

**Transmission Workgroup Minutes**  
**Friday 11 February 2011**  
**Energy Networks Association**  
**52 Horseferry Road, London SW1P 2AF**

**Attendees**

Tim Davis (Chair)	(TD)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Andrew Pearce	(AP)	BP Gas
Charles Ruffell*	(CR)	RWE npower
Chris Aldridge	(CA)	National Grid NTS
Chris Wright	(CW)	Centrica
Claire Thorneywork	(CT)	National Grid NTS
Ian McNicol	(IM)	Ofgem
Jacopo Vignola	(JV)	Centrica Storage Ltd
Malcolm Arthur	(MA)	National Grid NTS
Rekha Theaker	(RT)	Waters Wye Associates
Shelley Rouse	(SR)	Statoil
Steven Sherwood	(SS)	Scotia Gas Networks

*\*via teleconference*

**1. Introduction**

*Copies of all papers are available at [www.gasgovernance.co.uk/tx/110211](http://www.gasgovernance.co.uk/tx/110211).*

TD welcomed attendees to the meeting.

**1.1 Review of Minutes of previous meeting**

The minutes were accepted.

**1.2 Review of Actions**

**Action TR1201:** 0337 – Establish costs around potential incorporation of system warnings associated to price and volume, to reduce risk of inadvertent User error.

**Update:** CT reported that the entry and exit capacity processes have a high/low parameter and a cautionary box appears to indicate to a party that it has exceeded a parameter. This can be provided by xoserve with no increase to the figures indicated in the ROM. Those present agreed to its inclusion providing there was no increase to costs. **Action closed**

**Action TR1202:** 0337 – Consider releasing two volume figures (Park and Loan) prior to auction.

**Update:** CT confirmed this had been included in the Business Rules. **Action closed**

**Action TR1203:** 0337 – Consider adding a rule to clarify what action National Grid NTS may take when assessing a bid stack that contains bids from parties who have indicated that they are not willing to accept partial acceptance of their bid.

**Update:** CT confirmed this had been included in the Business Rules. **Action closed**

**Action TR1204:** 0337 – Revise the modification based on comments received.

**Update:** Redrafted and published. **Action closed**

## 2. **UNC Modification 0337 - “Introduction of an Inter-Day Linepack Product”**

TD displayed and reviewed the Progress Timetable, explaining that the main aims of this meeting were to finalise the business rules, establish a clear understanding of the User Pays option, and to agree the next steps. MA added that at the conclusion of today’s business he hoped to have a better indication as to whether the timetable remained appropriate or might need reviewing.

### 2.1 **Release making process**

CA gave a presentation on the estimated volume associated with Linepack ‘Park and Loan’. Further analysis had been performed and a selection of 10 days had been looked at. It was now estimated that Park and/or Loan could be released on 60% to 80% of days, with a net volume release of between 2 and 6mcm. CA pointed out that there was more uncertainty at early release times, but this improved as the day progressed. There may be times when a release may not be made, for example if there was a supply loss during the day. On other days it might be possible to release Park but not Loan volume, a judgement depending on the continual assessments made in respect of opening and closing linepack.

The analysis was carried out on historic data; the volumes would be net volumes, published half an hour before the release time with a notification to users. RT observed that it would help to have more detail on outcomes. CT explained what would be published before/after the bid assessments, and confirmed that Gemini users will have access to the information; tight timescales precluded making a commitment to notify the whole community.

CW asked if, on a day where a linepack product would not be released, this process would still have to be gone through - would there be a ‘nothing today’ notification. There may be some days when 0 may be published (which is not the same as ‘no release’), or there may be days where there are exceptional concerns. If all user requirements are netted off, would this be a 0 release? Would the process still have to be gone through?

CA responded that judgment must come into play; there may be exceptional days when National Grid NTS would not want to offer any opportunity for even a small change between today and tomorrow and would not facilitate matching trades.

That there was a distinction between a zero release and ‘no release’ was noted. TD pointed out that the modification refers to a zero release and is silent on any other options.

**Action TR0201: Consider the distinction between a zero release and ‘no release’ and address what should happen in respect of either position.**

Responding to TD, CA confirmed that the analysis had followed the published methodology, and explained that it had drawn on a stratified sample, spanning a

range of demands, seasons, and relative ranges of linepack (heavy and light); it was confirmed that none were released above 6mcm.

CA explained that there was likely to be less volume released at the earlier times, as there was a greater degree of uncertainty at those points in a day. RT commented that a Shipper could therefore expect very little before the final release. For small Shippers who did not run 24 hour operations releases at 23:00 are of no value unless certain to be available – they would be looking to participate before their business day ends, so this approach would exclude a number of smaller Shippers from using the product. CT explained that this was ‘untested ground’ and that release times may not remain set as proposed; as confidence is gained there may be changes, perhaps to earlier release times. RT acknowledged this but argued that that was not guaranteed and could potentially take a number of years to assimilate, and the chances of small parties using it in the meantime were very slim.

