

Guidelines for economic price assessment of post-emergency claims (Version 2)

1.1. All additional gas delivered to the UK during a Gas Deficit Emergency in excess of a party's offtakes will automatically be paid at System Average Price (SAP), which will be frozen for the duration of the emergency at the level it was at immediately before entering the emergency. Where a shipper who has flowed gas considers that the frozen SAP does not cover its costs of providing that gas, it may submit a claim for additional costs. As a result of UNC modification 260, those claims must be submitted as offers onto the OCM, and any which are not accepted as trades by counterparties will go to the emergency claims process. The highest-priced 20% (by volume) of those unmatched claims will be assessed by Ofgem or an appointed agent.

Party conducting economic price assessment

1.2. On behalf of the Authority, Ofgem will (or will appoint an independent assessor to) assess post-emergency claims provided to it by the Post-Emergency Claims Agent.

Status of these guidelines

1.3. For the avoidance of doubt, these guidelines set out the considerations to which Ofgem would generally expect to have regard in assessing the basis of the economic validity of these claims. Ofgem may depart from these guidelines in appropriate circumstances. These guidelines are not legally binding.

Basis for assessing validity of claims

1.4. In assessing post-emergency claims, the validity of the price associated with the OCM physical market offer to which the claim relates will be considered. Assessment will be based on the cost of providing the gas to the GB market, and this will include consideration of the opportunity cost of delivering the gas to the GB market. Claimants will be expected to provide sufficient information in their "justification for the level of the Market Offer Price" —a pre-requisite for claims to be considered to be valid— for the claim to be assessed.

Defining opportunity cost

1.5. The opportunity cost of an action is the cost of pursuing an option at the expense of pursuing the second best option where there are multiple desirable but mutually exclusive options available.

1.6. In practice the opportunity cost of delivering gas to the UK in an emergency is the cost of delivering gas to the UK at the expense of delivering the gas to an alternative market, keeping the gas in storage or being able to produce the gas at a later date. In most cases this would be signalled by the highest spot price that the gas could command in other reachable markets or by selling the gas for future delivery. Claimants should be able to receive the same price they would have received elsewhere in order that supplies may be delivered to the UK in an emergency. Where a Claimant can demonstrate that a liquid, available forward market exists to which the gas could feasibly flow, claims based on forward prices will be considered.

1.7. When assessing post-emergency claims, the price that gas delivered to the GB market from external sources would have been able to command in other markets that the gas could feasibly have reached or the costs attributable to the delivery of the gas where it comes from UK sources will be taken into consideration.

1.8. In all claims that are assessed, the onus will be on the Claimant to demonstrate that it could have achieved the price it claims by other means or that the price it claims is equal to the costs incurred in delivering the gas.

Defining other reachable markets

1.9. Other reachable markets that will be considered will be those to which the additional physical gas delivered could have been feasibly transported on the day of delivery or –where appropriate– within a reasonable number of days from the day of the claim. Reachable markets will differ depending on whether the gas that has been delivered was a spot LNG cargo, UKCS gas, storage delivery, an interconnector import or as a consequence of demand side response. Therefore, the basis for assessment of these claims will relate to the delivery method accordingly. We consider that information pertaining to the origin of the gas delivered should be referred to within the "reasonable justification for the level of the Market Offer Price".

Basis for assessing claims for gas delivered from different sources

UKCS and storage

1.10. Claims related to gas delivered from the UKCS or Storage will be assessed on the basis of the short run operating costs of delivering the gas unless Shippers can effectively demonstrate an opportunity cost on the basis of which a higher claim price can be justified.

1.11. Since UK shippers will be under direction from the NEC to flow gas from beach and storage supplies, and therefore will have no other option than to flow that gas on that day, we do not consider the possibility of achieving higher prices at some point in the future to be a valid opportunity cost in this context.

1.12. It should be noted that as with gas from all other sources it is open to Shippers to place offers at any price onto the OCM and these offers may be accepted by other market participants, or may form part of the lowest 80% of unaccepted offers which are recommended for payment.

