

Cash Out Review Working Group Minutes
Meeting 06 – ‘Gas emergencies/review’ session 2

04 February 2005, 10:30 am – 4:30 pm
Ofgem, 9 Millbank, London

Attendees

Jo Witters (chair)	Ofgem	Stuart Waudby	Centrica Storage
David Hunt	Ofgem	John Williams	Ilex
Bill Reed	RWE	Libby Glazebrook	First Hydro
Eddie Blackburn	Transco	Malcolm Taylor	The AEP
Martin Mate	British Energy	Garth Graham	SSE
Paul Mott	EdF Energy	Thomas Bowcutt	Elexon
Rachel Turner	Centrica		

All materials associated with this meeting will become available on the Ofgem website www.ofgem.gov.uk under Ofgem’s Work > Cash Out Review

Gas emergency cash out arrangements

- ◆ The wording of the network code may need revising to reflect the step process in which the market descends into an emergency.
- ◆ Transco delivered a useful presentation on the definitions of gas emergency, the procedures, the relationship with DN sales and emergency spec gas, thereby covering its actions from the last meeting.
- ◆ The question of the interactions between the potential sale of the DNs and the role of the NEC was discussed briefly. Transco reflected that despite there potentially being new provisions for the DNs, this would not ultimately affect the way in which emergency arrangements are given effect, as there would be no change to the role of the NEC. Specifically, the definition of ‘total system’ will continue to include the DNs that Transco is divesting, so the application of the NEC will remain the same as will Transco’s role.
- ◆ There are no statutory triggers in terms of pressure in the network code which result in an emergency being declared. Moreover, Transco operate on the basis of supplying the end user at a pressure of 20 millibars.

Emergency spec gas

- ◆ Transco reflected that in an emergency, the GSMR range is extended such that gas that may have been out of spec in normal market operation may be within spec in an emergency. Transco contended that the potential for un-used gas that is out of specification to substantively assist in an emergency was limited. The reasons given for this were due to there being insufficient volumes of gas available, and that the small volume that was potentially available would be exceedingly costly to extract. Recent modifications have widened the range of entry terminal specifications thereby exhausting gas supplies at the extremes of the GSMR range.. Emergency specification gas is not included in the forecasting process.

Emergency cash out prices

- ◆ The role of the interconnector in an emergency was debated as there was some concern that where the market proceeds to stage 2 and 30 day average SAP, that it is likely that this price would be sufficiently low to see flows into the continent, dependent on the direction of flow when an emergency is called. The group considered whether it would be possible for Transco to prevent reverse flow across the Interconnector in an emergency, and whether this impinged upon EU treaties. Transco suggested that this could be addressed as under stage 1, it has the ability to request maximum beach deliverability for indigenous production. However, at stage 3 of the emergency Transco is able to prevent reverse flow.
- ◆ It was discussed whether or not prices could be aligned with those in Europe, due to the interconnected nature of the markets. The interactions between GB and the mainland were discussed resulting in an action for Ofgem:

ACTION: Ofgem to acquire information on the emergency arrangements in other related markets in Europe.

- ◆ The group considered that there may be potential for unpredictable effects should the GB market go into an emergency whilst the European markets may not.
- ◆ The group discussed whether 30-day average SAP provided the right incentives to prevent the market from falling into emergency. Most of the group recognised the importance of having a neutral price when the market is effectively “broken”. However, it was questioned whether the current arrangements provide sufficiently strong signals prior to emergency to prevent the emergency from occurring. Some members of the group expressed that this may be the result of daily balancing periods in gas being too long to provide within-day signals of extreme shortness. Transco’s view was that daily balancing was the appropriate balancing period based on the natural gas diurnal demand profile and the speed of gas through the system. On average a molecule of gas spends a day in the system.
- ◆ Other members of the group considered that the current neutral price was the correct price and no other changes to prices would be needed if the claims process was robust. Some suggested that at present the claims process was extremely onerous and provided an incentive to not enter into an emergency in the event that a claim may need to be raised.
- ◆ There was also some concern that because top up has been removed, a stage 1 emergency may be triggered because of a breach of the safety monitor levels. It was noted that Transco had raised an alternative modification to the network code, 0740(a), which aims to remove Transco’s ability to interrupt should demand exceed 85% of forecast 1-in-20 peak day demand. The group acknowledged that this modification may help to ensure that interruptions were made less often, and the potential for an emergency may be reduced.
- ◆ Some members of the group suggested that deriving a gas Value of Lost Load (VoLL) may help to provide the correct price signals to prevent emergency. One member of the group suggested that a price of 1p below VoLL immediately before an emergency is instructed should theoretically be the correct approach.

