

Gas SCR

Closing seminar for the initial consultation

Chair: Giles Stevens
Head of Competition Economics, Ofgem

9 February 2011

Agenda

14.00 – 14.10: Introduction – Chair

14.10 – 14.30: Presentation – Andrew Wright (Ofgem)

14.30 – 14.50: Presentation – Mark Ripley (National Grid)

14.50 – 15.10: Presentation – Richard Street (Corona Energy)

15.10 – 15.30: Presentation – Eddie Proffitt (Major Energy Users
Council)

15.30 – 15.40: Short break

15.40 – 16.55: Q+A with presenters

16.55 – 17.00: Closing remarks – Chair

Gas SCR

Closing seminar for the initial consultation

Andrew Wright
Senior Partner, Markets

gb.markets@ofgem.gov.uk

9 February 2011

Purpose of today's seminar

1. Key messages from consultation to date

2. Next steps

1. Key messages from consultation to date

Initial consultation process

- Initial Consultation released – 11 Jan
- Opening Seminar – 18 Jan
- Workshop 1 (21 Jan) – Emergency cash-out options
- Workshop 2 (28 Jan) – VoLL & compensation
- Workshop 3 (4 Feb) – Obligations & the criteria for the impact assessment
- Closing seminar (today)

There will be more consultation to come

Opening Seminar

- General support for the review
- Prevention is better than a cure
- Importance of interruptible contracts
- The Value of Lost Load (VoLL) will be difficult to estimate
- Interactions with networks is key

Workshop 1 – emergency cash-out options

- No clearly preferred option
- Major credit impacts on shippers under options 1 and 2 in particular
- Market power may become an issue with dynamic cash-out capped at VoLL
- Safety case changes need careful consideration
- NGG unlikely to be better at sourcing gas than shippers (options 2 and 3)
- Different types of emergency (slow burn vs rapid) may warrant different approaches

Workshop 2 – VoLL and compensation

- VoLL difficult to estimate, especially for I&C
- Firm customers appear to view gas supply as 100% firm
- Industry may not invest in mitigating high impact low probability events
- We should consider capping total compensation payable for firm disconnection and spreading costs over time
- Smearing of costs may dent incentives on individual shippers
- 'New pre-emergency alert' proposed for early disconnection of firm daily metered customers

Workshop 3 – obligations and IA criteria

- Need a clear understanding of the level of security sought
- Who pays and who benefits should be clearly identified
- Obligations are likely to distort market, damaging competition and/or liquidity
- Debate on whether obligations are best placed on NGG or shippers/suppliers
- Benefits of new pre-emergency alert highlighted again
- IA needs to establish impact of options on likelihood of emergency, and recognise that some costs are difficult to quantify

Summary of views

- All options should remain on the table
- No clear support for any of the presented options — some combination of elements may be better
- New pre-emergency alert could be beneficial for daily metered VoLL discovery
- Any reforms should go with rather than against the grain of the market

