

Transmission Workstream Minutes
Thursday 07 June 2007
Elxon, 350 Euston Road, London NW1 3AW

Attendees

John Bradley (Chairman)	JB1	Joint Office
Lorna Dupont	LD	Joint Office
Amrik Bal	AB	Shell
Alex Barnes	AB	BG Group
Adam Cooper	AC1	Merrill Lynch
Alexandra Campbell	AC2	E.ON UK
Alison Jennings	AJ	National Grid Distribution
Andrew Pearce	AP	BP Gas
Alex Thomason	AT	National Grid NTS
Ben Woodside	BW	Ofgem
Chris Wright	CW	BGT
David Hutchison	DH	ENI UK
Fergus Healy	FH	National Grid NTS
John Baldwin	JB2	CNG Services
Jeff Chandler	JC1	SSE
Joy Chadwick	JC2	ExxonMobil
Kirsten Elliott-Smith	KES	ConocoPhillips
Leigh Bolton	LB	Cornwall Energy Associates
Lucy Field	LF	Poyry Energy Consulting
Liz Spierling	LS	Wales & West Utilities
Matt Golding	MG	National Grid LNG Storage
Mike Piggin	MP	TPA Solutions
Martin Watson	MW	National Grid NTS
Phil Broom	PB	Gaz de France
Paul O'Donovan	PO	Ofgem
Rahaina Braimah	RB	Ofgem
Richard Fairholme	RF	EON UK
Roddy Monroe	RM	Centrica Storage
Rekha Patel	RP	Waters Wye
Richard Street	RS	Statoil
Sofia Fernandez Avendano	SFA	Total
Steve Gordon	SG	Scottish Power
Stefan Leedham	SL	EDF Energy
Steve Rose	SR	RWE npower
Stuart Waudby	SW	Centrica Storage
Yasmin Sufi	YS	ENI UK

1 Status Review**1.1 Minutes from May Workstream Meetings**

The minutes for the meetings held on 03 and 09 May 2007 were accepted.

1.2 Review of Outstanding Actions

Appendix A provides a tabular summary.

1.3 Review of Workstream's Modification Proposals and Topics

1.3.1 Modification Status Report (Modification Proposals Register¹)

The following Modification had been appealed by E.ON UK:

- 0116V "Reform of NTS Exit Arrangements." JB pointed out that E.ON's appeal documents had been placed on the Joint Office website.

The following Proposals had been approved by Ofgem:

- 0142 "Extension of the Current Sunset Clauses for Registration of Capacity at NTS Exit Points "(urgent) – implemented on 01 June 2007.

The following Proposals had been rejected by Ofgem:

- 0138 "Transitional arrangements for Entry Capacity Transfers to Sold Out ASEPs".

Ofgem's decision was awaited on the following Proposals:

- 0104 "3rd Party Proposal: Storage Information at LNG Importation Facilities", awaiting decision following close out of Ofgem Impact Assessment consultation period.
- 0134V "Publication of Nodal NTS Demand Forecast".
- 0139/0139A "Amendments to UNC TPD OCS Process and Long Term Allocation of Capacity in the Transitional Period".

The following Proposals had been issued for consultation:

- 0143 "Reduction of Lapse Periods in respect of Failure Notices issued in respect of Energy Balancing Credit". Consultation closes on 11 June 2007.
- 0149/0149A "Gas Emergency Cash Out Arrangements: Keeping the On The Day Commodity Market open during a Gas Deficit Emergency". Consultation closes on 26 June 2007.

The following new Proposals had been raised:

- 0150 "Introduction of the AMTSEC Auction" and 0150A "Introduction of Unsold Entry Capacity Transfers". Consultation closes on 07 June 2007.
- 0151/0151A "Transfer of Sold Capacity between ASEPs". Consultation closes on 07 June 2007.

Final Modification Reports had been produced. Recommendations will be made at the UNC Modification Panel on 07 June 2007.

The following Proposals had been withdrawn by National Grid NTS:

- 0133 "Introduction of the AMTSEC Auction".
- 0134 "Publication of Nodal NTS Demand Forecast".

