

Transmission Workgroup (Issues) Minutes

Tuesday 31 January 2012

31 Homer Road, Solihull B91 3LT

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Alison Chamberlain	(AC)	National Grid Distribution
Angus Paxton	(AP)	Poyry (for Ofgem)
Charles Ruffell	(CR)	RWE npower
Claire Spedding	(CS)	National Grid NTS
Colin Thomson*	(CT)	Scotia Gas Networks
Dave Adlam	(DA)	National Grid Distribution
Derek Jamieson	(DJ)	ESBI
Elaine Calvert	(EC)	National Grid NTS
Fergus Healy	(FH)	National Grid NTS
Graham Jack	(GJ)	Centrica
Jacopo Vignola	(JV)	Centrica Storage
Jeff Chandler*	(JC)	SSE
Julie Cox	(JCx)	AEP
Mark McKenzie	(MM)	National Grid NTS
Mark Sutton	(MS)	TPA Solutions (for Gaslink)
Mike Wassell	(MW)	National Grid NTS
Paul Gallagher	(PG)	National Grid NTS
Rekha Theaker*	(RT)	Waters Wye Associates
Richard Fairholme	(RF)	E.ON UK
Rob Cameron-Higgs	(RCH)	Wales & West Utilities
Stathis Mokkas	(SM)	Ofgem
Tony Nixon	(TN)	National Grid Distribution
Will Cutler	(WC)	DECC

* via teleconference

1. Introduction

Copies of all papers are available at www.gasgovernance.co.uk/tx/310112.

TD welcomed attendees to the meeting.

2. Issues

2.1 Aligning the connections and capacity processes

Presentation 1 - Background and Current position

CS gave a presentation. In previous workshops, customers perceived the separate connections and capacity processes to be complicated, and it was suggested that greater alignment, better co-ordination and possibly bundling would be beneficial.

A good beginning had been made with development of Modification 0373, which, if implemented, would provide clarity of the deliverables and timescales associated with the provision of a connection offer. However, it would not provide

a guarantee that capacity will be available at any given point and time on the system. National Grid NTS have been approached to consider further alignment and bundling of the connections and capacity processes.

CS then gave a brief overview of the Planning Act 2008 and how it applied in this context, and generic Planning Act timescales were illustrated.

In recent workshops addressing this area it had been agreed that Modification 0373 should take priority and then further consideration would be given to the capacity processes. Five potential options had since been identified and outlined at the January Transmission Workgroup; it was noted that there were advantages and disadvantages associated with each and they were not necessarily mutually exclusive. Further development was required to fully understand the impacts of each option on all parties.

There were no questions following this presentation.

Presentation 2 – Developing the Connections and Capacity Processes

MW gave the first part of the presentation, re-iterating that National Grid NTS' objective for the meeting was to clarify these initial options together with any other viable alternatives that may be suggested, and any views on how the gas access regime could be developed to take into account the longer lead times and align, co-ordinate and bundle the capacity and connection processes, with the aim of providing greater certainty and clarity of the incremental capacity available. Transitional solutions might also be necessary.

There were various methods, ie using rules, tools and assets or combinations of these, by which an option could be progressed, and MW outlined the criteria for consideration that may need to be tested against each.

National Grid NTS' five initial options were explained in more detail and the advantages/disadvantages of each were then briefly discussed.

Option 1 - Status Quo

The main disadvantage was the misalignment of timescales, with increased uncertainty of delivery at the required time. Responding to questions from RF, MW indicated that if the current timescales were not met, then market-based actions could be taken, eg buyback; lead times could be extended; and permit schemes utilised. EC briefly explained the buyback actions for entry and exit.

Option 2 – Connect and Manage

CR expressed concern about any site being obligated to come off first rather than any other site, when the problems were location specific. Questions relating to what would pertain under Force Majeure were also raised, and FH gave a brief explanation of what happened under the entry and exit regimes. JCx believed the pros and cons to be very inter-related and stressed this should not be viewed as a definitive list as many different options and combinations could be brought into play to achieve resolutions. Asked what the Long Term Interruptible contract might look like, MW confirmed that this would have to be developed if there were interested parties. RF suggested that the LTI contract might be used as a separate option/solution.

Option 3 - Anticipatory Investment

GJ observed that it was critical to understand which party/parties takes on the risk under this option. NR expressed concern regarding the intimation that this might be 'first come, first served' as against providing equal rights. TD pointed out that it would be helpful if Ofgem would indicate at the earliest stage if they

believed that any of the options should be discounted as unworthy of further pursuit.