TD asked if Shippers would want to see modelling for all the release windows, or was the release going to be so small at these times that there was no likelihood of anyone taking the trouble. CW added that not a lot of trading goes on at that time at night.

RT observed that the pricing methodology was also uncertain, and smaller Shippers may end up paying through neutrality even if they had not bought/used the product. This caused concern.

CW asked what would happen if a big linepack loss occurs after a product release – later in the gas Day there would be less chance of recovery from the event. CT confirmed that if bids had been accepted, National Grid could not reverse out of the process - in extreme cases it would have to take balancing actions. It will not expect to take residual balancing actions unless there are exceptional circumstances as it is expecting to offer Park and Loan instead. Volumes are released to minimise the likelihood of having to take an action.

CA then displayed a set of histograms illustrating the increasing accuracy of PCLP (2010) throughout the Day. An example of a late change was explained.

TD commented that PCLPs were not forecasts, and that it was not obvious that earlier ones are any less accurate than the later ones. CA responded that in the current regime the best guide to where the system was going to close was the OLP level and National Grid was incentivised to take actions where it judged it to be necessary. These actions will not be expected in the ‘new world’, and taking account of PCLPs will be more important – Opening, Projected and Actual is what will be being looked at.

TD again asked Shippers present if they would want to see any further analysis. CW remarked that he was not sure if additional data would change his organisation’s cautious approach or level of certainty.

No further analysis was requested.

## **2.2 Open Letter Responses – Overview**

MA reported that the main concerns appeared to be centred on the ability for National Grid NTS to exercise discretionary action, although others were raised regarding volumes released, SO incentives and zero prices.

A number of responses had been received, of which five were non-confidential. These five would be passed to the Joint Office for open publication on its website. All responses received had been passed through to Ofgem for its consideration.

Responding to questions as to whether responses had been received from a broad cross section of the industry, CT confirmed that no responses had been received from 'small' Shippers.

RT commented that numerous parties would have liked to respond but were chary of the uncertainty regarding the User Pays elements. CT reported that views expressed appeared to support the premise that users of the service should pay for it; there were mixed views on who should pick up any residual costs.

CW asked if the responses gave any indication regarding the further development of the product, ie was it worth continuing with this modification. MA stated that National Grid NTS will continue to develop the product - the modification will proceed through the accepted process as planned, and Ofgem will be given the opportunity to make its decision. IM agreed with this view, and expected that the consultation would continue.

## **2.3 Revised Proposal and Business Rules**

A draft had been published and TD displayed this on screen for further consideration, and amendments were suggested and made as the discussions progressed. Points of particular interest were noted.

### **Section 1**

#### ***FSA Considerations (page 4)***

AP did not see why this should be included. CT had discussed with National Grid's lawyers and understood this to be a very 'grey' area. Each Shipper may therefore wish to consult its own lawyers to establish its own position in this respect. CT confirmed that National Grid would not impose an FSA requirement on Shippers.

#### ***Business Rules***

TD suggested that further consideration might be given to making any terms, acronyms, etc. referred to in the Business Rules and draft methodology statement consistent with those referred to in the draft legal text.

2.1.1 – RT believed it should be made clear that the Inter-day Linepack Bulletin Board was part of the Gemini system.

2.1.2 and 2.2 - Inter-day Linepack Manager - References to be made consistent throughout the Rules, and also in legal text.

2.3 Inter-day Linepack Methodology Statement – It was suggested that the reference to Ofgem's approval might require removal from this document since it is not in either the modification nor the draft legal text. IM agreed to confirm Ofgem's position regarding this.

**Action TR0202: 0337 Business Rules 2.3 – Confirm if Ofgem approval is required for the Inter-day Linepack Methodology Statement.**

2.5.2 – It was believed that this statement might require further clarification by National Grid NTS.

**Action TR0203: 0337 Business Rules 2.5.2 – Add further clarity to this paragraph.**

2.6.2 – Reserve price – It was questioned if this would affect the transportation charging methodology.

**Action TR0204: 0337 Business Rules 2.6.2 – Clarify if the calculation of reserve prices should be part of the transportation charging methodology.**

2.7 – It was confirmed that there was no way for an individual party to set its own partially accepted split/minimum.