¹ <http://www.gasgovernance.com/Code/Modifications/>

1.3.2 Topic Status Report

003TR Review of Exit Capacity Arrangements

See item 2.2 below

008TR Entry Capacity

See items 2.1 and 2.3 below

018TR Information Transparency.

0104: Ofgem issued an Open Letter on 18 May 2007. Responses were due by 01 June 2007. The UNC Modification Panel will review the progress of 0104 on 21 June 2007.

0140: "Review of Information Provision on National Grids Information Exchange." An inaugural meeting was held on 21 May 2007 and the Terms of Reference had been produced. The next meeting will take place on 19 June 2007 at Elexon Offices, 350 Euston Road, London NW1 3AW.

019TR Emergency Market Arrangements

See item 4.1 below.

014TR Operating Margins Procurement

Agreed should remain On Hold.

015TR Constraint Management

Agreed should remain On Hold.

016TR Storage Commodity Charge

Agreed should remain On Hold.

020TR Gas Quality

The Workshop planned for 21 May was cancelled. A second Workshop has been arranged for 18 June 2007. All associated papers are available on the Joint Office website, under Transmission Workstream meetings.

1.4 Update from Transmission Operational Forum

JB1 gave a brief update from the last Transmission Operational Forum. Issues associated with 0140 were discussed together with the proposed website revision. Minutes will be made available on the National Grid website.

2. Topics

2.1 008TR Entry Capacity - Capacity Substitution Methodology

2.1.1 Entry Capacity Substitution – Presentation by Ofgem

PO (Ofgem) presented an overview and confirmed that the Methodology statement was being consulted on (ending 15 June 2007). Approval by mid August would then allow for implementation after September 2007 QSEC.

RM questioned whether substitution should be in place before or after trades or transfer and PB questioned how frequently would substitution be happening. This would depend on the signal frequency generated by the LT auctions, which would give a signal for incremental investments. This would indicate an annual process after the QSEC auctions.

2.1.2 Capacity Methodology Statements – Presentation by National Grid NTS

MW (National Grid NTS) gave an overview of the consultation, describing the different methodology statements and their associated timetables. MW confirmed that 9 responses had been received in respect of the Capacity Transfer and Trade consultation, and that 3 responses had been received in respect of the Incremental Entry Capacity Release consultation. Proposals would shortly be submitted to Ofgem. MW went on to explain the background and advised that this National Grid NTS process would be initiated by request; if no request was received then substitution would not be carried out. The process was described and this was followed by a discussion on how decisions were reached.

JB2 commented that each zone had a certain capacity and this should be sold until the zonal capacity was used up, after which investment should be considered. The economic test was nothing to do with any concept of hurdle. The availability of substitution was dependent on baselines being higher than the sum of the capacity bookings at that ASEP. This excess would then be reduced if capacity were substituted. MW observed that in QSEC everyone has the opportunity to bid. Capacity would be booked in QSEC then National Grid NTS would be able to ascertain any spare capacity. MW had been looking at the licence obligation as to when to consider substitution. JB2 commented that a bid for capacity might not pass the economic test, but another pipe could have spare capacity and be used to satisfy the requirement, and therefore no investment would be required. MW observed that others ran the risk of getting nothing for that period; the aim was to ensure that National Grid NTS did not over invest. Once the signal to invest had been received there was an obligation to consider both additional investment and, as an alternative, substitution. The points raised in the discussion would be considered by MW.

RS questioned why National Grid NTS should choose to use the lowest Revenue Driver as a selection criterion? MW explained it was a way to decide which ASEP to look at first for substitution. RS asked why not choose the one with the most capacity available. MW stated that the priority was given to the one that required fewer infrastructures to satisfy the demand.

AB stated that, from a producer's perspective, sufficient capacity needed to be assured. If the baseline were substituted elsewhere it could be difficult to restore through any trading process. A situation could be reached where capacity was not able to be booked, lots of gas would be available, but no capacity was available. MW recognised the point and added that it was really about deciding on the best economic solution to meet the incremental demand. 'Judgement' was needed to avoid inefficient investment. The baseline could be looked at against the sold level otherwise too much 'judgement' could be brought in. Was this the right measure in deciding on unused or unwanted capacity?

