

**UNC Workgroup 0806 Minutes**  
**Change to Curtailment Trade Price Compensation in Section Q**  
**Thursday 09 June 2022**  
**via Microsoft Teams**

**Attendees**

|                             |       |                       |
|-----------------------------|-------|-----------------------|
| Rebecca Hailes (Chair)      | (RHa) | Joint Office          |
| Mike Berrisford (Secretary) | (MiB) | Joint Office          |
| Alex Neild                  | (AN)  | Storengy              |
| Andrew Sealey               | (AS)  | South Hook Gas        |
| Anna Stankiewicz            | (ASt) | National Grid         |
| Ashley Adams                | (AA)  | National Grid         |
| Bethan Winter               | (BW)  | WWU                   |
| Carlos Aguirre              | (CG)  | Pavilion Energy       |
| Chris Wright                | (CW)  | ExxonMobil            |
| Claire Proctor              | (CP)  | PTUK                  |
| David Mitchell              | (DM)  | Scotia Gas Networks   |
| Emma Buckton                | (EB)  | Northern Gas Networks |
| Hannah Reddy                | (HR)  | Correla               |
| Hursley Moss                | (HM)  | Cornwall Insight      |
| Iwan Hughes                 | (IW)  | VPI                   |
| Jeff Chandler               | (JCh) | SSE                   |
| Julie Cox                   | (JCx) | Energy UK             |
| Lauren Jauss                | (LJa) | RWE                   |
| Malcolm Montgomery          | (MM)  | National Grid         |
| Marion Joste                | (MJ)  | ENI                   |
| Mark Field                  | (MF)  | Sembcorp              |
| Mathieu Malichecq           | (MM)  | Total                 |
| Matthew Newman              | (MN)  | National Grid         |
| Matthew Newton              | (MNe) | Vitol                 |
| Pavanjit Dhesi              | (PD)  | Interconnector Ltd    |
| Phil Hobbins                | (PH)  | National Grid         |
| Phil Lucas                  | (PL)  | National Grid         |
| Richard Fairholme           | (RF)  | Uniper                |
| Shiv Singh                  | (SS)  | Cadent                |
| Sinead Obeng                | (SO)  | Gazprom               |
| Steve Mulinganie            | (SM)  | Gazprom               |

Copies of all papers are available at: <https://www.gasgovernance.co.uk/0806/090622>

The Workgroup Report is due to be presented at the UNC Modification Panel by 21 July 2022.

## **1.0 Introduction and Status Review**

Rebecca Hailes (RHa) welcomed all parties to the meeting.

### **1.1. Approval of minutes (05 May 2022)**

The minutes from the previous meeting were approved.

### 1.2. Approval of Late Papers

None to consider.

### 1.3. Review of Outstanding Actions

None to consider.

## 2.0 Review of Impacts and Costs

Prior to providing an overview of the *'Mod 0806: Change to Curtailment Trade Price Compensation in Section Q'* presentation, Phil Lucas (PL) responded to an enquiry as to why there was no (draft) Legal Text for consideration at the meeting, by advising that normally he would only prepare and provide the text in response to either an informal Workgroup (or Proposer) request, or a formal UNC Panel request to provide the text which involves a 15BD timescale.

When asked, PL committed to providing (draft) Legal Text as soon as practicable possible following the meeting.

The following key points discussed during a review of the presentation are noted (by exception), as follows:

#### Source and Rationale – slide 4

When asked PL committed to providing a written statement for inclusion within the minutes and (draft) Workgroup Report going forward. This can then be used to stimulate further Workgroup responses at the next meeting.

#### 'Commercially Interruptible' Arrangements Incentive – slide 5

In noting the reference to the 'day preceding', Workgroup participants remain of the opinion that the industry is facing unprecedented times and therefore it is hard to know exactly what would constitute a 'best fit' – in essence, it is a sliding scale working towards closing the gap between the two dotted lines in the diagram whilst also trying to avoid invoking an emergency.

When PL pointed out that National Grid is not currently supportive of the Modification, Julie Cox (JCx) observed that National Grid has made some interesting challenges which serve to highlight the question of whether the existing (commercial) arrangements are actually working – it remains difficult to truly identify as the matter relates to commercially sensitive information that remains preserve of the parties concerned (and Ofgem where appropriate).

