

Development Work Group Modification Proposal 0090

Minutes

Wednesday 30 August 2006

Elexon, 350 Euston Road, London NW1 3AW

Attendees

Tim Davis (Chair)	TD	Joint Office of Gas Transporters
Lorna Dupont (Secretary)	LD	Joint Office of Gas Transporters
Ed Proffitt	EP	MEUC
Alex Thomason (alternate)	AT	National Grid Transmission
Anne Young	AY	National Grid Distribution
Beverley Grubb	BG	Scotia Gas Networks
Gareth Evans	GE	Total
Dennis Timmins (alternate)	DT	RWE npower Ltd
Martin Baker	MB	xoserve
Indira Thillainathan	IT	Ofgem
Lewis Hodgart	LH	Ofgem
Liz Spierling	LS	Wales and West Utilities
Mark Freeman	MF	National Grid Distribution
Martin Kew	MK	Northern Gas Networks
Mitch Donnelly	MD	BGT
Robert Cameron-Higgs	RCH	Northern Gas Networks
Shelley Rouse	SR	Statoil
Stefan Leedham	SL	EDF Energy
Paul Smith	PS	Ofgem

Apologies

John Bradley	JB	Joint Office of Gas Transporters
Samanta Padalino	SP	Ofgem
Helen Bray	HB	Chemical Industries Association
Julie Cox	JC	AEP
Phil Brown	PB	National Grid Distribution
Nigel Sisman	NS	National Grid Transmission
Hydreace Ali	HA	RWE npower

1. Introduction and Status Review

1.1 Minutes from previous meeting (16 August 2006)

No comments were received and the minutes of the previous meeting were approved.

1.2 Review of Actions from previous meeting

D9021: Shippers and Consumers to decide what information should be released to assist Supply Point transfer and competition

MD advised the following in response to this action:

- Interruption status flag, ie Yes or No
- Interruption period (number of Days/Years covered by the contract and to which Gas Years the contract applied)
- Percentage discount on capacity in each Year (price)

MF advised that the option fee would be paid on a monthly basis, eg a three year contract = 36 monthly payments, and would take account of any transfer of ownership.

Information release by Consumers to Shippers was also discussed. Views were mixed, in that it was likely that some Consumers may choose to release information and others would not.

For updates on all other actions see Action Table below.

2. Specific Topics

Discussions on the UNC impact of the following topics took place.

2.1 Shared Supply Meter Points

MF advised that a change was proposed to the notification process for an Interruptible portion to the Transporters, whereby this would now be done through the Application process.

Different scenarios were discussed to clarify how the proposed arrangements might work. AY confirmed that only a few DN sites were SSMPs.

Action D9029: xoserve to confirm and advise the number and location of all sites currently designated as SSMPs.

MF confirmed that the SSMP Interruptible portion could not be withdrawn until the end of the Interruption contract unless an application is made for Firm status. MF also confirmed that the rules would be written to include the movement or reversion of a site to single Shipper status and vice versa.

The role of the Allocation Agent within the bid process was discussed.

Action D9030: The DNs to consider the role of the Allocation Agent within the bid process.

2.2 Shipper Tendering Process (annual and within year)

BG described the proposed process. Initial concerns centred on whether any part of this increased the risk of an emergency being called.

EP observed that under British Gas there had been no tender process and the Transporter was able to make a direct approach to a consumer if a location specific response was needed – could a bilateral approach be envisaged as part of the new arrangements? The DNs responded that it was necessary to have a set of rules in place that would demonstrate transparency and equitability.

MD advised that Shippers had been in discussion over various options and it may be possible for Shippers to offer the alternative of commercial interruption of capacity. The DNs were appreciative of this consideration.

PS commented that Ofgem's September consultation on the incentives on Long Term and Short Term arrangements may give more transparency.