- ◆ Concerns over the application of 30-day average SAP were again raised in the context of off-shore LNG tankers that only respond to price signals, not command and control.

Emergency stages

- ◆ There was broad agreement that one potential improvement would be to keep the market open for longer before entering into administered arrangements. The group discussed a potential for a stage 1(a) which indicated an enhanced need to address an emergency, and to resolve imbalances prior to moving to stage 2. Some members of the group considered that the same operation of the market should exist in stage 1(a) as does in stage 1 at present, as there would be little point in developing an additional stage that did not enable full operation of the market.
- ◆ Transco expressed a view that stage 1a could involve removing access to storage facilities (except for Transco) and relying on demand side and other market mechanisms to help balance the system.
- ◆ Broader concerns were raised as to how storage users would be compensated in the event that they are not allowed to bring gas out of storage.

ACTION: Transco to draft out how a potential extension of market operation would look, and how this would relate to the blocking of storage

ACTION: Bill and Malcolm to work together to determine what a stage 1(a) might look like.

- ◆ Transco raised a general point about market behaviour and how it may force an emergency. For there to be an emergency declared, a shipper(s) has not been able to meet its 1 in 50 licence condition, and would therefore be in breach of its licence unless weather conditions were worse than 1 in 50. However, determining what shipper or shippers were responsible, and to what extent would be difficult.

ACTION: Ofgem to place previous decisions on gas emergency and other related decisions on the website.

Emergency actions and the resulting effect on imbalance positions

- ◆ The group discussed whether it was appropriate that an emergency interruption may have ancillary effects on shippers' imbalances. When an interruption is initiated, it may make a short shipper less short or a long shipper longer, as it is essentially cutting off demand.
- ◆ Concerns were mainly over the effects that interruptions have on end customers. Transco reflected that there is no dynamic targeting of a particular shipper or region when an interruption is invoked, rather that interruptions are applied in descending order, from largest user to smallest.
- ◆ Transco suggested that it may be an option to create a title trade for the interruption so no shipper benefits from the imbalance position. Currently there is no correction of shippers' positions for the purposes of cash out.
- ◆ A further potential mechanism may be to smear balancing neutrality only across short shippers.

- ◆ The group recognised that it was difficult to determine exactly which shipper or shippers were responsible for influencing an emergency, and to what extent. This was seen by some members as the key issue for gas emergency, in that if you can't determine responsibility and the strength of responsibility, then it may be appropriate to socialise the effects.
- ◆ Some members of the group considered that you could derive a degree of information regarding who is driving an emergency by the nomination process. However, the nominations process is quite problematic as the scheduling charges themselves are not seen as providing the correct incentives to be accurate. Some members of the group debated whether this was symptomatic of there not being within-day scheduling, as at present scheduling charges are only applied two hours before the end of the gas day.

Claims Process

- ◆ There were some members of the group that considered that the claims process at present was quite harsh, and that this harshness served to prevent an emergency from arising. However, the group considered that the process should be robust rather than harsh and still contribute towards preventing an emergency.
- ◆ There was some confusion as to exactly what situations could form the subject of a claim. In particular, consequential financial loss is not part of the current claims process, and the group was unsure of the claims process's vires in the example of an instruction to de-load a CCGT plant which results in an extreme electricity cash out price.

Review

- ◆ Due to the slight over-run of the group the priority work areas were reassessed. It was suggested that going forward, it may be useful to temporarily park the issue of OM gas (priority 3) in order to make progress on the areas of greater importance.
- ◆ One member of the group asked whether it was possible to attempt to align the discussions ongoing at NT&T with those of the CORWG. It was requested whether the CORWG meetings could be re-organised for the same day as the NT&T, to enable discussions to take place at the same pace.

The next meeting on gas emergency is scheduled for 7 March, 1 pm – 5 pm at Ofgem's offices.