

UNC Workgroup 0806 Minutes
Change to Curtailment Trade Price Compensation in Section Q
Thursday 05 May 2022
via Microsoft Teams

Attendees

Eric Fowler (Chair)	(EF)	Joint Office
Helen Cuin (Secretary)	(HB)	Joint Office
Adam Bates	(AB)	South Hook Gas
Alex Neild	(AN)	Storengy
Andrew Blair	(AB)	Interconnector
Anna Shrigley	(ASh)	Eni
Anna Stankiewicz	(ASt)	National Grid
Bethan Winter	(BW)	WWU
Ashley Adams	(AA)	National Grid
Carlos Aguirre	(CG)	Pavilion Energy
Chris Wright	(CW)	Exxon Mobil
Emma Buckton	(EB)	Northern Gas Networks
Ellie Rogers	(ER)	Xoserve
Hannah Reddy	(HR)	Correla
Hursley Moss	(HM)	Cornwall Insight
Jeff Chandler	(JCh)	SSE
Joseph Glews	(JG)	Ofgem
Joshua Bates	(JB)	National Grid
Julie Cox	(JCx)	Energy UK
Lauren Jauss	(LJa)	RWE
Leon Joseph	(LJ)	SGN
Malcolm Montgomery	(MM)	National Grid
Marion Joste	(MJ)	ENI
Mark Barnes	(MB)	National Grid
Nick Wye	(NW)	Waters Wye Associates
Paul O'Toole	(POT)	Northern Gas Networks
Phil Hobbins	(PH)	National Grid
Phil Lucas	(PL)	National Grid
Richard Fairholme	(RF)	Uniper
Shiv Singh	(SS)	Cadent
Steve Blackler	(SB)	E
Steve Mulinganie	(SM)	Gazprom
Terry Burke	(TB)	Equinor

Copies of all papers are available at: www.gasgovernance.co.uk/0806/050522

The Workgroup Report is due to be presented at the UNC Modification Panel by 21 July 2022.

1.0 Outline of Modification

Jeff Chandler (JCh) introduced the Modification, presented last month as a pre-Modification explaining the Modification proposes to change the Emergency Curtailment Trade Price defined in UNC TPD Section 6.1.1 (c) from the arithmetic mean of the SAP of the 30 Days

preceding the Day to the SAP of the Day preceding the Day, to provide adequate incentive and compensation to help ensure gas is purchased in advance.

2.0 Initial Discussion

2.1. Issues and Questions from Panel

Eric Fowler (EF) referred to the Questions raised at Panel and provided JCh response to each of the these.

2.1.1. Which Parties will be able to benefit from this facility/service and who will pay for it?

JCh explained that all parties will benefit from this change as it will apply to all Shippers/Customers. Any Shipper/Customer who is interrupted will receive the SAP price preceding the Day, not the 30-day average price. The costs of the exercise of firm load shedding will be smeared. The market will then determine if any cost of firm load shedding is then passed on to customers or not.

JCh believed it was reasonable that Shippers/Customers pay for the cost of insurance to have their supply maintained and the party that is firm load shed has improved compensation.

The alternative to not implementing this Modification and keeping the status quo is that Combined Cycle Gas Turbine (CCGT) operators leave gas purchasing until the prompt to manage renewable intermittency and market price risk. This places greater risk to society of a gas emergency because signals to attract the required gas will be time limited. If a gas emergency results in insufficient electricity generation, through firm load shedding, Customers will have reduced electricity supply and other services that require electricity.

JCh provided an example based on the highest prices observed, assuming the emergency occurs on the day after the highest price, from which the change in compensation from the 30-day average SAP to the SAP price of the preceding day can be calculated. In both cases the increase in cost is circa £2.4 million for 1 million therms, the energy required by a 700 MW CCGT to operate at full load for 24 hours.

Phil Lucas (PL) enquired if the intention will be to also adjust the price for the Emergency Curtailment Trade (Q6.2). PL suggested that if so, the Modification may need further clarification to be added to the narrative to ensure it includes the rationale for revising the price for this trade as the current version of the Proposal only sets out the rationale for the change to the unit rate of the DSR Payment (Q6.4).

The Proposer responded that it's intention was to revise the Emergency Curtailment Trade Price for *all* its applications in Section Q. However, it stated that it did not intend to revise its Proposal to additionally set out the rationale for the change to the unit rate of the Emergency Curtailment Trade.

PL referred to the Gas Security of Supply Significant Code Review which set out the rationale for using a 30 day average System Average Price (SAP) for DSR Payments, suggesting the Workgroup may want to understand the rationale for moving away from the Ofgem SCR decision published in 2014, to explain why this change is appropriate now. Further information relating to the Gas Security of Supply Significant Code Review is available at:

<https://www.gasgovernance.co.uk/SCR> and
https://www.ofgem.gov.uk/sites/default/files/docs/2014/02/140212_gasscr_fpd_0.pdf).