RF commented that National Grid NTS do in fact make wider investments without necessarily having the comfort of User Commitment. MW believed this was after careful consideration of the balance of risk.

TD pointed out that consumers have expressed a preference for having too much rather than too little capacity available, and may therefore support this option.

Option 4 – Extended Lead Times

The length of the timescales was briefly discussed. RF observed that '6-8 years' does not fit with development timescales; AP believed it to be driven by the Planning Act. RF added that no party would take up User Commitment 8 years out. CS pointed out that it would be difficult not to follow the same level of consultation for projects in Scotland and Wales as for England.

Option 5 – Contractual Alignment of Timescales

MW believed this Option might work the best. It was closely aligned to what Modification 0373 is expected to deliver, assuming that it is implemented. AP questioned how strong was the guarantee of capacity on the network at a particular point in time, and how does this work with 'first come, first served'? Does the second connection get delayed, or do later dates kick in for all? RF questioned how this might work with existing auctions? MW believed that this required further discussion and thought to fully understand impacts and devise appropriate solutions.

In RF's view the main issue for all five Options was the risk associated with the Planning Act and the length of time it will all take. This was an issue for customers as well as National Grid NTS and managing this should be the primary issue to address and resolve. JV re-iterated that there was a need to avoid the situation of having capacity but no connection, and vice versa. MM agreed there was a need to work together more closely and believed this to be the most promising option.

DJ believed that another pressing issue was providing more confidence; assurance was required that gas would actually be available once the electrical and build side of a project was completed, and how this could be guaranteed to be in place on time.

RF accepted that this was an extension of the approach under Modification 0373.

General Comments

NR asked how the interactivity of Users would be managed.

CS emphasised out that all five options were not necessarily to be seen as individual standalone offerings, and could be made to work together in differing combinations as appropriate.

Drawing attention to the development of the Exit Charging Methodology, GJ pointed out that this also required close monitoring as progress was made.

Revenue Drivers (RDs)

EC then outlined the background and issues with RDs, which the March Business Plan hoped to address. Indicating that National Grid NTS was considering a move to a more exit based approach, EC confirmed there had only been three entry triggered RDs in TPCR4, ie Hole House Farm, Caythorpe and the Isle of Grain. It was believed that RDs should not hold up the release of

capacity, and it was proposed to remove all RDs from the Licence and use a generic methodology to set RDs as required.

RDs had been set at the beginning of the Price Control but this is no longer thought to be the best way to proceed. The proposed timing of the setting of RDs was illustrated – options could be discussed. National Grid NTS favoured setting around the ‘risk assessment’ stage. EC believed that customers would welcome more transparency in this area so they could factor the RD into their charges more efficiently.

It was questioned where the formal auction signal would occur in this process.

EC pointed out that National Grid NTS did not want the setting of an RD to hold up any critical path or project(s). The entry model was probably going to move more towards the exit model. JCx asked what was going to stay the same under RIIO, and EC explained what was happening under the RIIO framework. Stakeholders have asked for ‘no surprises’ and National Grid NTS was working closely with Ofgem.

Transitional Solution

MW concluded the presentation by drawing attention to the potential need to have transitional arrangements in place to manage ‘in flight’ projects following the introduction of any revised gas access model.

JCx pointed out that most projects that National Grid NTS was aware of were in transition; it was only totally new projects that needed to be considered under a new planning regime.

Any Shipper with a potential ‘in flight’ project not yet announced was encouraged to contact National Grid NTS as soon as possible to discuss the position and identify any implications.

General Discussion

Returning to the five Options, views were sought to establish any preference at this stage. All were deemed worthy of further consideration, apart from Option 4 where many difficulties were recognised at this initial stage.

AP drew attention to a potential change originating from Europe, which might have an effect on lead times, depending on the outcome of the European discussions.

NR indicated that Ofgem was not very keen on extended lead times, would like to see Shippers fully engaged in the process, and were attracted by the option of contractual alignment.

DJ commented that efficiently managing the process at the beginning is the difficulty (taking up to 4 years at present because of the many discussions). TD added that it should not be the intention of any of these options to increase to these timescales. MM agreed that the timescales should be compressed as efficiently as possible and not involve any party in any unwarranted extra costs where these could be avoided.

It was questioned whether funding was already in place for certain parts of the process.

It was questioned whether the expectation would be for a party to have cash or credit in place.

NR was also keen to see clarity regarding interactions with incentives and any impacts, eg on permits.

Next Steps

National Grid NTS agreed to develop Option 5 and Options 1 and 2 for further consideration. Interactions with the commercial regime will be developed under the auspices of the Transmission Workgroup.

