tools sit side by side. TD observed that parties would be looking to keep the system in balance by whichever was the most appropriate means; the challenge was to ascertain where and when it was appropriate to use whichever mechanism/tool was available to achieve the most efficient, economic and least disruptive result.

DL then continued the presentation and directed parties to the document that contained the OM principles. The option and exercise prices, and calculation principles, for OM deliverability contracts were considered, and examples of the contract exercise price were illustrated.

WC asked what would happen if a contracting party was unable to provide turn down, LW emphasised that, being a safety related provision, it had to be demonstrated beforehand that the service could be relied upon. CT raised the point that over a 5 year contracting term circumstances can and do change and perhaps a regular review might be required to maintain assurance that the turndown/off requirement could continue to be met or to reopen a contract to accommodate changes in circumstances.

DL raised further questions: should a DSR product be looking to have to turn off and/or stop turning on if already off? Should there be/not be charges if a party was already turned off (for whatever reason) before any 'event' requirement called on the contractual obligation to turn off?

TF sought clarity on lines of communication to the customer when seeking to exercise the requirement to turn off – was it through the Shipper/Supplier or a direct contact – and what notifications would be sent. DL agreed to clarify what communications are made, via what route, and to whom.

Action 0435 12/01: *Operating Margins (OM)* - Clarify what communications are made, via what route, and to whom.

TF asked what happens to OM gas and any imbalance position. DL responded that an opposite and equal NBP trade is effected, with payments made under the OM contract depending on the specific terms agreed with each party.

CT observed that impacts on cash out and how this was affected by both exercise and option costs required consideration.

MD asked what was happening in the current OM process. LW confirmed that required volumes are being finalised. The tender will be issued shortly, probably before Christmas.

Documentation on the National Grid website relating to OM tenders is at http://www.nationalgrid.com/uk/Gas/OperationalInfo/GasOperatingMargins

CW believed a key question to be how the volumes would be set under Modification 0435, and felt it may be appropriate to look to DECC to confirm the security standard. The degree of shortfall could then be calculated based on this security standard. It may also be appropriate to look towards a European standard. In any event, further is likely to be required to establish an acceptable level.

CW then asked if there was any effect on National Grid NTS' linepack incentive when OM is used. DL confirmed that this remained in place every day; there was no relaxation for Gas Balancing Alerts (GBAs) or anything else. TD suggested there might be merit in turning off the linepack incentive, although there was no prospect of this influencing National Grid's behaviour when they are looking to secure the system in extreme circumstances. DL confirmed that the incentive did not feed into decisions when the last GBA was issued - January 2010.

3. Monitoring and Penalties

3.1 Compliance by customers with DSR terms

Referring back to Centrica's presentation given at the meeting on 01 November 2012, Slide 8 was displayed and CW asked if there was anything in there not covered by OM requirements.

Slide 8:

- *"How does the provider prove compliance with the instruction to turn down/off?*
  - *e.g. Requirement for mandatory flow monitoring feeds to NG NTS?*
  - *What if a customer at multi-shipper offtake continues to take gas – who is liable for any penalty charges?*
- *What if the provider does not comply with the instruction?*
  - *Who is liable for any penalties?*
  - *What are the penalties for FTI?*
    - *Who are the penalties payable to and how are these revenues treated?*
    - *Pay back of all / some historic option fees previously paid in event of FTI?*
    - *What if the provider is not taking gas at the time of a GBA?*
- *Are special arrangements needed for where a number of tranches of interruption are tendered / interrupted?"*

During consideration of these questions, GJ asked if a site could be shut off remotely. DL was not sure that this would be done (even if it were possible) as this could be construed as 'isolation'.

It was confirmed that OM only involved NTS connections. There is less direct contact with DN connections so compliance would need to be proved in some way. This would be slightly more difficult as communication was necessarily indirect and more at a distance. It was suggested that turn up contracts at entry might also need to be monitored. DL thought the means for monitoring compliance by DN loads was a question for the DNs.

CT suggested that diurnal storage and any impacts on that be considered – it can only run down once, but may provide a source of gas in an emergency situation. Was diurnal storage the DN's main flex product?

Bullet Point 2 was considered. DL believed OM does not exclude this, but would have to check; it would need further thought.