MD observed that there was a risk that Network Sensitive Loads (NSLs) had already perceived a strategic advantage and would not take part in the Long Term process - NSLs will wait until Day Ahead to see what the DNs will offer. Shippers and Consumers argued that if a constraint could only be relieved by only one specific site, then to go through the motions of what was, in effect, an unnecessary and time consuming tender process would give Shippers and Consumers a great deal of unnecessary work. Despite this recognition, Ofgem's view was that the tender process should be seen to operate.

The DNs commented that they hoped not to structure 'locations' such that dependence was placed on any one particular site coming off gas to deal with a constraint. It was confirmed that the DNs would publish location details but not actual requirements (the level of detail would be discretionary, dependent on a number of factors being taken into account).

2.3 Failure to Interrupt (FTI)

MF explained the existing rules and outlined the proposed changes.

MD questioned whether the charge for failing to interrupt was to be seen as a genuine pre-estimate of loss or a penalty charge. The appropriateness of a gas price related charge was questioned.

The DNs advised that the proposed FTI charges represented minimum change from the present position, with the charge providing an incentive to preserve the security of the system - failing to interrupt when instructed to do so could place the system at serious risk. MD stated that in view of this he was satisfied with the concept of a penalty charge as an incentive to interrupt.

A discussion followed on the workings and scale of the charges. MD and GE thought that any potential penalties to be incurred by a consumer in the event of failing to interrupt would need to be made very clear within the tenders. GE was also concerned that there would need to be a 'reasonableness' clause – a balance between incentives and penalties. EP agreed that consumers needed to have a very clear understanding of their responsibilities, and the actions that would be taken if they failed to interrupt and were seen to be putting the system in jeopardy.

MD asked whether Shippers were given a lead-time in advance of DNs' plans to isolate a site. The DNs advised that there were no plans to change the current arrangements, and admitted that they had not considered this from the Shipper's viewpoint. TD advised the group that as no change was proposed, this was outside of the scope of Modification Proposal 0090 but could be explored through the raising of a new modification if further action was considered necessary and appropriate.

It was agreed that a sequence of graduated and increasingly severe measures should be utilised in the event of a site failing to interrupt, before the ultimate sanction of physical isolation.

MF confirmed that based on the discussion the proposal would remain as 2 x SMP Buy. Concern was then raised that using SMP did not resolve local constraint issues, and that capacity was a better tool for this purpose.

AY confirmed that FTI was a relatively rare occurrence - there was one instance of FTI last year and four in the previous year. It was recognised that an increase in the calling of Interruption could lead to an increase in the risk of sites failing to interrupt.

Action D9031: DNs to review the use of SMP and consider if this was appropriate for charging in all cases.

MF explained the '5 strikes' concept in relation to individual sites and to a Shipper's portfolio.

The DNs wanted to remove the linkage to the Registered User's portfolio, and recognised that references to 'contract' and 'Gas Year' may need to be reviewed and distinctions clarified.

MD queried whether a customer who had failed to interrupt, but who had not breached the 50% rule, could take part in the next tender process. He also queried what would happen if the site itself changed Consumer ownership - how was it allowed back into the process and what would be the effect on the incoming Shipper/Consumer? Both TD and PS thought that any negative business history would be identified through due diligence carried out by any prudent prospective new Shipper/Consumer. The DNs observed that the primary means of selecting a tender is based on price and location. They would need to reserve the right not to consider that site in any future process, but would discuss that with a Shipper as appropriate. EP wondered whether Ofgem would accept 'business risk' as a DN's reason for rejecting a particular site's bid. The DNs confirmed that in such cases they would be in discussion with Ofgem, and some discretionary leeway to accommodate this type of situation could be valuable.

Action D9032: The DNs to consider barring, modifying the '5 strikes' rule and appropriate discretionary elements, in relation to the FTI process.

2.4 New Supply Points

MF explained the proposed changes in this area.