EC and CS confirmed that how National Grid NTS sees the regulatory framework operating would be included in its Business Plan. Bearing in mind that this had not been seen by the industry, JV questioned how that could be changed if the industry had not agreed to it? AP commented that GEMA will consider the proposals, consult, and make a decision on RDs.

EC and CS confirmed that National Grid NTS would reflect the views from these discussions in its March RIIO Business Plan.

TD suggested that National Grid NTS should give a presentation on its Business Plan following the March submission date. CS responded that she was currently attempting to produce a clear summary of the Business Plan, which could be shared and comments invited. The expectation was also that National Grid NTS would arrange further sessions in late March/April on the lines of Talking Networks. These would be recorded and placed on National Grid's website for parties to access.

A further Workgroup meeting will be arranged to develop and progress this work. Details will be advised when known.

2.2 Network flexibility

Presentation 1 - Background and Current Position

CS gave a presentation. Attention was drawn to the changing dynamics of a network previously founded on flat offtake and stable supply sources now rising to the challenge of increasing diversity of sources and options for market supply, and future variability of intra-day offtake.

The system was designed to cope with and manage peak flows but dynamic changes in behaviour were becoming more apparent and prevalent and National Grid NTS recognised that it was becoming increasingly important that the network can be adjusted quickly and safely in the event that behaviour that deviates from expectations occurs. A new approach to design and operational standards and may have to be considered to offer and deliver a greater level of flexibility, and a greater understanding of Users' requirements and priorities will need to be developed.

Individual drivers had been identified, grouped under two separate issues:

- Current problems evident on the NTS, e.g. Scotland – maintaining obligations; 'Central Corridor' West/East Flows, which need to be addressed in the TPCR4 Rollover and RIIO business plans; and
- Future concerns, e.g. 'Windy world', where a wider stakeholder discussion is required to agree a way forward

CS stressed that this investment is not about new pipes. It was expected to involve relatively minor works to allow the extraction of extra capability from existing assets, and to deliver additional ability to control the movement of gas (not additional capacity).

In previous discussions stakeholders supported the proposed investments identified to maintain obligations in Scotland but requested more information on the need case for investment in relation to the central corridor. It was also questioned whether other options (operational and commercial) had been

considered and there was a general view that National Grid NTS should use all available tools before investing.

CS described the available management options and outlined the order of management actions, reaffirming that National Grid NTS would be using commercial and operational tools as appropriate. More network would be constructed when necessary with the aim of maintaining security of supply.

National Grid NTS' business plan proposed that it was funded for maintaining its obligations in Scotland and for design work to keep investment options open for diversity of flows within the central corridor. It was also proposing that an uncertainty mechanism be used to trigger any further funding, and the development of an industry process to further discuss the central corridor issue and wind intermittency.

Other topics in the area of 'network flexibility' have been raised and there have been requests for specific products to be developed. Modification 0407 has been raised which proposes removing the rule for DNs to give 2 hours' notice of greater than 5% change to offtake rates, and National Grid NTS now proposed that further development be taken forward via the Transmission Workgroup.

No questions were received in response to the presentation.

Presentation 2 – Network Flexibility Uncertainty Mechanism Process

EC recapped on feedback from recent workshops. It was clear that, with changing flow patterns, there was considerable uncertainty regarding the level, size and location of supply and demand on a daily basis, and it was acknowledged that the NTS was not originally designed or built to accommodate rapidly changing flows. Capacity obligations currently do not indicate where gas is coming from. Recognising these difficulties EC pointed out that there was currently no mechanism in place to provide funding for any option, either commercial, operational or investment wise, to increase the network's capability. There were risks associated with acting too early or too late, and an optimal solution for a robust and transparent funding decision-making process was called for.

Looking to build on the same sort of principles as the funding for incremental capacity, EC outlined and explained a 5 step process to address this, and which was proposed should form the basis of the high level process of the uncertainty mechanism. There were impacts from the electricity side; wind intermittency will cause ramp ups on the gas network as gas is utilised as the back up fuel.

EC went on to identify potential solutions, which could be utilised in combination as appropriate.

Views were sought on approaches for further development. JCx observed that there was a group on the electricity side looking at similar areas, but this might be a closed audience. The preference was for open meetings, with discussion and consultation managed through the Transmission Workgroup.