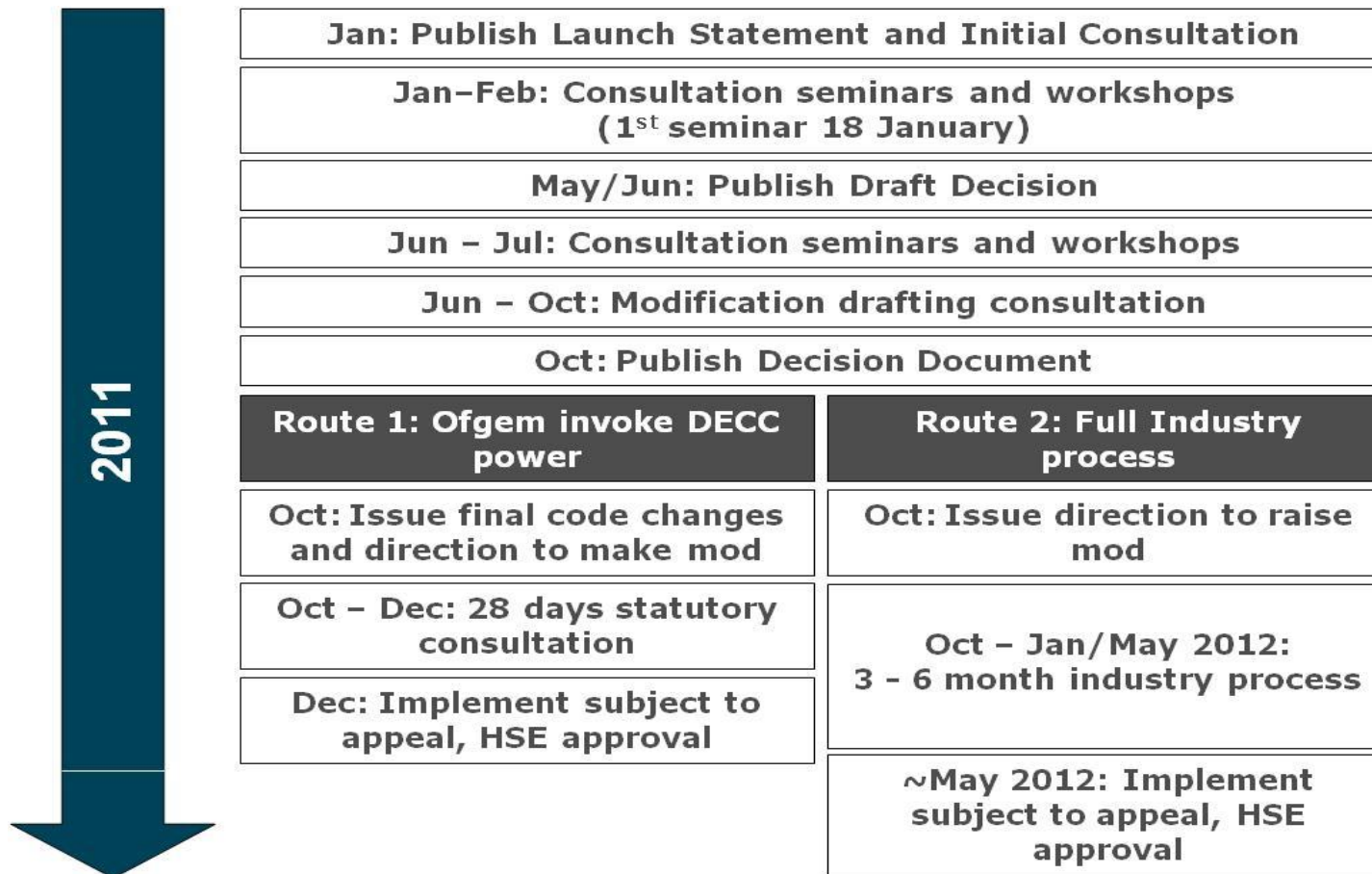
Ofgem early reactions [I]

- This is the first stage of our consultation – all options remain on the table
- The lack of compensation for interrupted firm customers is a gap in the arrangements – security of supply is not fully valued
- Ability to attract imports during an emergency may be constrained
- These risks are currently borne by consumers
- We are yet to be convinced that shippers are not best placed to manage this risk
- There may be some need to limit liability on shippers

Ofgem early reactions [II]

- On interruptibles:
 - Our concerns with gas security of supply pre-date any changes to the interruptible regime
 - That said, we recognise the important contribution that DSR can make to security of supply
- On networks interactions:
 - Our focus is on a commodity-based interruption
 - Identifying responsibility for compensation may be difficult
 - We are working closely with the RIIIO T1 and GD1 teams
- On European interactions:
 - We are mindful of the interactions with EU regulations and guidelines

2. Next steps



Note: Following consultation, if we decide that obligations are needed then the relevant licence conditions should be in place for December 2011, but we would not expect obligations to become enforceable until winter 2012-13.

Ongoing consultation

- Responses to the Initial Consultation are due on **22 February 2011**
- We encourage everyone to make a detailed written submission, providing evidence to support your views wherever possible
- There will be further opportunities for involvement:
 - Targeted meetings with stakeholder groups
 - Potential for further workshops prior to our draft decision
 - Consultation on draft decision, including further stakeholder seminars and workshops

The background of the slide is a composite image. On the left, there are rows of solar panels under a bright sun. On the right, a hand is shown holding a white document. In the bottom left corner, a blue gas burner is visible. The overall theme is energy and customer service.

ofgem

Promoting choice and value
for all gas and electricity customers