ofgem

Minutes

Gas SCR: Workshop 2 – VoLL and compensation arrangements

Date: Friday 28th January 2011
Time: 10:00 – 13:00
Location: Room 9, Ofgem offices, 9 Millbank, Westminster

1. Attendees

1.1. A list of attendees is contained in attachment 1.

2. Introduction
Anna Barker, Senior Economist, Ofgem

2.1. Anna Barker commenced the workshop by welcoming attendees and discussing the process for the publication of the minutes from the previous workshop. She made clear that the minutes would be non-attributable and as comprehensive as possible in order to capture everything that had been said. She also noted that attendees would be given a short period of time to comment on each set of minutes before publication to ensure that they were accurate and unbiased.

2.2. Anna told attendees that it was important that contributions at the workshop and the corresponding minutes would not replace written submissions. She asked that all attendees take the time to produce a written submission where they felt that they had something to contribute through the consultation process.

2.3. Anna went on to present the agenda for the day.

3. VoLL

3.1. Anna commenced by reminding attendees that VoLL was included in each of the options put forward in the Initial Consultation paper. She noted that VoLL (or a number of levels of VoLL) could potentially be used as an indicator to National Grid or the market that customers (or a tranche thereof) are no longer willing to pay for gas supply, for example.

3.2. She indicated to attendees that while the use of VoLL as a cut off point to be good in theory it may not be viable in practice as safety impacts need to be considered also.

3.3. She then looked to stimulate discussion by asking attendees for their opinions on the use of VoLL in the emergency arrangements and whether they believed that a number of different VoLLs should be used for different types of consumers.

Dynamic cash-out and the use of VoLL

3.4. Before discussing the use of multiple VoLLs, one attendee asked for confirmation of how VoLL would work alongside dynamic cash-out arrangements. This attendee questioned why VoLL was required when the market would allow the cash-out price to be driven up to VoLL in any case.

3.5. Ofgem representatives answered by indicating that VoLL could work with dynamic cash-out as an administrative cap in order to prevent the cash-out price rising above that which consumers would be willing to pay for their supply. The point was made that while some of these consumers may have the ability to engage with the market, there

are others who must be protected from high prices by an administrative cap in the absence of this ability.

3.6. This led one attendee to suggest that there may be important safety implications to consider. They made the point that network isolation could have significant implications for the safety of the network. They said that the current National Emergency Coodrination (NEC) remit would require them to purchase gas at values which could be significantly above VoLL in order to avoid the risks associated with network isolation and that this was important to consider in designing new arrangements.

3.7. One attendee suggested that there may be a large risk to shippers associated with arrangements involving dynamic cash-out up to a level of VoLL. They indicated that there would be no way of passing these costs on to consumers and that shippers would absorb all of these costs.

3.8. Another said that they felt that allowing cash-out to rise to VoLL and then compensating consumers who were cut off at this level seemed very sensible in theory and that it was a 'disgrace' that consumers currently receive no compensation for what is an uninsurable loss. However, this attendee felt that the importance attributed to gas supply could lead to a very high VoLL. The attendee suggested that in the event of the cash-out rising to VoLL, the levels of compensation could lead to financial distress for the entire gas industry.

3.9. While this attendee agreed that this may provide a suitable incentive to avoid what would be a major civil disaster, they emphasised that Ofgem must be fully aware of what the consequences could be.

Non market-based methods

3.10. This led another attendee to suggest that there may be a point at which the objective of an efficient and economic market may no longer be suitable and that the market may need to be 'switched off' and the situation resolved through non-market based means.

3.11. Slightly later on, it was suggested that in considering how best to avoid an emergency in the first place then the strategic storage route may be the best option rather than incentives which may only take effect in an emergency situation.

3.12. However, the point was made that strong incentives in an emergency would feed back through to a non-emergency situation and provide the market with strong incentives to avoid an emergency arising in the first place. It was suggested that this would encourage the market to insure against such an event arising through investment which could lead to similar results to a less market-based arrangement but at a more efficient cost.