It was agreed to consider the decision made in 2014, noting views may change with different market conditions, for example less coal substitution and interest in interruptible services.

Richard Fairholme (RF) welcomed a review of the arrangements and the Demand Side Response (DSR) methodology.

Post Meeting Note: PL believes this is out of scope of Workgroup 0806. Please note that the DSR Methodology is subject to a periodic review process in accordance with Special Condition

9.22 of National Grid's Transporter Licence (last review published in March 2021
<https://www.nationalgrid.com/gas-transmission/document/134976/download>)

2.1.2. How does this new service interact with the DSR product and does utilisation of DSR mitigate/reduce the need for this proposal? (Modification 0504)

JCh explained that the market has changed materially since Modification 0504 - Demand Side Response (DSR) Methodology Implementation (<https://www.gasgovernance.co.uk/0504>).

At that time coal fired generation could substitute for gas fired generation and DSR was possible. However, with coal now largely removed that option is no longer available at material scale. Additionally, the electricity market arrangements both in the energy and capacity markets make voluntary load shedding commercially unviable in a tight market. It was noted that DSR auctions had attracted very little interest in past years, suggesting the potential for voluntary demand side reduction is limited and in practice a gas supply deficit is highly likely to result in firm load shedding.

Julie Cox (JCx) wished to note that the industry do not know how much commercial interruption there could be, expressing concern about evidence of customers prepared to self-interrupt on commercial terms. It was suggested evidence of contracts could be provided to Ofgem to assist understanding the potential magnitude. It was recommended that there should be a Consultation Question/request to ask parties to provide evidence of contracts.

Richard Fairholme (RF) referring the bid acceptance process, the current industry climate and industrial views on interruption, whether high bids for load shedding would be accepted. It was noted that the DSR concept does not apply to generation and 30-day SAP effectively creates head room to allow deals.

2.1.3. What is the likelihood of this Modification being required?

JCh explained without this Modification there is a commercial risk incentive not to buy gas in advance which increases reliance on the prompt market. With less long-term contractual supply, there is an increased exposure to prompt events and given the escalation of war in Ukraine the risk of supply loss to Europe from Russia either by accident or design have increased.

Although the likelihood of emergency arrangements being exercised is unknown, it was noted this Modification would make the likelihood of an emergency less because a barrier to purchasing gas for CCGTs in advance will be removed from the gas market and thus better enable gas supply to match demand.

2.1.4. Should additional electricity prices be used in scenario analysis?

JCh explained that challenges with predicting commodity prices that will arise in the event of an emergency.

It was agreed to include the responses to the Panel Questions within the Workgroup Report.

Following consideration of the Panel Questions the Workgroup briefly considered if there were any alternative means in which to achieve the same objectives of this Modification. JCh explained he had considered the voluntary interruption regime, but this was more complex.

PL asked if creating commercial conditions that do prove to encourage forward purchase of gas *would* help avoid a Gas Deficit Emergency (GDE). It was the view of the proposer that forward contracting could reduce the risk of supply loss and could avoid a scramble demand for gas. It was noted that a 'wait and see approach' could result in increased commercial pressures which would impact price.

In terms of the impact on any other codes PL suggested it would be worth checking whether the iGT UNC was impacted as DSR Payments may also be payable to consumers on IGT Networks, and therefore the iGT UNC may also define the Emergency Curtailment Trade Price.

Costs of making the change needed to be considered and the need to request a ROM from Xoserve.

It was agreed it would be worth revisiting Modification 0044 - Revised Emergency Cash-out & Curtailment Arrangements (<https://www.gasgovernance.co.uk/0044>), to understand the rationale for revised cash-out calculations.

2.2. Initial Representations

None received.

2.3. Terms of Reference

As matters have been referred from Panel a specific Terms of Reference will be published alongside the Modification at www.gasgovernance.co.uk/0806

3.0 Next Steps

EF confirmed that further consideration will take place at the next meeting.

4.0 Any Other Business

None.

5.0 Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/events-calendar/month

Workgroup meetings will take place as follows:

Time / Date	Paper Publication Deadline	Venue	Workgroup Programme
10:00 Thursday 09 June 2022 (BH 02 June)	5pm Monday 30 May 2022	Microsoft Teams	Review of Impacts and Costs <ul style="list-style-type: none"> Emergency Curtailment Price Wider Industry Impacts Rationale for using a System Average Price (SAP) Rationale for revised cash-out calculations Development of Workgroup Report
10:00 Thursday 07 July 2022	5pm Wednesday 29 June 2022	Microsoft Teams	Conclusion of Workgroup Report