MD questioned what would happen with capacity increases at existing Firm sites and whether a request for capacity increase would force the site into this process. The Transporters confirmed that no change from the existing process was proposed. MD thought that currently all new sites were Interruptible until allowed to go to Firm. EP gave an example of a site that had ratcheted and been informed that it could not flow the increased amount although its SOQ had been increased in response to the ratchet.

Action D9033: DNs and xoserve to look at what happens in the current process whereby the SOQ increases through the ratchet and the increased flow cannot be accommodated immediately.

It was noted that the DNs advised there is no guaranteed capacity available at the commencement of a new site. EP observed that a new site's infrastructure is frequently built more quickly than any necessary system reinforcement, and the site design therefore includes back-up fuel which could become obsolete when the DNs give Firm status. It was commented that new sites needed to have a Shipper and an SOQ before entering the tender process.

EP commented that this appeared to be a change to the existing rules and disadvantaged the new customer. For example, glass plants needed Firm capacity from the outset, but would have to invest and then wait for an uncertain period to go Firm. The DNs emphasised that the aim was to treat all sites fairly. All new sites must wait to go Firm until 100% capacity becomes available, and that after three years the right to be Interruptible was lost.

TD summarised three issues identified from the initial discussion:

- a mismatch between investment lead times
- a risk that the DNs will not offer Interruption rights

- concern that the process will not work well for new (including growing) loads

MF confirmed that a new site had to be connected before it can enter into the process, and would then be offered whatever amount of capacity was available.

AY questioned the role of the Advanced Reservation Capacity Agreement (ARCA) in this process and LS stated that ARCAs remained outside of the process.

GE brought the group's attention to UNC G5.5.4.

Action D9034: DNs to consider UNC G5.5.4 and any impacts, and how to manage an increase/decrease in capacity in an existing site.

MD observed that a deficit of any capacity would restrict the ability of other customers to go Firm. If there were no bids for Interruption (no signals) it would not be feasible for the DNs to put enough pipeline in the ground to accommodate universal Firm status. MD further stated that following a series of dialogues with various customers, he expected to see a significant decrease in the number of customers wanting to be Interruptible. EP agreed that the differences in discount and energy prices would not make Interruptible status financially attractive to Consumers.

TD questioned whether the DNs would include in the Proposal a set of rules dealing with a situation where sufficient tenders were not forthcoming.

EP commented that perhaps the DNs would do better to first decide what sort of tender process they required and then build the Business Rules around the process.

The DNs stated that all capacity rights and Interruption details are in the UNC and can only be initiated by a Shipper. Changes to the Gas Act would be needed to enable a Consumer to bid into the process.

In response to Shippers' questions it was confirmed that the potential capacity requirements of each new site are established by the DNs through the Connections process. It was the DNs' initial decision to offer Firm or Interruptible as 100% Firm may not always be immediately available. Geographic and other distinctions were considered and discussed with the new site throughout the siteworks process, and a site may be advised that it would be Interruptible for a limited period of time until the next process. This in effect meant that new sites were Interruptible with a Firm element, until 100% Firm became available. The alternative to this was that a site would not be connected at all until 100% Firm became available to meet the site's requirements. Once a site was connected and Firm it could tender for Interruption later if appropriate.

TD observed that a new load could not take part in the Short Term process because it had no Firm capacity to offer back and would remain Interruptible. MF confirmed that the DNs were not proposing trading of LDZ Interruptible Capacity.

2.5 Partial Interruption and Interruptible Firm Allowance

2.5.1 Interruptible Supply Point Firm Allowance

In response to a previous action (D9026?) MF highlighted the changes proposed. Different scenarios were discussed, including ratchets.

Paragraph 1.15.6 - A debate on whether or not paragraph 1.15.6 continued to be necessary was resolved by an agreement to retain it in its current form in order not to lose sight of the concept of a Firm Allowance, whilst being given further consideration by the DNs.