Steve Mulinganie (SM) suggested that there are tensions between gas and the (electric) generation markets resulting in a question around who is really paying – in short, is it right that gas picks up the bill for keeping generation running. Responding, PL advised that the arrangements are funded through balancing and neutrality mechanisms. SM remained concerned that in some cases the beneficiary is not the party who might be paying. At this point, RHa captured the comments within the (draft) Workgroup Report under the 'Workgroup Discussions' section.

When attendees then went on to discuss trading strategies, risk assessment and management approaches utilised for 'hedging risk' purposes, Nick Wye (NW) suggested that 'hedging' is in essence a paper rather than physical exercise, and as a consequence there could be an argument for LNG parties to consider.

The Workgroup considered whether the matter could relate to hedging risk from either electricity to gas and/or gas to electricity markets, as there is potentially a unique back-to-back trade for power generators whereby there could be price mismatches involved (including generating and witnessing skewed views of the market).

Whilst noting that it is the balance between power and generation, SM pointed out that the non-CCGT element is not presently covered by the Modification, and in his opinion, it would be preferable for the benefits to be applied across the whole sector, as he stated at the previous Workgroup meeting. Responding to the points being raised, Jeff Chandler (JC) advised that the primary aim of the Modification is to seek to benefit the whole industry ahead of the forthcoming winter – some parties suggested that perhaps JC (as Proposer) should consider splitting out the CCGTs, or at least clearly defining what constitutes a CCGT (a power generator perhaps, especially bearing in mind there are parties within the market that also generate for another market).

In noting that the challenge would be getting something in place ahead of the requirement whilst also securing supply across different markets, JCx proposed that Ofgem are better placed to take a more (holistic) view around Security of Supply across multiple markets, as the Workgroup has limited focus on the gas market side of the equation. When asked, JC indicated that during development of the Modification, he had engaged with Ofgem on a wide range of aspects relating to the Modification. Acknowledging the points being raised, JC advised that he would push forward with the Modification as drafted but would like to recommend that a consultation question around CCGT (and I&C) concerns is tabled for industry to consider and provide views within their respective consultation responses.

### **2.1. Emergency Curtailment Price**

Please refer to the discussion under item 2. above for more details.

### **2.2. Wider Industry Impacts**

Please refer to the discussion under item 2. above for more details.

### **2.3. Rationale for using a System Average Price (SAP)**

Please refer to the discussion under item 2. above for more details.

### **2.4. Rationale for revised cash-out calculations**

Please refer to the discussion under item 2. above for more details.

## **3.0 Development of Workgroup Report**

During an onscreen review of the (draft) Workgroup Report (v0.2, dated 30 May 2022), RHa undertook changes to the document inline with the discussion points from item 2. above and the more focused comments in response to the highlighted statement within the report.

When asked, PL agreed to provide a high-level narrative in support of the National Grid presentation provided for item 2. above and also for inclusion within these minutes and the (draft) Workgroup Report ahead of the July 2022 Workgroup meeting.

*Post meeting note as kindly provided by National Grid (PL) during the course of the Workgroup discussions:*

*"This wording is extracted from the Solution section of the Proposal and changes the basis on which the Emergency Curtailment Trade Price (ECTP) is determined. This therefore impacts anywhere within the UNC arrangements that this definition is utilised.*

*The ECTP itself is used for two distinct and separate processes within Section Q the TPD:*

- *the Emergency Curtailment Trade recognises that a Shipper who is short going into an emergency may have its daily imbalance liability reduced because of the curtailment of demand in an emergency. This would limit the targeting of costs to Shippers contributing to an emergency and weaken the incentive to contact for adequate supplies and demand response. This trade therefore effectively increases the Shippers 'demand' position by the curtailed quantity to maintain effective cost targeting and retain the incentive to contract for adequate supplies.*
- *the DSR Payment is paid to consumers (via Shipper/Suppliers) in recognition of the involuntary curtailment of their gas supply in an Emergency. In broad terms, Daily Metered Points ('DR System Exit Points') receive the curtailed volume multiplied by the ECTP.*

