ofgem

Minutes

Gas Security of Supply Significant Code Review (Gas SCR) – Draft Policy Decision: Workshop 3

Date:	Wednesday, 15 February 2012
Time:	13:30 – 16:30
Location:	9 Millbank, London

1. Opening presentation

1.1. Anna Barker (AB) of Ofgem opened the workshop by thanking those attendees who had submitted responses to Ofgem's draft policy decision on the Gas SCR. AB noted that Ofgem is currently in the process of considering responses, and will take these into account when developing the final decision on the Gas SCR. AB explained that the purpose of this workshop was to discuss draft business rules in detail, in order to identify areas that would require code and licence changes, where there are different views on the underlying policy, where stakeholders might need to change their current processes and where further development might be needed.

2. Business rules

2.1. National Grid Gas (NGG) made a presentation of the work that had been undertaken by NGG and Ofgem to further develop draft business rules for implementation of emergency cash-out reform under the Gas SCR. NGG began by recapping the discussions from the previous workshop. They highlighted the current process timescales for energy balancing charges and post-emergency claims (PEC). They explained the two options presented at the previous workshop: namely whether to develop a process that fits in with the existing timescales, or adopt an approach that was more reliant on reconciliation some time after the event. It was noted that at the previous workshop, a preference was expressed for the near-time approach. In addition, distribution networks (DNs) have indicated that they can provide information on customers (and shippers) affected by network isolation within the near-term timescales to an accuracy of greater than 95%. It was clarified that this accuracy was in relation to the identification of affected sites, and not the estimates of energy that would have been consumed by each individual customer. Because of this high degree of accuracy, NGG had focussed attention on developing the near-term option.

2.2. Next, NGG outlined an issue discussed at the previous workshop: the impact of network isolation on a shippers balance position. Concerns were expressed at the previous workshop that the process as currently exists would produce inaccurate shipper imbalances, and could lead to shippers appearing long when in truth they were actually short. NGG noted that the latest draft of the business rules contained a proposal to deal with this issue.

2.3. NGG explained that they had developed the business rules in a modular format, to enable changes to be made to some sections – if necessary – without having to made changes throughout the rules. NGG also described how the current proposed business rules would fit into existing timescales.

2.4. NGG then moved on to a detailed discussion of the business rules, beginning with the assumptions underpinning the rules. One participant questioned the assertion that there are no further market actions that could resolve the emergency once it has progressed to stage 2[1], and highlighted that there are actions that shippers can take that

[1] These minutes refer to stages of emergency post exit reform.

would not be immediately visible to NGG. It was also highlighted that there could be a time lag between actions taken and their impact on the market, and that there was a risk that the emergency could be progressed through the stages too quickly, when in fact actions have already been taken at an earlier stage that will resolve the emergency.

2.5. One participant questioned why the assumption was that the price could only rise above VoLL on day 1 of firm load shedding. Ofgem explained that cash-out is set to 'price-in' the cost of market balancing actions taken on a particular day. As such, it could be frozen at a level above Value of Lost Load (VoLL) on the first day of firm load shedding (if SAP had risen to this level). However, from day 2 onwards, the market balancing action would be firm load shedding – priced at VoLL.

2.6. Several comments were made that some of the assumptions should be re-worded to add clarity; these were noted by Ofgem and NGG. On one of these clarifications, a question was asked as to how closely the proposed process for Non-Daily-Metered (NDM) customers would mirror the Emergency Curtailment Quantity (ECQ) process for Daily Metered (DM) customers. NGG confirmed that the intention was for the processes to be as close as possible, and participants suggested slight amendments to the drafting to clarify this.

2.7. One participant asked whether NDM sites smaller than 732,000 kWh could be eligible for DSR payments in stage 2, and if so suggested a change to the business rules to make this clear. It was clarified that all NDM sites that can prove that they have interrupted would be eligible for DSR payments at stage 2. However, for all practical purposes, it is likely that only DM and large NDM sites would be interrupted at this stage of an emergency.

2.8. Concerns were raised about a situation where a large DM load is connected to a Connected System Exit Point (CSEP), which has an independent pipeline that also supplies some smaller customers. Were the DM load asked to interrupt during firm load shedding, the participant thought that this would in effect constitute network isolation, as the smaller customers could also be interrupted. NGG explained that, during firm load shedding, transporters (acting on instruction of the Network Emergency Co-ordinator (NEC)) simply ask large customers to stop taking gas, rather than physically disconnecting them from the network. This would mean that any smaller customers connected via a CSEP would be able to continue taking gas even if the large DM customer is asked to interrupt.

2.9. One participant proposed an assumption should be added to describe how costs would be targeted if a within day emergency occurs, but the system recovers to the extent that all shippers are long by the end of the day. Another participant raised concerns that a similar situation could occur, except at the end of the day, there is only one short shipper, who could be short by only one therm. The present assumption is that any shortfall in the DSR payments account would be recovered from short shippers. A further participant asked what would happen if there were no solvent short shippers trading at the time there was a shortfall in DSR payments. Ofgem agreed to consider these particular scenarios further.

2.10. As a follow up, a participant also asked whether imbalances stemming from within day interruption would be pro-rated to reflect the fact that customers would only have been interrupted for part of the day. Participants noted that this would not be a significant issue for DM customers as their remaining expected consumption could be calculated using their Offtake Profile Notice (OPN), but could potentially be an issue for NDM customers. Ofgem agreed to consider this.