2.9.2 *Timing of Release* - This section was discussed at greater length. It was suggested that a check be made to confirm that ‘materiality’ is defined in the IDLP Methodology Statement. CA was reluctant to put defined numbers in here as it may force a more conservative approach to decision making. Notwithstanding wanting to retain an element of discretion, RT believed that this should be made clearer.

**Action TR0205: 0337 Business Rules 2.9.2 – Check ‘materiality’ is defined in the IDLP Methodology Statement.**

CA would expect some incentive on National Grid to release the product, but this had yet to be developed. The product development/implementation was not dependent on an incentive being in place. If the product was perceived as valuable, then it may be appropriate to incentivise National Grid to release as much volume as possible.

CW commented that the industry would not be wanting to go through this process in the event of a gas supply emergency, and suggested that consideration should be given to making it very clear that this would be suspended or ‘switched off’ at such times.

3. *Bid Acceptance Process* - Referring to ‘netting off’, CW asked if a process was required to clarify how this would be done, ie the acceptance and the allocation. TD pointed out that bids were accepted on quantity and stacked on price; price was not significant for acceptance purposes. How bids might be dealt with should they not be successful and carried over was then discussed. There was concern that if partial assignment was activated then a party could be assigned less than the minimum. Should National Grid have to allocate it all? Could partially netting and partially product release meet this? CA noted the concerns regarding the constraint of the minimum bid and Shippers being left with ‘odd’ amounts that seemingly cannot be accommodated through this or any other route, and will re-examine the treatment of bid remainders.

**Action TR0206: 0337 Business Rules 3. – Re-examine the treatment of bid remainders.**

**Action TR0207: 0337 Business Rules 3.3.3 Netting Off Bid Acceptance Process – Review against the legal text.**

5.1 *Information Provision* – The prospect of potential issues of commercial confidentiality were raised (ie if only 2 bids in play) and briefly discussed. CW suggested the ‘less than 3’ rule that operated in other areas of the code could be applied. RT and CW believed National Grid should consider its inclusion. AP and SR did not believe it would be a problem if the information published was anonymous and aggregated.

6. *Invoicing and Charging* – CW asked if the User Pays details needed to be included here. CT responded that the text did not include anything here yet. Some text might be required but this might need to be part of the Agency Charging Statement (ACS).

**Section 2 User Pays**

TD drew attention to the use of the User Pays Guidance document that was to be followed when proposing a modification.

CT explained the two options under consideration for the recovery of costs, and indicated that, based on the responses to the Open Letter, National Grid was

looking to move forward with Option 2 and will be drafting an ACS change to accommodate this.

CT pointed out that National Grid was not funded for development costs and there was no provision for operating the service. Shippers were uncomfortable with the 'end of one year' proposal, whereby outstanding costs would be recovered from the whole community, regardless of the fact that the service may not have been used. MA explained the assumptions made, and that it was anticipated that build costs would be recovered over 250 days (based on 2MCM being released per day).

RT asked if Ofgem would carry out an Impact Assessment, and questioned if it was still the right course of action to continue with this modification, given the responses received and knowing that the volume release was in the order of 2MCM - 6MCM each day. Shippers have indicated their reluctance that this will continue to be developed because of a Licence Condition imposed by Ofgem. Strong concerns remain that it was planned to potentially recover costs from Shippers who cannot use the service.

MA reiterated that cost recovery does rely on take up of the service. RT then suggested that if National Grid was confident of its assessment of its analysis there was no reason the recovery period could not be extended from one year to two or three. CT pointed out that the costs of operating this on a daily basis were not included in the calculations.

Shippers pointed out that if this modification enabled a Licence Condition to be fulfilled then charges should surely be split 50/50 as set out in the User Pays Guidance Document – the modification would not have been raised if the Licence Condition were not there to force it. TD indicated the requirement to justify moving away from the guidelines, which MA had sought to do. MA added that *development of the product* fulfilled the Licence Condition, not implementation.

RT reiterated that if Shippers do not use the product there is no benefit to them, but they could incur extra charges through the smearing of implementation costs.

SR pointed out that if an incentive was agreed then National Grid was likely to benefit. IM interjected that it was premature to be discussing incentives.

JV asked what exactly was the driver for this product. IM responded that it was to value linepack so that any actions taken would be more reflective of the true costs, which would benefit system operation. RT believed this indicated a benefit to the SO.

Summarising the position, TD concluded that National Grid had noted the concerns regarding the recovery timescales and appeared amenable to extending the period from 1 to 2 or more years.

Regarding the provision of an Impact assessment, TD suggested that Ofgem's general approach was to conduct one if a modification met certain criteria. TD requested that IM confirm this and whether an IA will be carried out.