2.5.2 Partial Interruption

Paragraph 6.10.1 – There was a brief discussion on the information requirements on the current Application Form. AY observed that currently the SHQ and tranche percentages were of greater importance than the SOQ, and there was some concern that these were being removed. AY explained that a recognised failure in ‘one hour’ (SHQ/tranche) triggers the FTI, ie where a site is recognised to have failed to interrupt.

It was felt that the SHQ might need to be provided at the beginning of the Gas Year together with other significant details, but that it may not be needed at the tendering stage.

It was agreed that this paragraph might need to be redefined taking into account the wider picture.

Paragraph 6.10.2(c) – It was agreed that this should be removed.

Paragraph 6.10.8 – This paragraph might need to be more prescriptive as to ‘when’.

Paragraphs 6.10.12 and 6.10.14 – These paragraphs could be considered to be redundant and may therefore need to be removed.

It was acknowledged that accurate cross-references to SSMPs might need to be made throughout.

3. Any Other Business

None.

4. Diary Planning for Work Group

Proposed changes to the work plan were discussed. It was agreed that Transitional Arrangements would be brought forward (from 20 September) to the next meeting, and that Pricing would be discussed on 14 September 2006.

TD advised that the Agendas for each meeting had been made available on the Joint Office website (www.gasgovernance.com).

It was also noted that Ofgem were holding other meetings on Wednesday 27 September (Meeting 8) and Thursday 28 September (the group’s contingency day) attendance at which might affect the quorate status of DWG0090.

Date		Venue	Time
Thursday 07 September 2006	Meeting 5	Elexon, 350 Euston Road, London NW1 3AW	13:00
Thursday 14 September 2006	Meeting 6	Elexon, 350 Euston Road, London NW1 3AW	12:00
Wednesday 20 September 2006	Meeting 7	Elexon, 350 Euston Road, London NW1 3AW	10:00
Wednesday 27 September 2006	Meeting 8	Elexon, 350 Euston Road, London NW1 3AW	13:00
Thursday 28 September 2006	Meeting 8 (continued if necessary)	Elexon, 350 Euston Road, London NW1 3AW	13:00
Thursday 05 October 2006	Meeting 9	Elexon, 350 Euston Road, London NW1 3AW	13:00

Action Table (Appendix 1)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
D9002	03/08/06	2	Ascertain the progress of any charging methodology discussions and provide an update to the group.	NGN (RCH)	Update provided see Minutes ref 1.2. To be discussed under Pricing on 14/09/06 Action carried forward
D9004	10/08/06	3.1	Business Rules paragraph 1.3 DNs to consider how Firm Capacity booking arrangements may be managed in the future.	DNs	Action ongoing
D9005	10/08/06	3.1	Business Rules paragraphs 1.15 and 5.12 DNs to consider precise arrangements for New Supply Points and the associated pricing issues.	DNs	Discussed 30/08/06. Action closed
D9007	10/08/06	3.3.1	Business Rules paragraph 5.1.1 DNs to look at the advance provision of information to a potential incoming Shipper (what, when, availability,	DNs	Scheduled for presentation/discussion at Meeting 4 on 30/08/06.

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
			route, required response times, etc)		Agreed to carry forward. Action ongoing
D9008	10/08/06	3.3.2	Business Rules paragraph 5.2.7 DNs to review wording.	DNs	Scheduled for presentation/discussion at Meeting 4 on 20/09/06. Action ongoing
D9009	10/08/06	3.3.3	Business Rules paragraph 5.3.4 DNs to provide clarity on Customer Charge ratchet and LDZ CSEP Overrun components.	DNs	Action ongoing
D9010	10/08/06	3.3.4	Business Rules paragraphs 5.3 and 5.4 DNs to review the inclusion of ratchets and CSEP overruns, and consider segregating and raising as separate modification proposals.	DNs	Action ongoing
D9011	10/08/06	3.3.4	Proposer to revise Business Rules to reflect both Annual and Short Term Capacity Application Process.	MF	Group's views sought -responses to Enquiries@gasgovernance.com Discussed 30/08/06. Action closed
D9012	10/08/06	3.3.5	Business Rules paragraph 5.5 DNs to revise Business Rules to permit multiple bids.	DNs	Action ongoing
D9013	10/08/06	3.3.5	Business Rules paragraph 5.5.4.2 DNs to provide indicative pro forma that reflects information set out in this paragraph.	DNs	Provision to next meeting 30/08/06. Agreed to carry forward. Action ongoing
D9014	10/08/06	3.3.5	BG to review/clarify Invitation Timescales (Annual Process and Short Term Process)	BG	Included in Action D9011. Action closed
D9015	10/08/06	3.3.5	DNs to consider charging methodology in relation to provision of SOQs.	DNs	Scheduled for presentation/discussion at Meeting 5 (07/09/06) Action carried forward