NR highlighted that any conclusions will be expected to explain and justify why other available tools have not covered off the signals received. EC commented that capacity obligations were now quite large and capacity was not a meaningful signal on which to place reliance as an indicator as to how the system is being used going forward. JCx observed that RDs were set on a previous picture of flow assumptions, which may no longer be current. Other scenarios required consideration and links made with the Transmission Planning Code. MM added that how the network behaves moving between eg Flow Scenario A and Flow

Scenario B should also be considered, ie the ability of the network to respond to change from one pattern to another.

TD directed the Workgroup's attention back to the proposed decision-making process as set out on Slide 5 and asked for views.

RF commented that this sounded very much like Substitution in the last PCR process, which had been a very 'painful' experience; he would prefer to avoid a rehash of that and National Grid almost bypassing the process.

EC reiterated that this was about securing funding for investment solutions prior to construction work; National Grid NTS has to make the case why it should be necessary, and needs the industry's help to identify exactly what about the system needs to change. RF pointed out that straying into commercial tools may not be what customers want. MM responded that any new tools would have to go through the UNC process and National Grid NTS would have to demonstrate to Ofgem why any change was necessary. SF added that this was trying to make a process that follows an agreed trigger clearer to Shippers.

TD asked, is this process sufficient for Shippers? MS asked if Ofgem would set any prerequisites for approvals; he was concerned that certain products would be developed and imposed that were not wanted by Shippers. NR confirmed that Ofgem had no policy position at present in relation to this; it would be arrived at based on the Business Plan and proposals will be issued in July.

It was AP's expectation that the body of evidence should include the options discussed and any that were discounted. A new product may not be required, or perhaps a commercial contract may be more appropriate rather than an investment route.

TD asked those present whether there was support for a process of this type as a means of deciding something is required? Were there any missing steps?

GJ asked who creates the body of evidence and submits it to Ofgem?

JCx suggested this should continue as an agenda item for the Transmission Workgroup, with separate meetings arranged as appropriate, and accompanied by a written consultation.

Presentation 3 – Customer Requirements within RIIO-T1 Period

FH gave a presentation reviewing the customer responses received, reiterating the existing products, and outlining the scope for and types of new products together with associated issues.

The industry welcomed discussion of the issues and the opportunity to contribute to development of positive outcomes. The current processes were considered to be sufficient but it was believed there would be merit in looking at the provision of information/monitoring of OPNs and flex usage. The industry remained to be convinced of the case for new investments, products and/or services.

FH moved on to consider the scope for new products. Existing products were reiterated and FH added that some customers believed these tools alone were not sufficient for the purpose and had also raised concern that problems would surface if the terms of existing contracts were to be enforced.

Potential new products were then identified, linked, and explored in more detail.

NTS Exit – DNOs

The current OCS Flex and OPS Pressure processes were illustrated, issues identified, together with the timelines to fit the July RIIO business plan. FH reviewed the outcome, which had resulted in a Flat/Flex/Pressure position that

did not require National Grid NTS to invest for flex or the DNOs to invest for reduced pressures. However National Grid NTS was still of the view that changes may be required (and may need to be formalised) to the UNC OCS/OPS processes.

In the future DNs may be requiring a level of flex that the NTS is not in a position to provide so this might necessitate changes to the charging methodology and the introduction of appropriate funding for any new arrangements. FH added that, in the next couple of months, seasonal pressure and flex proposals were to be taken to the Offtake Arrangements Workgroup for further discussion.

NTS Exit – DCs

It was acknowledged that the NTS was not originally designed or built to accommodate rapidly changing flows. High levels of profiling on NTS Entry/DN flex and the failure to adhere to ramp rate notice periods had been increasingly noted. This was having an impact on NTS's ability and confidence to reconfigure the network within operational timescales, for large load and locational changes.

The limiting factor was often the notice period, by which any response to rapidly changing conditions was constrained; effects and consequences of various scenarios were briefly touched on.

FH then outlined potential changes, which might offer some resolution to the identified problems, and sought views. GJ suggested looking at scheduling patterns, and who might be expected to turn off first, etc.

It was also suggested that ramp rates and notice periods outside of contracted arrangements, flexible operations with industry consensus for formalisation, and impacts as to how other parties may need to operate/be affected might also be considered. Could any of the current arrangements be approached and utilised in a more flexible manner?

JCx commented that no one had contacted any of her members regarding OPN changes being noticed, and some evidence of this would be useful to see. Interactions with other energy sectors should also be recognised.