**Action TR0208: Confirm whether Modification 0337 meets Ofgem's criteria for conducting an IA.**

### **Section 3 Relevant Objectives**

TD stated that at the next Transmission Workgroup meeting (03 March 2011), the intention would be to complete the 0337 Workgroup Report, and invited

views on the two principle relevant objective impacts put forward by National Grid. These were discussed and it was acknowledged how very difficult it was to provide justification and adequate explanation to support the statements made.

It was noted that implementation might discriminate/disadvantage smaller Users, and may also be considered a barrier to entry. Discussing potential changes to the proposed release times, CA stated that this was a learning process and that further experience in this area would need to be acquired before changes could be made/different times could be committed to.

JV questioned if allowing linepack to vary would go against the previously accepted principle to keep it constant. CA responded that the existing incentive would have to be changed or removed. Modification 0333 was proposing the modification of existing cashout arrangements and CA would expect the default cashout prices to apply in the Park and Loan regime. If there is no Park and Loan product, there is exposure to imbalance charges. JV believed there needed to be more clarity in the modification to demonstrate the effect on that principle.

The statements made in support of SSCA11.1(d) were then briefly discussed and TD encouraged those present to give further thought to how these particular statements could be justified, in advance of the next Workgroup meeting, to enable appropriate completion of the Workgroup Report. Shippers, as the experts in competitive markets, were encouraged to define and quantify any benefits and submit these in advance to the Joint Office for inclusion in the draft Workgroup Report.

## **2.4 Legal Text**

A draft had been published the previous day.

TD drew attention to the expectations set out in relation to legal text in the recent letter received from Ofgem, and noted that National Grid might usefully provide a commentary to accompany the legal text. This should be provided in parallel with the ACS, and both were required to be provided in advance of the next Workgroup meeting.

It was also noted that the IDLP Methodology Statement was currently out for consultation and that comments would be welcomed.

## **2.5 Next Steps**

Following today's discussions, the modification, the Business Rules, and the legal text will be reviewed, revised as appropriate, and published.

It is intended to complete the Workgroup Report at the next Transmission Workgroup meeting on Thursday 03 March 2011, with a view to submission to the 17 March 2011 Modification Panel.

## **3. Any Other Business**

None raised.

## **4. Diary Planning**

*Further details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary)*

The next Transmission Workgroup meetings are scheduled as follows:

10:00 03 March 2011, at Elexon, 350 Euston Road, London NW1 3AW

10:00 07 April 2011, at Elexon, 350 Euston Road, London NW1 3AW

10:00 05 May 2011, at Elexon, 350 Euston Road, London NW1 3AW

10:00 02 June 2011, at Elexon, 350 Euston Road, London NW1 3AW

**Action Log – UNC Transmission Workgroup: 11 February 2011**

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
TR 1201	14/12/10	2.0	0337 – Establish costs around potential incorporation of system warnings associated to price and volume, to reduce risk of inadvertent User error.	National Grid (CT)	Closed
TR 1202	14/12/10	2.0	0337 – Consider releasing two volume figures (Park and Loan) prior to auction.	National Grid (CT)	Closed
TR 1203	14/12/10	2.0	0337 – Consider adding a rule to clarify what action National Grid NTS may take when assessing a bid stack that contains bids from parties who have indicated that they are not willing to accept partial acceptance of their bid.	National Grid (CT)	Closed
TR 1204	14/12/10	2.0	0337 – Revise the modification based on comments received.	National Grid (CT)	Closed
TR 0201	11/02/11	2.1	0337 - Consider the distinction between a zero release and 'no release' and address what should happen in respect of either position.	National Grid (CT)	
TR 0202	11/02/11	2.3	0337 Business Rules 2.3 - Confirm if Ofgem approval is required for the Inter-day Linepack Methodology Statement.	Ofgem (IM)	
TR 0203	11/02/11	2.3	0337 Business Rules 2.5.2 - Add further clarity to this paragraph.	National Grid (CT)	
TR 0204	11/02/11	2.3	0337 Business Rules 2.6.2 – Clarify if the calculation of reserve prices should be part of the transportation charging methodology.	National Grid (CT)	

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
TR 0205	11/02/11	2.3	0337 Business Rules 2.9.2 – Check 'materiality' is defined in the IDLP Methodology Statement.	National Grid (CT)	
TR 0206	11/02/11	2.3	0337 Business Rules 3. – Re-examine the treatment of bid remainders.	National Grid (CA)	
TR 0207	11/02/11	2.3	0337 Business Rules 3.3.3 Netting Off Bid Acceptance Process – Review against the legal text.	National Grid (CA/CT)	
TR 0208	11/02/11	2.3	0337- Confirm whether Modification 0337 meets Ofgem's criteria for requiring an IA.	Ofgem (IM)	