Interconnectors

1.13. Claims related to gas imported via continental interconnectors will be considered against the price the gas could have commanded in interconnected markets to which it could physically have been supplied on that day, had it not been supplied to GB or, where a claim is justified on the basis of a forward price, a market to which the gas could have been delivered within the relevant time period necessary to achieve this price. Any additional transportation costs incurred in shipping the gas to GB (over and above the costs of shipping the gas to the market which is referenced as the price being claimed) will also be taken into account in assessing claims.

LNG

1.14. For claims related to LNG spot cargoes, all markets that could have feasibly received the gas on that day will be considered. Where justified, we will consider prices in markets that could have been reached up to the day that the vessel berthed at a UK terminal or, where a claim is justified on the basis of a forward price, a market to which the gas could have been delivered within the relevant time period necessary to achieve this price.

1.15. We consider it to be unlikely that markets outside of the Atlantic basin would be viable alternative markets for delivery of the gas, unless Shippers can demonstrate that they had contracts or arrangements in place to deliver LNG to those markets, and were not able to do so as a consequence of supplying LNG to GB.

1.16. The cost of transporting the gas to GB instead of an alternative market may be considered as an additional cost that may be added to the price available in alternative markets that may have been closer to the vessel's point of origin.

Demand side offers

1.17. Claims for gas offered as a consequence of demand reduction will be considered against the cost of reducing production where a reasonable justification has been given and where reasonable attempts have been made to mitigate loss.

Industrial and Commercial

1.18. Where a Claimant feels they have made financial losses in excess of the frozen SAP as a result of a reduction in their gas offtakes, they may express this in their justification for the level of the Market Offer Price. This may include revenue lost due to reduced output.

Electricity Generation

1.19. Where gas fired power station operators have reduced their gas demand voluntarily or involuntarily to make gas available to the NTS in an emergency, claimants may claim up to the price that they could have received for generating electricity during the Gas Day to which the claim refers.

1.20. Claimants may choose to enter the market or use their own generation portfolio to replace lost generation. Claimants who enter the market may claim up to the market value of the electricity that they could have generated, net their costs including the value of the gas they would have consumed. The value of foregone electricity will be the Market Index Price as defined in the Balancing and Settlement Code unless claimants can demonstrate that they did not have the opportunity to buy power from an alternative source in which case they may claim up to the electricity System Buy Price for the relevant half hour periods.

1.21. Claimants will be expected to demonstrate the volumes of gas that would have been offtaken in each of the half hourly periods to which the relevant prices relate and the associated contracts for electricity to be delivered in these periods.

1.22. Where claimants use fuel switching or alternative generation available in their portfolio, the costs of fuel, associated carbon allowances, running and maintenance costs associated with generating using the alternative generating units may be claimed net of avoided costs associated with generating using gas at the intended power station.

1.23. Where carbon allowance usage is avoided as a consequence of reduced output, claimants are expected to subtract the associated savings from the total claim value.

1.24. Claimants are expected to demonstrate plant efficiencies for each individual generating plant to which a claim relates.

1.25. It should be noted that the main intention of the post-emergency claims arrangements is that they ensure Shippers do not make a financial loss when delivering gas to the NTS in an emergency.

Circumstances in which post-emergency claims which have been "recommended for payment" would be assessed

1.26. Ofgem (or its appointed assessor) may assess the validity of all claims, including those recommended for payment by the Post-Emergency Claims Agent. We would not anticipate this to be done as a matter of course. However, if—in exceptional circumstances—a situation were to arise in which it was considered that claims below the 80% trigger price should be assessed, the option is there for these claims to be assessed and if appropriate paid at another level.

1.27. Circumstances that indicate that claims recommended for payment should be assessed may include, for example:

- Where the lowest priced post-emergency claim "subject to economic price assessment" has been considered to be deserving of a value less than its OCM offer price and there are claims at a similar price level which have been recommended for payment.
- Where a party appears to have exploited market power, e.g. where one party has more than 20% of post emergency claims by volume and prices claimed appear to be significantly above the costs of providing it.

1.28. Ofgem (or its appointed assessor) will review claims and where appropriate submit alternate levels of payment within 28 days of receipt of the claims or claims will default as approved for payment.

Claims that have been deemed not to be valid

Unless Claimants can exhibit in their justification for the level of the Market Offer Price a valid reason why OCM offers have been made at an excessive level, claims that are not accepted at the offer price level will receive no additional payment (i.e. they will receive only the frozen SAP).