

## Gas Security of Supply Significant Code Review (Gas SCR) Proposed Final Decision – Workshop 3

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Date: Monday, 8<sup>th</sup> October  
Time: 13:00 – 16:00  
Location: 9 Millbank, London

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### 1. Ofgem – opening presentation

1.1. Tom Corcut (TC) of Ofgem opened the workshop, outlining the agenda and setting out that the main purpose of the workshop was to discuss the legal text published alongside the proposed final decision in order to inform consultation responses. TC reminded participants that the consultation would close on 24 October.

### 2. Draft legal text for UNC changes

2.1. Malcolm Arthur (MA) from National Grid Gas (NGG) led the discussion of the proposed legal text for changes to TPD Section Q of the UNC (published alongside the proposed final decision). MA began by giving an overview of the main objectives of the legal drafting. MA then explained that the purpose of the changes to section 4 was to define the calculation of imbalances and the emergency cash-out price.

2.2. One participant noted that there could be a conflict between a Gas Deficit Emergency (GDE) and a transportation emergency (paragraph 4.1.1), leading to uncertainty over which regime would apply. Another participant asked whether circumstances could arise where consumers are paid twice (ie, under both sets of arrangements) if this was the case. Ofgem agreed to consider this issue further.

2.3. MA moved onto section 6 of the drafting, noting the purpose of this section was to set out the arrangements for emergency curtailment and DSR payments. A stakeholder queried whether the proposed timescales for transporter to make revisions to Emergency Curtailment Quantities (ECQs) allowed enough time for shippers to raise concerns with the ECQs they had been allocated (paragraph 6.1.2). NGG pointed out that further arrangements to allow shippers to raise queries at later dates were contained later in section 6 (paragraph 6.3).

2.4. In discussions on the treatment of commercially interruptible contracts, one stakeholder asked for clarification on the requirements for notifying NGG of such contracts (paragraph 6.1.4). MA clarified that the requirement was to notify NGG 30 days ahead of the start of the gas year where possible, and at least the day before the shipper wishes the customer to be treated as commercially interruptible. The intent of this second requirement is to mirror the existing P70 process.

2.5. In relation to shared supply meter points, one participant asked whether it was practical or reasonable to require shippers to notify NGG within one hour of the proportions by which ECQ should be allocated (paragraph 6.1.5). It was proposed that consideration should be given to extending these timescales.

2.6. Another stakeholder asked to what extent the proposed arrangements were reliant on the assumption that all parties will have adequate electricity supplies to provide the information, and whether the proposals should contain contingency arrangements to address this. MA suggested that the ECQ adjustment process could provide a means to address errors arising from such circumstances. Participants agreed that shipper resilience could be a wider issue that may merit consideration through the E3C industry process.

2.7. One attendee questioned whether there was a conflict between the code referring to DSR payments in aggregate on a per-shipper basis (paragraph 6.4), and the licence referring to individual DSR payments on a per-customer basis. Ofgem agreed to consider this further.

2.8. With regards to DSR payments for NDMs curtailed in stage 2 of a GDE (paragraph 6.4.5), one participant queried what would happen if a customer did not cease consuming gas when instructed, but eventually did before the end of the day in question. It was suggested that an adjustment process should be considered to take account of this such that customers are only paid for the duration they actually ceased taking gas, and Ofgem agreed to look into this.

2.9. The group discussed the arrangements for the pass through of DSR payments. The legal drafting (paragraph 6.4.7) currently states that payments to consumers become due at the fourth Energy Balancing Invoice (EBI) following a GDE, and that they should be passed through by each eligible customer's current shipper and supplier. The concept behind this was that the DSR payment was tied to the customer, and so if the customer changed shipper/supplier the responsibility for passing through the DSR payment would move with the customer. Many participants disagreed with this approach, and considered that payments should be passed through by the shipper and supplier who had a contractual relationship with the customer at the time of the GDE. Ofgem agreed to consider this further.

2.10. One attendee questioned the reference to DSR payments being 'netted-off' against other EBI items. MA explained that the intent was that DSR payments would be a credit on the EBI, off-set against any debits.

2.11. Another stakeholder questioned whether it would be correct to socialise any shortfall in DSR payments, if it was known that some of these payments could be made to insolvent shippers and so potentially not make their way through to consumers.

2.12. A participant asked when shippers would be made aware of their full exposure. MA replied that a shipper's primary exposure would be apparent at the point at which the first EBI following an emergency is issued (ie, M+23). The participant considered that it would be helpful if information on potential liabilities could be provided in advance of issuing invoices if such information was available.

2.13. Considering the implications of potentially recovering a proportion of a shortfall from neutrality, a stakeholder commented that there could be substantial credit implications and that these could create a barrier to entry. Another stakeholder suggested that the liabilities faced by shippers would increase counter-party risk and so damage market liquidity. Participants were generally of the view that Ofgem should consider changes to the credit arrangements as part of the SCR. Ofgem re-iterated its current position that industry participants are best placed to consider changes to the credit arrangements as the risk of a shipper's default sits with the shipper community as a whole.

### **3. Draft legal text for licence changes**

3.1. Tom Farmer (TF) of Ofgem outlined the intent of the proposed licence drafting to facilitate the SCR. The purpose of the licence drafting is to manage interactions that are not between shipper and transporter (and hence unable to be captured under the UNC). The licence drafting mainly aims to capture the pass through of DSR payments (from shipper to consumer via supplier) or information (from consumer to shipper via supplier).

3.2. One participant questioned the use of 'all reasonable steps' in reference to the licence requirement for suppliers to inform customers that they are eligible to receive a DSR payment (paragraph 19.3). The participant considered that suppliers should only be required to use 'reasonable steps'.

3.3. A participant noted the interactions for customers who hold interruptible contracts with distribution networks and are also curtailed in a GDE. Ofgem noted this as an issue to consider in ensuring the drafting was sufficiently clear on these interactions.

3.4. Another stakeholder asked whether the proposed arrangements would capture 'shipper-less sites'. Another participant was of the view that it was not an issue, and that these sites would simply not receive payments for involuntary DSR.

#### **4. AOB**

4.1. TC asked if participants had any further issues they wished to discuss in relation to the Gas SCR. An attendee re-iterated their concerns that introducing an administered price would lead to a substantial impact on all shippers in the market, and potentially create perverse incentives.

4.2. One stakeholder asked what consideration had been given to interactions with interconnected EU countries, and what interactions Ofgem had had with other EU regulators. Ofgem stated that it had informed all regulators whose systems are interconnected with GB's, and held discussions with regulators from Northern Ireland and the Republic of Ireland.

4.3. Participants discussed the process for considering the Gas Forum alternative proposal, which was outlined at the previous workshop. Ofgem responded that they had some follow up questions for which some participants replied that they are meeting on 17<sup>th</sup> October to consider.

4.4. Participants suggested that raising a UNC modification could be helpful, and that Ofgem should also instruct NGG to raise a UNC modification based on the current SCR proposals in order to provide the opportunity to raise further alternatives. Ofgem stated that it would consider the proposal alongside consultation responses before determining the appropriate way forward.