Minutes

Gas Security of Supply Significant Code Review (Gas SCR) – Workshop 1

Date:	Friday, 3rd September
Time:	14:00 – 17:00
Location:	9 Millbank, London

1. Opening Presentation

1.1. Tom Farmer (TF) opened the seminar outlining the issues that would be covered in this workshop. His slides are available on our website.

1.2. Questions and Answers

1.3. A stakeholder asked for more clarification on the process for coming out of an emergency. TF replied that it happens when the NEC declares the market to be restored and there is no change in the current arrangements. (We propose to clarify the arrangements for coming out of an emergency in the next workshop.)

1.4. Industry also questioned that in an emergency there might initially be sufficient gas to cover some DM's but not to restore part of the system following isolation. If the DM's were curtailed to enable LDZ restoration would shippers be liable to £20/therm? (Cash-out is based on shippers' imbalance position. Shippers that were short would be liable to £20/therm throughout the emergency)

1.5. Stakeholders discussed that an additional DSR trigger point would be useful to encourage I&C consumers to sign interruptible contracts. There may be more willingness to do so if it was considered that coming off the network was essential to avoid a national emergency. It was considered that a GBA was too early and it would be better to avoid entering Stage 1 of an emergency; therefore a signal somewhere between a GBA and moving into stage 1 emergency.

1.6. Some shippers were concerned that I&C customers may refuse to load shed despite having signed an interruptible contract in order to receive £20/therm. TF replied that if they have signed a commercially interruptible contract they would be compensated under the terms of the contract but they would not be eligible to receive £20/therm.

2. Business Rules and Code Changes Discussion

2.1. NGG's slides are available on Ofgem's website. Participants decided not to go through the legal draft of the proposed code changes, but preferred to go through the business rules. (We propose to revisit the legal code draft in Workshop 3.)

2.2. Regarding business rules surrounding GDE cash-out arrangements, it was noted that in Stage 1 of an emergency, when National Grid was still in the market, it could take a balancing action higher than £20/therm. A participant asked why the incentives for NGG differed compared to those placed on shippers. NGG explained that if a trade priced at greater than £20/therm could be justified to ensure the safety of the system, NGG is highly likely to accept the trade.

2.3. A participant asked why NGG commercial balancing actions were suspended in an emergency. NGG would stop operating in the market if no action was available that would potentially avoid entering a Stage 2 of an emergency. In a GDE, location of the gas would not matter.

2.4. There was some concern that some traders might game the market and offer only title bids not physical gas to NGG. However, in Stage 1 of an emergency the price the cash out price is set by NGG's balancing actions. [And during stage 2 the market moves to the physical OCM which will restrict traders' ability to perform non-physical trades.]

2.5. A participant asked if the curtailment price for storage would be £20/therm in the event of not being able to access the gas due to the safety monitor. It was agreed to bring an answer to the next workshop.

2.6. Regarding the NDM ECQ process, participants were interested to hear what the gas demand forecast was based on as public appeals are likely to have an impact on demand. NGG replied that the forecast was based on the prevailing forecast at the time of demand curtailment, and therefore would reflect the expected lower demand given public appeals.

2.7. National Grid outlined the process for commercial DSR, with shippers required to inform NGG of a commercial DSR contract. Also, if the shipper intends to enact the DSR, they will need to inform NGG – as with the current process. A participant noted that currently as a site with an interruptible contract was going to load shed, NGG require shippers to submit a P70 form via fax for each of the DSR sites. Given the anticipated increase in interruptible contracts forecast by Ofgem this process would be too onerous.

2.8. Regarding the NDM ECQ process a stakeholder asked how shippers that signed interruptible contracts with NDM customers would benefit from their curtailment due to the fact that currently in the business rules the benefits would be smeared across all NDM shippers within the LDZ. NGG outlined the proposed process and stated that there is no direct benefit for a commercial DSR contract with NDM demand. With the proposed process, to provide a benefit to the shipper, the NDM demand must become daily metered. NGG stated that they do not believe that NDM commercial DSR can be fitted into the process. Ofgem have noted the concerns.

2.9. Whilst discussing cash flow and how to deal with a shortfall in the cash-out arrangements some shippers noted that due to the fact that if there was a remaining shortfall post targeting onto short shippers, this remaining shortfall would be smeared across all shippers based on throughput and this created perverse incentives for importers that increased their throughput in an emergency, ie the higher the throughput due to greater imports the greater the liability. Suggestions for better targeting this shortfall included capping DSR payments to consumers based on the funding available, reducing payments to long shippers or not using the throughput based on the day of the emergency.

2.10. NGG explained why cash-out reform required an NDM ECQ process and outlined the proposed methodology for calculating the DSR payment to NDM consumers. A stakeholder questioned the accuracy of this methodology due to the large variance in NDM SOQ across the NDM demand. The methodology will pay consumers with a high SOQ and a more volatile load (such as domestic consumers) more than those consumers with a lower SOQ and a less volatile load such as NDM I&C consumers. This will result in NDM I&C consumers being underpaid.

2.11. Participants raised issues concerning credit requirements and in particular what would happen to credit requirements with National Grid. This should be reviewed as part of the normal process through the EBCC and credit rules through the transmission workstream.

3. Closing Presentation

3.1. TF explained that the next workshop would be an opportunity for participants to raise alternatives to implementation and those that wish to do so should contact Anjli Mehta, anjli.mehta@ofgem.gov.uk.