CW asked if the OM process rules could be extended to cover a Modification 0435 type service. It was suggested that it would need to be contracted – what was a suitable DSR and what level of value? DL asked, was 'an availability option to turn on/turn off' required in a contract, rather than just looking for DSR? TD asked, could direct contact with the customer help in establishing compliance, rather than going through a Shipper? CW asked, if that were to be the case, what ability would National Grid NTS then have to collect any charges due? CT suggested that such an arrangement was likely to be described as contracting for a service rather than purchasing gas, and so may not require an amendment to the Gas Act. TD suggested that customers might be more accepting of this type of contract rather than OM. DL felt it should form part of a bundled service, rather than present further complications for what is currently deemed to be a low probability event. JCx favoured simplicity of any arrangements, and suggested it may be appropriate to adopt a phased approach, ie to look at NTS direct connects, and then extend to looking at DN connects with the benefit of experience.

NW believed that contracting directly with a customer was the best solution; this would involve administration costs for National Grid NTS. An alternative might be where the Shipper discharges the obligations for the customer, setting up with a sub-contract. Both could be considered, and whether neither should be in Code, as this would involve contracting with a non-Code party. GJ pointed out that money was involved so it would be a different arrangement to a NExA. TD observed that if customers preferred to contract directly then that could be a compelling argument.

OM does not include DN customers. TD suggested different rules based on a scale could be devised if considered necessary.

CW asked about recovery of appropriate charges. It was suggested they might be recouped through the following year's transportation charges; this could be considered, together with appropriate charges for non-performance.

Reference was made to allowing tranches of DSR – some consumers might see this as the key to success of any arrangements. NW referred back to what used to be called 'Partial Interruption'.

4. Costs

Referring back to Centrica's presentation given at the meeting on 01 November 2012, Slide 9 was displayed and CW asked if there was anything in there not covered by OM requirements.

Slide 9:

- *"How are under recovered option fee payments recovered (e.g. The uplift on SMPb over [1 year] leaves an over or under recovery?*
- *Are there any interactions with other contracts? Which contract takes precedence?*
    - *Supplier/shipper to consumer contract?*
    - *OM contracts?*
    - *Capacity contracts?*
    - *DN interruption?*
        - *Who has priority?*
- *When are the Option and Exercise fee payments made to the demand side provider – should it be made some time after the money has been recovered?"*

MD suggested that costs be targeted at Exit. However CW saw a gas deficit as potentially an Entry–related issue, and so costs should also be targeted at Entry.

Referring to the proposed period of one year for setting the cost recovery parameter as an addition to SMPb, TD suggested this appeared to be inflexible. It may be that costs could be recovered well within this period – and then why carry on with over-recovery? DL was not convinced of the use of SMPb – what happens if this was quadrupled to recover the target amount? CW commented that it was trying to incentivise better balancing every day. DL believed this required a lot more thought. TD suggested using a ‘K’ style mechanism to recover the costs. MD indicated he was not keen on loading up SMPb and still preferred Exit as a route (commodity charge?).

From the debate that had taken place so far CW commented that it was clear that it may take some time to reach a consensus on an appropriate route for recovery of any costs, and he would therefore welcome any views/suggestions on how this might be achieved.

Looking at contracts, NW believed it should be very clear what the trigger is to be, and what hierarchy will be followed once set in motion.

It was questioned how many billing periods might have to pass before recovery can be made; could it be processed in the same billing period? It was suggested that no special rules be created for this.

5. Review of Options

It was agreed to defer this until the next meeting.

6. Next Steps

TD summarised that if it was possible to offer contracts direct to customers, then further consideration should be given to how this was to be implemetned. The setting of target levels was also to be determined. Currently OM did not attract a big take up, but Modification 0435 was proposing a different level of service/price, etc and this may be more attractive to the market as well as being available to additional players.

CW agreed to liaise with National Grid NTS and the Joint Office and will amend the modification in light of comments and suggestions made in the discussions. The list of questions will also be refined for further discussion at the next Workgroup meeting on 17 December 2012.

7. Any Other Business

None raised.

8. Diary Planning

The next Workgroup meeting will take place at 10:30 on Monday 17 December 2012 at the Energy Networks Association, 6th Floor Dean Bradley House, 52 Horseferry Road, London SW1P 2AF.

Workgroup 0435 - Action Table

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
0435 11/02	16/11/12	2.	Provide an Operating Margins presentation, covering option and exercise fees and volumes involved.	National Grid NTS (DL)	Closed
0435 11/03	16/11/12	2.	Consider whether it would be beneficial for National Grid NTS to be able to contract directly with customers.	All	Carried forward
0435 11/04	16/11/12	5.	Provide clarity around Ofgem's SCR position with regard to essential requirements for DSR and consumer compensation.	Ofgem (TF)	Carried forward
0435 12/01	06/12/12	2.	*Operating Margins (OM)* - Clarify what communications are made, via what route, and to whom.	National Grid NTS (DL)	Pending