2.11. Another participant commented that a way round this issue was to limit total DSR payments to the amount collected from short cash-out prices (which could mean that DSR payments are less than £20/therm). Ofgem asked whether participants would prefer to make DSR payments on this basis, or guarantee a level of payment (£20/therm). There was concern that in some circumstances, the DSR account may never be satisfactorily filled, and so no payments to customers would be triggered. Generally, participants thought that payments should be made based on the funds available from cash-out, though it was acknowledged that customers would prefer a guaranteed level of payment rather than an uncertain amount.

2.12. A participant commented that it was important that the business rules make a clear distinction between network failure and commodity shortage, to avoid invoking the Gas Deficit Emergency (GDE) regime when the true cause of an emergency is a network issue.

2.13. NGG discussed their proposals for dealing with the impact of network isolation on shipper imbalances. The objective of this was to develop a process that ensures that, on day 1 of network isolation, shippers are cashed out based on the imbalance they would have incurred had NDM exit allocations not been scaled back as a result of network isolation in stage 3 of a GDE. The result of the proposed process is that shippers are cashed-out on the difference between their total system inputs and the estimated total that would have been consumed had network isolation not occurred.

2.14. A participant asked whether a site that is not taking gas ahead of an emergency (for instance due to planned maintenance) would still receive DSR payments. Ofgem responded that all sites instructed off by NGG should be eligible for DSR payments, and will receive a payment based on an estimate of the volume of gas they would have consumed. For DM sites, this will be consistent with their OPN, which will be zero if the site was not taking gas due to planned maintenance. For NDM sites, this would be an estimate of consumption, possibly based on the site's SOQ. Another participant commented that this could be consistent with the process for Guaranteed Standards of Service (GSOS) payments.

2.15. One participant questioned what the likely timescales for involuntary DSR payments would be. NGG explained that consumers would not receive DSR payments until 3-5 months after the emergency. The participant was concerned that customers would require payment in shorter timescales than this. It was discussed whether there was scope for an interim payment in shorter timescales, or else an early guarantee of payment that could be used to borrow against for cash-flow reasons. Ofgem and NGG agreed to look into this further.

2.16. NGG explained that the current business rules assume a licence condition will be developed to require shippers to pass DSR payments to suppliers (and suppliers to consumers) within defined timescales. One respondent commented that these arrangements could be similar to those already in place for GSOS payments.

2.17. Participants raised some issues in this area. A participant queried how customers switching supplier would be dealt with. Ofgem explained that DSR payments could be paid to the relevant supplier at the time the payments are due to be made. Alternatively, there could be an obligation on the former suppliers to include any DSR payments in a final bill once customers have switched. Ofgem noted that a more complicated issue would be dealing with customers who move properties between a GDE and the time DSR payments are made. Ofgem indicated it would consider this further and encouraged stakeholders to make suggestions on the most cost-effective way for shippers/suppliers to manage this.

2.18. One participant asked what would happen if a shipper or supplier became insolvent before payments were passed on, and whether the affected customers would simply become creditors of the firm. Ofgem explained that the supplier of last resort rules would apply. In addition, by the time these reforms come into force, rules governing special administration for suppliers would also be in force. The likely effect of this would be that, if a supplier became insolvent and was subject to special administration, the government would provide funds to the administrator to enable obligations to be met, such as a payment required to be made pursuant to a licence condition, and most probably recover these costs from the industry. One respondent questioned whether this would be relevant for Industrial and Commercial (I&C) customers. At present suppliers bid to take over I&C

customers from an insolvent supplier, but where the insolvent supplier has substantial liabilities in respect of DSR payments there was concern that no one would be willing to bid for these customers. Ofgem agreed to consider this issue further.

2.19. One participant asked why Ofgem were not considering changes to credit arrangements as part of the SCR. Ofgem replied that, in its view, industry is likely to be in a better position to review credit arrangements since the risk of a shipper becoming insolvent (and being unable to pay cash-out) are with industry. Should the industry think changes to credit arrangements are necessary as a result of the SCR, they are free to raise a UNC modification proposal.

2.20. The business rules outline that similar to DM interruptions, shippers that have supplied gas to interrupted NDM customers should potentially receive the System Average Price of the last 30 days (SAP 30) for those volumes. One participant pointed out that the business rules should be clearer on this point in that this would also apply to short shippers (up to the volume they were able to provide even if they remained short). NGG and Ofgem will attempt to revise the business rules on this point if they are unclear.

2.21. Participants asked for more clarity on responsibilities for managing the whole process in an emergency, including potential dispute resolution (as the potential increase in risks was seen as making disputes more likely). Participants also asked for more clarity on the restoration process. Further, participants wanted more clarity on the process of developing the business rules as well as code and licence changes going forward and asked for more round-table discussions on these issues. Ofgem agreed to look into these issues.

3. Closing presentation

3.1. AB explained that the next steps would be to consider stakeholder feedback and consider changes to the draft policy decision to address the concerns raised. Ofgem will also continue to progress the development of code and licence changes with NGG and Xoserve. AB also highlighted changes to Ofgem's project team before closing the meeting.