3.13. In addition, one attendee voiced concern that the introduction of obligations on storage may provide a barrier to small suppliers entering the market and may increase credit requirements for those already involved in the market.

3.14. Ofgem indicated that obligations would be considered in greater detail at the third workshop.

Insurance and investment

3.15. While understanding the desire to encourage market participants to invest in insurance, one attendee argued that no one would invest to insure against a 1 in 50 winter. This led Ofgem to ask the group for their opinions on whether market-based

incentives in an emergency would lead to the appropriate insurance through investment outside of an emergency.

3.16. One attendee responded by saying that it would depend on the type of emergency. They suggested that there will always be some risk of an extreme event and that there is no way to fully insure against this. This attendee proposed that it is important to understand the level of security of supply that we currently have and the level that we desire in order to decide upon the method for getting to this level.

3.17. Another questioned the fundamental issue of whether greater insurance would be a good thing. They suggested that this insurance would be fed through to consumers through higher bills in any case and that this could outweigh the very low likelihood for the consumer to ever receive compensation due to a disconnection of their supply.

3.18. This was supported by another attendee who stated their opinion that suppliers would be less likely to insure through increased physical investment but would be more likely to purchase a financial insurance product. This would effectively increase the price to consumers with very little increase in physical security of supply.

Is security of supply being delivered?

3.19. In response to the previous points of discussion, an Ofgem representative asked the group whether security of supply was currently being delivered given the gap in the arrangements regarding compensation for disconnected firm load consumers.

3.20. One attendee answered that we currently have more entry capacity and diversity than ever before on the supply side. In contrast, this attendee suggested that measures taken on the demand side have reduced security of supply and considered it important that this should be resolved. Another repeated their point from the last seminar that two storage projects have been cancelled recently. In their opinion, this was due to regulatory uncertainty and they felt that the reasons behind this should be considered.

3.21. One attendee aired the view that it was inherently unfair that there are no compensation arrangements in place. However, they felt that the balance needed to be found between a fair level of compensation and the level of liability that an industry player would face. They suggested that these payments should be large enough to offer a strong deterrent to an emergency occurring but without the risk of sending the entire market into financial distress.

What is the right level for security of supply?

3.22. At this point, an Ofgem representative asked the group if they agreed that the level of security of supply that we are aiming for could in fact be represented by VoLL.

3.23. The point was raised by one attendee that a shipper may be willing to pay above VoLL in order to avoid the reputational consequences of forcing disconnection of consumers. Ofgem clarified that this would still be possible under the option. VoLL would be used to cap the level of cash-out rather than the level at which gas could be purchased. It was also suggested that it may not be appropriate for VoLL to cap the actions of National Grid Gas (NGG), if they could avoid disconnection of consumers by purchasing gas at a level slightly above VoLL in order to avoid an emergency arising or getting worse. To this end it was suggested that it may be better to have no cap at all.

Different VoLLs for different consumers

3.24. The group then came back to the question of whether different consumer groups should have different levels of VoLL.

3.25. It was suggested that the ability of some industrial consumers to 'sell back' their gas supply may lead to the conclusion that different consumers should have different levels of VoLL. However, it was pointed out that a large percentage of industrial consumers have contracts in place which are very similar to those of a domestic consumer. This may be for a number of reasons including the type of metering which they may have in place.

3.26. One attendee repeated their point from the previous workshop that industrial consumers have been provided with the opportunity to provide their VoLL as part of the interruptible auctions, but have not contributed as expected. This led to some debate, with some suggesting that this was because they may not have believed that their VoLL would have actually been used, and others suggesting that complexity played a big role. This was supported by one attendee who said that many consumers had worked their VoLL out but hadn't fed it into the process for these reasons.

3.27. Although the group seemed to be reaching some consensus that there should be different VoLL levels for industrial and domestic consumers, one attendee voiced their belief that the domestic level of VoLL, which was generally expected to be higher, should be fed into the industrial arrangements in order to ensure that the VoLL of all consumers was being covered.

