

Note of gas safety reserve meeting

Date: 01 March 06

Time: 10-4

Location: Ofgem

The meeting opened with Sonia Brown thanking everyone for attending and a confirmation that the next meeting would be on the 21st March 2006 again at Ofgem.

The group were asked to partake as much as possible in the group discussions.

Gary Dolphin from NG gave a presentation on a scenario that could occur next winter and the potential affects with the current arrangements in place. Slides available on the *Ofgem website*.

NG was asked where the demand side response was coming from.

NG explained that, the DSR was mainly coming from CCGT's with the rest coming from industrial loads.

NG's second presentation looked at the "Above the line scenario" *Ofgem website*

NG stated that they generally only take balancing actions within day and that the economic and efficient argument was generally used when taking such actions.

GBA's

- not designed to protect storage – just information alert that demand was higher than supply.
- Within 2 days, not much time for Rough or for GBA to trigger DSR therefore more applicable to SRS.

Sonia Brown stated that the objective of the GBA was that it was a tool for large customers and others to get more information.

Another party said that the GBA trigger was some way down the line and that there were other DSR triggers before that. They also stated that the GBA was a useful reference point.

NG presented a slide that questioned if the current GBA could be modified or supplemented with another alert that would help to protect storage stocks. Different days for different storage types, between 2 and 60 days.

One shipper stated that they felt it was reasonable for next winter.

Sonia Brown asked if this could be done anyway. And is this tool required?

One Shipper stated information available now is good anyway, and it was a subjective figure. Anything that could spook the market should be avoided. They also stated that most shippers did not support this change as information should be reflected in price.

This concluded the morning session and Sonia summed up the session stating that the following options seemed to be available to the group.

- 1: Status quo – do nothing
- 2: Trigger alert – info tool – not a GBA – highlights the situation
- 3: Economic and efficient enhanced SO role – hold a contingency reserve – demand and supply side contracts
- 4: SO objective function to include Security of supply – to preserve storage

A discussion on the pro's and con's of each of the options was suggested and the following were put forward for each option

1: Status Quo

Pro's

- doesn't have the cons of the other 3
- European debate. GB protectionist measures
- SO costs
- More certainty/stability
- A full year of current arrangements –competitive offerings

Cons

- Hornsea – market may not be working properly.
- Stocks drawn down this winter not required (no compensation in place).
- Might not get the DSR required
- Level of understanding may not be as high as recent days are complex.

Option 2: New trigger alert (Amber)

Pro's

- All info is good
- An aggregation of info (a mechanistic calculation)
- User friendly for small players – accessibility
- Could add to liquidity

Con's

- Arbitrary (potentially)
- Could be complex
- Crying wolf and distortionary effect
- Potential to spook the market

Option 3: SO Tools in bag and enhancing those (Contracts for difficult days)

Pro's

- Could avoid an emergency

- Smoothing prices
- Could be more efficient?
- NG might be more risk adverse
- Root to market for DSR

Con's

- Complexity
- Neutrality issue
- SO doing something that market can do
- Reduces other incentives for shippers customers to contract given they think NG already have
- Gas act forbids contracting with customers for NG

Option 4: SO to preserve storage

Pro's

- Avoid an emergency/monitor breach

Con's

- Perverse signals
- Blurring of market v's SO role
- If known SO is going to step in then less incentive to do it themselves
- Economic efficient or preserve storage conflict
- Resell price and dictionary effect

The 4 options were then split up between the attendees to take away and develop into a straw man.

The groups were as follows:

Option 1: EON

Option 2: Shell Centrica Statoil TGP

Option 3: GdF RWE

Option 4: Centrica storage

NG offered to assist any group should they require any further information/assistance.

NG then gave a presentation on "Below the line" *Ofgem website*

Centrica storage gave a presentation – *Ofgem website*

NG stated that below the line they were of the view that storage was the only option.

Constraining storage under a NG contract option would mean HSE or NEC know if contracts fail to deliver that the gas is there.

There was also some discussion over whether this would replace stage 1 of an emergency

It was felt by the group that the general feeling was, that there was little support for below the line changes and that they should not be considered any further.

All presentations are on the Ofgem website at the following link

Ofgem's work/wholesale markets/gas contingency arrangements/meeting of March 1st.

The meeting closed with a deadline of March 17th set for the option papers to be sent back to ed.carter@ofgem.gov.uk