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
D9016	16/08/06	2.1	Check if all references to Transportation Statement are correct once Business Rules are finalised.	DNs	This is a Defined Term under UNC and will be used throughout. Action closed
D9017	16/08/06	2.1	Consider making “application window” a Defined Term within UNC.	DNs	Action carried forward
D9018	16/08/06	2.1	DNs to consider the validation required at the point of application submission.	DNs	Action carried forward
D9019	16/08/06	2.1	DNs to consider partial bids	DNs	Discussed. Action closed
D9020	16/08/06	2.1	DNs to discuss with Ofgem the level of disaggregation at which to make information available.	DNs & Ofgem	Action ongoing
D9021	16/08/06	2.1	Shippers and Consumers to decide what information should be released to assist Supply Point transfer and competition	MD & HB	Discussed. Action closed
D9022	16/08/06	2.1	DNs to consider what may happen if not enough Capacity is made available though the tender process.	DNs	Action carried forward
D9023	16/08/06	2.1	Business Rules 5 paragraph 5.5.8 – DN to add a further section covering Short Term Application Process.	DNs	Action closed
D9024	16/08/06	2.3	Business Rules 4 and 5 – contradiction between sections. DN to review and consider referencing.	DNs	Action carried forward
D9025	16/08/06	3.3	Partial Interruption – DN and Shippers to consider what flexibility could be offered or expected in terms of tranches and total volumes.	DNs (MF) & Shippers (MD)	Discussed. Action closed
D9026	16/08/06	3.2	IFAs - Write Business Rules to combine IFAs and Interruption.	MF	Discussed 30/08/06. Action closed
D9027	16/08/06	3.5	Annual Application Process – DN to reconsider wording of Annual Application Process.	DNs	Discussed 30/08/06. Action closed
D9028	16/08/06	3.5	Annual Application Process – Shippers and DN to consider number	DNs & Shippe	Following discussion 30/08/06 action

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
			of days required within Annual Application Process. Reworded to: Shippers and DNs to consider once the Application window closes how quickly a Transporter has to respond or a Shipper to resubmit.	rs	reworded. Action carried forward
D9029	30/08/06	2.1	Shared Supply Meter Points - xoserve to confirm and advise the number and location of all sites currently designated as SSMPs.	xoserve	
D9030	30/08/06	2.1	Shared Supply Meter Points - The DNs to consider the role of the Allocation Agent within the bid process.	DNs	
D9031	30/08/06	2.3	FTI - DNs to review the use of SMP and consider if this was appropriate for charging in all cases.	DNs	
D9032	30/08/06	2.3	The DNs to consider gas prices, barring, modifying the '5 strikes' rule and appropriate discretionary elements, in relation to the FTI process.	DNs	
D9033	30/08/06	2.4	New Supply Points - DNs and xoserve to look at what happens in the current process whereby the SOQ increases through the ratchet and the increased flow cannot be accommodated immediately.	DNs and xoserve	
D9034	30/08/06	2.4	New Supply Points - DNs to consider UNC G5.5.4 and any impacts, and how to manage an increase/decrease in capacity in an existing site.	DNs	