3.28. One attendee went further with this by suggesting that the VoLL of certain industrial consumers may be higher than domestic consumer VoLL. They also suggested that this may be related to the duration of the disconnection, with domestic consumers being likely to cope better with disconnections of a short duration.

Responsibility for reconnection

3.29. The point was raised that a shipper would have no control over the speed of reconnection due to the role of GDNs. The duration of the outage could then determine the amount of time for which a consumer should be compensated. This led to the suggestion that a shipper should not be held responsible for paying this compensation for the full duration, when this was something that was not in their control. It was felt around the table that the targeting of this compensation and the interactions with the duration of reconnection was a very important point.

VoLL and industrial consumers

VoLL as an incentive for demand side response (DSR)

3.30. There was some debate around the level of industrial VoLL and how it would best capture the preferences of industrial consumers. This centred on the wide range of VoLLs for different consumers and around certain types of industrial consumer that may have a very high VoLL. For example, one attendee suggested that gas fired power stations may have a high VoLL. Other attendees focussed on small and medium enterprises (SMEs) who may consider gas crucial for their businesses. Examples such as morgues and bakeries were given.

3.31. An Ofgem representative agreed that there would be a wide range between the VoLLs of different industrial customers and that this would make it impossible to meet every consumer's personal VoLL. However, they suggested that those consumers who had a higher VoLL than that set administratively could invest in back-up generation, while those with a lower VoLL would be provided with an incentive to sign up to interruptible contracts.

3.32. One attendee disagreed with this point, suggesting that many industrial consumers (particularly SMEs) would not have the time or level of engagement to take either of these actions but would instead expect and rely upon a firm supply of gas. In addition,

this attendee pointed to financial barriers such as the cost of a daily gas meter which would be required to sign up to an interruptible contract. The costs of installing this, suggested at around £1000, could make this decision uneconomical.

3.33. In response, an Ofgem representative asked to what level such a SME would be willing to accept the risk of being interrupted, even with a firm contract. It was accepted that the consumer may still be interrupted but suggested that they would rather take the very low probability risk of being interrupted than sign up to an interruptible contract, which may in fact require them to be interrupted for a significant period of each year. This attendee thought that it may be useful to gather information on how many customers were able to be interrupted in the industry, and how many have taken this option. Another attendee answered with rough figures indicating that 2500 industrial consumers had a daily gas meter, of which interruptible contracts were signed in relation to 30 million cubic meters (MCM) and firm contracts were held in relation to 15 MCM.

3.34. One attendee made the point that this was, in effect, an additional storage site but that this would be changed in October 2011 when much of this interruptible capacity would become firm. This attendee suggested that there was a need to identify how much interruptible capacity would exist and how much may be required in the future.

Level of VoLL

3.35. The group moved on to discuss previous work that has been done to calculate VoLL and whether these levels would be appropriate.

3.36. Anna Barker mentioned to the group that initial research into previously conducted investigations had suggested a range of approximately £2 to £50 per therm. Anna stressed that these numbers were indicative only, and that more work would be required to generate accurate VoLL estimates.

3.37. This led to a short discussion of work carried out in Australia. Another Ofgem representative confirmed that this study had suggested levels of $800/GJ (around £50/th at the current exchange rate) outside of an emergency and $22/GJ (around £1.50/th) in an emergency. They told the group that the potential reason for a lower price cap in an emergency was the abundance of domestic gas in Australia. It was suggested that these arrangements may be suitable when there is sufficient domestic gas available but that such arrangements may not be able to provide the right incentives to source non-domestic gas when this is required.

3.38. One attendee asked if we had looked into what these levels of VoLL may mean for the industry in terms of costs and the speed and likelihood of financial distress under this range. In reply, an Ofgem representative confirmed that this is something that would be assessed as part of an Impact Assessment in the future. They informed the group that no decision would be made before the likely costs and benefits of our preferred option had been estimated.