PG commented that the Ten Year Statement (TYS) data shows that large linepack swings are becoming more normal. The quality of data forecasting linepack is also deteriorating and he was concerned that National Grid NTS was approaching a 'cliff edge' operationally. The Control Room was instigating more monitoring processes to assess risk and the entry points most concerned. It was trying to identify trends; it was not all CCGT related, but was a combination of factors together. JCx observed that a lot of work had been put into wind forecasting on the electricity side and this may form a useful modelling input. PG recognised this. However, he needed to understand what exactly that meant for a gas fired power station reacting to fill the gaps; there was lots to do in this area in an effort to gain more assurance.

PG explained that behaviour that ran contrary to expectations often presented problems and the appropriate management tools were needed to address profiles. JCx referred back to those tools put in place at the time of Exit Reform. Within Day flow management takes effect 01 October 2012 and National Grid NTS needs to show how this operates/performs. PG was not sure that these would be effective under all circumstances.

MS commented that all the products described were more sophisticated versions of most of the current products.

FH then moved on to the potential processes that required consideration. Nothing was 'set in stone' and any innovations or new products would be likely to throw up some further issues to resolve. Views were sought.

JCx observed that there was not much transparency around the ramp rates and notice periods in everyone's NExAs, and questioned if the same terms should be there for everyone rather than having different terms. Similar parameters should also exist for DNs.

NR commented that Ofgem, in discussions with Shippers and National Grid NTS, has expressed concern regarding ramp rates and notice periods and justification for differences; the industry is being asked to form a consensus view to enable Ofgem to reach an appropriate policy position. JCx believed it would be difficult for industry to provide any guidance until firmer evidence was available to recognise what needed sorting out. Analysis needs to be done across all sites.

MM believed it was going to become a major issue across gas and electricity and the potential costs to the consumer could be enormous. National Grid NTS needed input as to how industry parties may wish to behave in the future on which to start basing assumptions. JCx thought that BM changes were not that big? MM reiterated the need to recognise what is happening for the future, and described various scenarios. AP believed it would be a gradual change.

TD pointed out the dilemma that 'the consequences do not quite bite yet' and that very careful thought was required before deciding either to do anything or to do nothing. Was evidence required to justify the decision, covering volume and scale? AP observed that DNs and Entry might have a part to play; seeing historical evidence and how things are seen to be changing would be helpful.

Action TR0101: Network flexibility - Provide evidence (data) to demonstrate that network usage is changing and will continue to do so, and that regime change is needed to accommodate this

NTS Entry Points

FH then moved on to present the issues and the aims to address the difficulties.

It was questioned whether the solution should be a combination of customer requirements and what is in the NEA. At Entry points there is nothing to guarantee ramp rates or notice periods. There was a need for industry discussion because of the implications for other parties. FH sought views on a viable product/way forward.

JCx wondered if resolution was not even more problematic as it involved DFOs, and questioned who suffered penalties. FH responded that the Third Party in discussion about new products knows what it wants; there were potential issues with discrimination and transparency if this was provided, and therefore National Grid NTS wanted to discuss the issue in an open forum. The cost of any investment was to be considered. RF suggested a market test – was there any appetite beyond one party? TD suggested that fast-cycling Storage sites might be interested. MS asked if optional additional products were to be offered? Would consistency be applied? JCx believed that Ofgem would need to agree different products for different services for different parties. NR stated that the concern is the impact it has on the Shipper and any costs incurred. Are customers being treated differently – giving rise to discrimination?

Reiterating that a party had signalled a request for a new product to National Grid NTS, FH felt the issue needed airing in the wider forum and there may be merit in National Grid NTS doing more work in this area. RF suggested that formalising the question under consideration might help to crystallise parties' thoughts on this.

Next Steps

FH summarised National Grid NTS' views.

RF believed that parties who want particular things should bring them forward.

TD noted that there were no firm views on the best way to take this forward. Does doing nothing feel like the best idea at the moment?

JCx believed the challenge to be what was to be brought forward.

It was recognised that some change involving DN offtakes was expected to be taken forward through the Offtake Arrangements Workgroup, with reports to the Transmission Workgroup as necessary.

3. **Diary Planning**

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

The next Transmission Workgroup meetings are scheduled as follows:

10:00 02 February 2012, at ELEXON, 350 Euston Road, London NW1 3AW
and subsequently

10:00 on the first Thursday of each month, at ELEXON, 350 Euston Road, London NW1 3AW

EXCEPT (in light of the Olympic Games):

10:00 02 August 2012, at National Grid, 31 Homer Road, Solihull B91 3LT]

Action Log – UNC Transmission Workgroup (Issues): 31January 2012

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
TR 0101	31/01/12	2.2	Network flexibility - Provide evidence (data) to demonstrate that network usage is changing and will continue to do so, and that regime change is needed to accommodate this	National Grid NTS (PG)	