*Each of the distinct processes mentioned were introduced at separate points:*

- *the Emergency Curtailment Trade by UNC Modification 0044 implemented in October 2005; and*

- the DSR Payment by the Ofgem Security of Supply Significant Code Review implemented in October 2015

In both cases, the unit rate was intentionally set at such a level as to maintain an incentive for the establishment of voluntary curtailment arrangements for consumers to reduce offtake ahead of an emergency. To this extent, the intention was not to 'compensate' consumers for consequential losses arising from the curtailment nor specifically reflect the price of gas at the point of curtailment (or indeed immediately prior).

Looking at the incentive specifically, short Shippers on the day an emergency is declared will be cashed out at the System Marginal Price (buy) (SMP(b)). As this price is expected to be an escalating heading towards and into an emergency, this is expected to be higher relative to the average of the System Average Price (SAP) for the 30 days preceding this point, this being the rate at which payments are made to consumers for involuntary curtailment (i.e. the ECTP).

Given this, there is an incentive for Shippers and Consumers to agree (where practical) mutually beneficial voluntary curtailment arrangements. The mutual benefits are:

- for the Shipper: 'short' imbalance is effectively settled at a lower rate than the SMP(b) (i.e. the contract price the Shipper pays the consumer to voluntarily curtail offtake)
- for the Consumer: the payment it receives for voluntary curtailment (i.e. the contract price) is higher than the payment it would receive for involuntary curtailment (i.e. the ECTP)

The impact of the proposed change, which is expected to increase the rate of the ECTP, therefore pushes that lower dashed line up towards the SMP(b) level to the extent that the incentive to agree any such arrangements for voluntary curtailment is reduced or potentially eliminated.

The Proposer suggests that the rationale expressed in 2014 for the existing payment level is no longer valid as CCGTs are unlikely to agree to voluntary curtailment arrangements.

Whilst this may be the case for some or all CCGTs, we note that this change would apply to all relevant points and therefore this adversely impact the incentive to strike voluntary curtailment contracts at all relevant points, not just CCGTs.

We continue to believe that voluntary curtailment is an important tool to avoid the need to declare a Gas Deficit Emergency. Therefore, although voluntary curtailments arrangements appear to not be widespread, a change that results in the removal or severe limitation of any incentive to establish such arrangements at all points is not something that we can support.

We would urge the industry (and specifically those consumers that are in a position to voluntarily curtail in an Emergency) to reconsider the benefits that such arrangements may offer.

The Proposer also notes that the costs it incurs in the electricity market for non-generation far outweigh any payments received via the gas arrangements for curtailment.

It is important to re-state that the intention of the ECTP was not to 'compensate' consumers for any losses arising from the curtailment, nor specifically to reflect the price of gas at the point of curtailment or immediately prior to the declaration of an emergency. The purpose was to establish an incentive for the striking of contracts for voluntary curtailment which we believe will adversely impacted by implementation of this Proposal."

#### 4.0 Next Steps

RHa outlined the next steps as follows:

- Joint Office (RHa) to request a 2 month extension to the reporting deadline at the 16 June 2022 Panel meeting
- Consideration of Legal Text
- Development / Completion of Workgroup Report.

#### 5.0 Any Other Business

None.

#### 6.0 Diary Planning

Further details of planned meetings are available at: [www.gasgovernance.co.uk/events-calendar/month](http://www.gasgovernance.co.uk/events-calendar/month)

Workgroup meetings will take place as follows:

| Time / Date                      | Paper Publication Deadline    | Venue           | Workgroup Programme   |
|----------------------------------|-------------------------------|-----------------|---|
| 10:00 Thursday<br>07 July 2022   | 5pm Wednesday<br>29 June 2022 | Microsoft Teams | <ul style="list-style-type: none"> <li>• Consideration of Legal Text</li> <li>• Development / Completion of Workgroup Report</li> </ul> |
| 10:00 Thursday<br>04 August 2022 | 5pm Wednesday<br>27 July 2022 | Microsoft Teams | Date on Hold  |