Complexity of VoLL and core load

3.39. One attendee questioned whether a fixed VoLL may be too simplistic, in that it wouldn't account for customers operating in a dynamic global market. They made the additional point that large consumers may have different VoLL levels for different portions of their load. In particular, they cited that for some customers a very small percentage of gas consumption could allow important machinery to continue to run, therefore significantly reduce re-start-up costs. Thus, this 'core load' may have a very high VoLL relative to the remaining load.

3.40. It was suggested that if a consumer wanted to maintain a small amount of core load, it may be suitable for them to invest in back-up supply or to negotiate this small amount of firm supply through contractual arrangements. In reply, another attendee said that while this could provide for a very high VoLL, it could be expensive to invest in back-up supply. It was suggested that while contractual arrangements may be able to deal with this to a certain degree, the use of an administrative VoLL cap and provisions for compensation at this level may prevent this.

3.41. This led one attendee to suggest that the ability to switch off a firm consumer's flexible, low VoLL load could prevent the necessity for the small volume of high VoLL load to be disconnected.

Interruptible contracts and compensation

3.42. This led the group on to a discussion of interruptible contracts. One attendee suggested that a barrier to their adoption was the perception that an interruptible contract would be used frequently if it was in place, whereas a firm customer would never be interrupted.

3.43. While it was agreed that this meant there was an undervaluation of risk associated with disconnection under a firm contract, a number of attendees suggested that consumers may be satisfied with the very low likelihood of disconnection occurring. One attendee suggested that while firm load industrial consumers may not be happy with no compensation for disconnection, they generally accept that they will not be provided with compensation in the case of an interruption.

3.44. In addition, there was a suggestion that consumers who were not satisfied with the low likelihood of being disconnected had the option of investing in back-up. However, this point was debated as another attendee felt that it was not fair to assume that a firm load consumer should pay for the costs of back-up for supply which they had signed up to on a firm contract basis.

Demand side response trigger

3.45. The debate around the importance of interruptible contracts continued with one attendee suggesting that these contracts used to be a tool for avoiding an emergency, as they could be taken off when required.

3.46. This led to the suggestion of a new pre-emergency trigger focussed on demand side response (DSR). It was thought that this trigger could be similar to a gas balancing alert (GBA), but focussed on providing a signal to any demand that is able to come off the system in return for compensation to do so.

3.47. There was general consensus around the table that this was an interesting idea that merited further consideration. In particular, one attendee indicated that this proposal could also satisfy regulations included in the European Gas Security of Supply Regulations which required three stages in the lead up to an emergency (including the emergency itself). It was suggested that GB currently only has two stages and that compliance would be required in the next 18 months. Ofgem representatives noted the general interest in this proposal and noted that they are working closely with DECC (the competent authority responsible for the European Gas Security of Supply Regulations) in order to ensure that interactions between this regulation and the Gas SCR were taken into account.

3.48. In order to develop the idea further, an Ofgem representative asked how DSR would be compensated under the proposal in the event that it allowed its supply to be interrupted following a pre-emergency DSR signal.

3.49. One suggestion was that this could work similarly to operating margin in that a reserve market could be used under which each party could set their own price for being interrupted, and a certain number of the cheapest offers could be taken depending upon the volume of DSR required. The point was made that this would encourage consumers to interact with the market and provide their VoLL in order to receive payments for DSR in the lead up to an emergency (rather than being disconnected as a firm customer). It was also considered an important benefit that this method would allow the market to determine the price. There was general agreement that this would be better than the current 'largest first' arrangements upon entry to an emergency although it was thought that this may require some further consideration.

Non daily metered consumers

3.50. Later on in discussion, the difficulty of measuring a non daily-metered (non-DM) consumer's gas consumption was raised. It was suggested that this may make it difficult to use VoLL on a £ per therm basis. Further, a network may consider a non-DM consumer to be using gas when it is not, as consumption would be measured on an average basis. This may lead to compensation for a perceived level of gas that the consumer is not using (i.e. if a school is interrupted during school holidays).

VoLL and domestic consumers

Domestic consumers cost of compensation

3.51. It was agreed that the pre-emergency DSR trigger could be an important tool for preventing an emergency from occurring and merited further consideration. However, it was pointed out that domestic consumers would not have the ability to engage in this way and that it would be more difficult to estimate their level of VoLL.

3.52. To support their previous argument of limited compensation for consumers with limited liability for suppliers, one attendee compared the issue to airline compensation. They suggested that in this industry, the level of compensation paid in case of some event is directly related to the cost of the flight. They said that many consumers would choose to take a cheaper flight even with the risk of less (or even aero) compensation if the flight is cancelled or delayed. They suggested that this may be the same in the gas industry where consumers may prefer to pay less even if this means the risk of no compensation.

3.53. The point was made that there is currently no choice between a higher cost/higher compensation option and a lower cost/lower compensation option in the gas industry.

Estimating domestic VoLL

3.54. Ofgem representatives suggested that the methodologies used to estimate an average industrial VoLL were likely to be simpler than those for domestic consumers due to the wider amount of information available. They put forward the view that the methodologies proposed for estimating domestic VoLL were not new and that they considered this estimation difficult but possible. They also agreed with the views of attendees that the methodologies would have to factor in a range of variables such as seasonality and duration of disconnection.

3.55. The point was repeated at this stage that the gas industry doesn't have sufficient spending ability to be able to compensate the large number of domestic consumers at their VoLL. Another attendee suggested that in the majority of cases that would lead to disconnection of domestic consumers, suppliers would have a strong case for citing force majeure which would allow them to avoid paying compensation. Thus, in this attendee's view, it would be unlikely that the compensation payments would ever be made even if disconnection occurred.

Interaction with smart meters

3.56. The interaction between an administrative level of VoLL for domestic consumers and smart meters was raised with one attendee asking whether the ability of consumers to interact with the market through smart meters would replace administrative VoLL. In response, an Ofgem representative indicated that the administrative VoLL level would continue to provide a backstop for consumers who may not interact with the market even after smart meters had been introduced.

Practical use of VoLL

How accurate does VoLL need to be?

3.57. One attendee asked for our opinion on the importance of the accuracy of the administrative VoLL level. They said that in their opinion the accuracy was very important and that they were sceptical about whether this accuracy would be possible. They asked whether an inaccurate level of VoLL would be any better than introducing obligations.

3.58. The point was repeated that the difficulty in estimating VoLL would be exacerbated by the other variables involved such as developments over time, the duration of disconnection, etc. Another attendee took an opposing view, asking what the advantages of additional accuracy would be. They suggested that the numbers put forward for gas distribution price control review 1 (GDPCR1) could simply be used in order to avoid the costs involved in estimating VoLL.

3.59. Ofgem acknowledged that there may be decreasing value associated with increasing complexity and accuracy of estimation of VoLL. In relation to the suggestion of using GDPCR1 values, one attendee suggested that this may be fine when reconnection is in the control of the networks, but may not be suitable when the party who is liable for compensation are not the party who have the ability to reconnect consumers.

Is VoLL here to stay?

3.60. Before ending the conversation on VoLL, one attendee asked if we had already decided on VoLL being a part of new arrangements, given its consistent use under each of our proposed options.

3.61. An Ofgem representative answered that we had a strong desire to provide additional security to domestic consumers and compensation in the event that they were disconnected. However, they made clear that this was an initial consultation and that no decisions have yet been made.

3.62. One attendee suggested that the investment incentives that would be created by compensation could be similar to the introduction of obligations. Ofgem acknowledged that in theory, VoLL may be an important variable to inform the level of security required via an obligation.

3.63. One attendee suggested that before deciding between obligations and the provision of more market-based incentives, it is important to understand which of the two would be the cheapest method of delivering the desired security of supply.

4. Compensation arrangements

4.1. Following a short break, Anna handed over to Jamie Black (Economist, Ofgem) to discuss the use of compensation in our range of options. Jamie commenced discussion with the issue of who should be responsible for paying compensation for firm load disconnection, both on the first day of interruption and on subsequent days. He

mentioned that this was an issue, as it may be possible to tell who is short when disconnection takes place but that these parties should not necessarily be responsible on subsequent days of interruption (particularly as network companies are responsible for reconnecting consumers). He put forward three options:

- all compensation costs fall on those who were short on the first day of interruption,
- the first day of compensation is paid for by those who are short on this day, with subsequent days being socialised amongst the industry,
- the costs of the first day of compensation and of subsequent days are all socialised.

Role of the transporter

4.2. One attendee started by asking whether limits on supply due to transportation constraints were within scope of the SCR. He put forward the view that a supply emergency would likely be a result of limits on transportation of gas in addition to supply constraints. The attendee pointed to modification proposal 358 that had been raised recently in relation to this issue.

4.3. An Ofgem representative agreed that it was very important to consider the responsibility of both the supplier and the transporter in relation to a shortage, and confirmed that the assignment of responsibility for causing an emergency would be within scope of the SCR. However, they indicated that the transporter constraint issue itself would not be within scope.

4.4. There was some debate around the ability of the transmission system to cope with high levels of supply. One attendee pointed to the 1 in 20 peak demand design and the major infrastructure loss requirements. In addition, one attendee suggested that, similarly to suppliers, National Grid would be likely to have a strong case for calling force majeure in many of the scenarios that could lead to an emergency.

4.5. In contrast, another attendee commented that they did not have a high level of confidence in the capacity of the transmission system and did not feel that suppliers should be held responsible for transportation constraints in the case that they were providing sufficient gas to balance their position. This attendee was also of the opinion that any compensation costs should come off the bottom line of National Grid's (NG) balance sheet so that these costs could not be passed through to others by way of NG's charging regime. They suggested that this may help with the funding issue as NG would be more likely to be able to afford the necessary payments than the rest of the industry.

Options for compensation

4.6. An Ofgem representative commented that issues such as those set out above highlighted the importance assigning responsibility for any compensation payments. This representative took attendees through the potential process for compensation. At a high level, the compensation payments could be paid into a pot by the parties who are responsible for paying compensation. The compensation payments could then be passed onto the consumer through the relevant supplier, who would have a licence obligation to do so.

4.7. One attendee stated his view that much of the market is currently on a fixed rate basis and that this should remain the case if compensation was introduced. A number of attendees highlighted issues with identifying who was responsible for an emergency. One attendee suggested that a shipper may be partly responsible for an emergency

through its short position on the day that an emergency was announced, but may be able to balance this position by the end of the day. It would therefore be difficult to target compensation at this shipper.

4.8. Slightly later in the conversation some attendees developed this point further by suggesting that the cause of the emergency may not happen on the day of announcement, but that the 'responsible parties' may have been short a few days before. It may therefore not be fair to target responsibility for compensation at shippers who are short on the day of announcement of an emergency.

4.9. Another attendee suggested that it would be unfair on balanced and long shippers to socialise any of the costs involved in paying compensation, as they would not be the ones who were responsible for causing the emergency. The point was also raised that the method of socialisation (e.g. based on throughput) could create unintended consequences and that this would have to be carefully considered if this option was taken forward.

The cost of compensation

4.10. One attendee repeated the issue of credit requirements and the ability of shippers to pay the necessary compensation. They reiterated the concern that these arrangements could cause significant financial distress for the industry. On the other hand, another attendee repeated the point that force majeure may be used by shippers to avoid ever having to pay compensation out. While this may solve the problem of financial distress, it would not provide the right incentives either before or during an emergency.

4.11. It was also suggested that in order to reduce the financial burden, there could be some mechanism in place which would allow the compensation payments to be spread out over a longer period of time. Some attendees were in agreement that this would be a good idea.

4.12. In looking to ensure sufficient levels of gas to avoid an emergency, one attendee suggested that there may be cheaper options than providing incentives through 'ever escalating' insurance costs. An Ofgem representative answered that the case for non-market based obligations would be discussed in the next workshop. In reply, the attendee suggested that such arrangements would not necessarily need to work outside of the market.

How much additional volume is needed?

4.13. One attendee said that while we are talking about VoLL we have not discussed the volume of gas that we believe to be required in order to increase security of supply sufficiently.

4.14. In reply, another attendee informed the group that the N-1 requirement is 70 mcm. They informed the group that the ability of supply to meet this would depend on the circumstances under which it occurred (for example whether LNG supply could get onto the system, etc). They carried on to discuss the order of the loads that would come off the system under an emergency. They said that approximately 30mcm of mainly power station load would come off in stage 1 and that this would be spread across distribution networks rather than targeted at one area alone.

4.15. Points raised at the previous workshop considering the interactions between gas and electricity were repeated. For example, attendees raised the point that taking gas fired power plants offline could lead to electricity disconnection in addition to gas.

4.16. One attendee suggested that the market had shown in the past that it could react to shortages to avoid an emergency. They pointed to events in 2005/6 when around 30 mcm of load had been curtailed in order to avoid an emergency.

Different options for different emergencies

4.17. An Ofgem representative suggested that shippers with a short position would generally prefer socialised targeting, whereas those with a balanced or long position would prefer targeted costs. They suggested that the case for different options to be used for different types of emergencies could be considered.

4.18. While this was agreed by others around the table, one attendee suggested that the different types of emergency would be very hard to define and would increase the likelihood of disputes and legal action in assigning responsibility. However, this was debated by another attendee, proposing that it would be possible to develop a clear definition to avoid this. For example, the attendee suggested that a rapid build up type emergency could be defined as reaching stage 3 of an emergency within the same day as the GBA was declared.

4.19. The argument that small suppliers may be forced out of the market was repeated again. It was suggested that small suppliers are more likely to source from one point of supply and so would be less able to spread their risk.

4.20. The point was made that a socialisation of costs would reduce the incentives for shippers to balance their position in the lead up to an emergency. Ofgem agreed that this would be a negative aspect of this option.

4.21. To end discussion on compensation arrangements, one attendee repeated the earlier point that the industry would be very unlikely to account for high impact, low probability events. They emphasised the suggestion that it may be useful to look into the possible actions that NGG could take in the event of a short, sharp shock which led to a danger of an emergency being occurred.

5. Process

5.1. Some attendees had questions surrounding the process going forward following this period of stakeholder engagement. In particular they asked how these issues would be taken on board and used, and if there would be another chance to engage before a decision was made. One attendee proposed that it was difficult to assess the impact that the options for reform may have on the industry without a greater level of detail.

5.2. Ofgem representatives made clear that no decision was being made at this stage. They stated that these stakeholder engagement events were being used to capture a broad range of ideas to feed into our thinking. The importance of written submissions to support discussion at these events was stressed.

5.3. It was also highlighted that Ofgem expect to perform and consult upon an impact assessment of our proposals as part of a wider stakeholder engagement process following our Draft Decision document. Attendees were pointed towards our Initial Consultation document and Launch Statement for more information on our intended process.

Attachment 1 — list of attendees

Alison Meldrum	Tata Steel
Amrik Bal	Shell Energy Europe Ltd
Andrew Pester	Ofgem
Anna Barker	Ofgem
Anna Saksonov	Ofgem
Chris Wright	Centrica
Dora Ianora	Ofgem
Eddie Proffitt	Major Energy Users Council
Ian Trickle	ExxonMobil
Jamie Black	Ofgem
Jeff Chandler	SSE
Jenny Phillips	National Emergency Coordinator (National Grid)
Jill Brown	RWE npower
John Costa	EDF Energy
Julie Cox	Association of Electricity Producers
Laone Roscorla	Cornwall Energy
Lewis Heather	Ofgem
Malcolm Arthur	National Grid
Mark Dalton	BG Group
Peter Sherry	Ofgem
Richard Fairholme	E.ON
Richard Street	Corona Energy
Roger Salomone	EEF
Roddy Monroe	Centrica Storage
Shelley Rouse	Statoil (UK) Ltd
Steve Gordon	Scottish Power

Apologies: Cem Suleyman (Consumer Focus), Deborah Pritchard-Jones (GrowHow)