JB2 asked how National Grid NTS was evaluating substitution against pipeline investment. Whilst substitution might avoid the need for investment, there might be an increase in the Buy Back risk. If this risk proved too great was National Grid NTS suggesting that this substitution would not occur. MW responded that any Buy Back risk would have to be assessed prior to a decision being reached. This assessment would include deciding on an appropriate rate in order to provide a stable risk profile and fair capacity availability, eg at Teesside.

AC1 observed that no indication of costs to the industry was given, only National Grid NTS's costs. MW responded that the first question was did National Grid NTS have to invest, or could it call on substitution? AC1 argued that there was still no consideration of the costs of substitution on the rest of industry. The perceptions of the issue were different depending on one's role in the industry. The fact that parties do not/have not booked capacity 10 years in advance is not necessarily because it is not needed, or through lack of interest in booking capacity, but can also be because the parties are unable to book. Parties are in different commercial positions and may not be able to contract for those periods of time. It would now seem that parties will have to book capacity they will never use, or end up with contractual congestion.

MW made the point that capacity substitution had been part of the PCR discussions for a long time, and that National Grid NTS had a licence obligation to meet. This process was intended to show how this could obligation could be met. National Grid NTS was addressing the practical implementation of the policy and licence obligations. MW recognised the points made by the Storage Operators; responses should have been made to the consultation. Ofgem had indicated that there may be an Impact Assessment. AC1 reiterated that the industry needed to understand the potential costs.

RS noted that some baselines have declined over time. MW commented that this is a consequence of the system getting tighter as unused/spare capacity is removed. RS thought that the costs will eventually increase over time and capacity will decrease. MW said that it was still unclear what will happen if serial substitutions were carried out. If 10 to 1s were carried out then parties may have to signal more frequently. Investment would not necessarily be made if it was possible to move some capacity across.

JB2 commented that if National Grid NTS did not make any investment, it would not receive any income. MW responded that, from a licence perspective, it was more important to run an economic and efficient system.

AB questioned how Ofgem would police this, and assess if the 'right' decision had been made in respect of any substitution. PO responded that there was another licence obligation in relation to network modelling, and that Ofgem would be more actively involved in looking at the decision making process. In answer to AB's query as to whether that would also apply to transfers and trades, PO confirmed this to be the long term aim, but detailed modelling did not exist at present.

LS had concerns relating to flow and flex if the change was implemented, and would like to see a timeline showing the interactions of the various auctions. MW confirmed that this would be available shortly.

Action 1067: National Grid NTS to provide timeline demonstrating the interactions between various auctions.

RS wondered if National Grid NTS was aware of any other impacts on costs. MW confirmed that Buy Back was the major item but there were others to be taken into account. This was looked at as part of the network planning process, for example CV shrinkage. These items were still being assessed and no definitive list was available.

RS questioned what would happen at the end of 8 years. MW confirmed that the capacity remains substituted and does not revert back.

Theoretical examples were included in the presentation, which MW proceeded to explain. AB asked what happened in a situation where substitution was required at several points. MW responded that this was where the Revenue Driver came into play to prioritise the sites/requirements. The aim was not to look at taking away the capacity from points but minimising the investment needs. When questioned further, MW confirmed that National Grid NTS would meet all ongoing commitments for each quarter.

AB asked if MW had any idea how much substitution National Grid NTS was likely to see. MW responded that no work had been done on that as the picture continued to evolve. It would depend on what was signalled at QSEC and passing the economic test. Substitution may not always meet this. Substitution analysis would be monitored/validated by Ofgem for its appropriateness.

JB2 observed that the physical capacity may still be there but the commercial capacity would have been transferred elsewhere. This cannot then be sold as Interruptible, which seems to be disappearing. MW agreed that Interruptible was an issue and that National Grid NTS was reviewing this.

SW stated that, as a consumer, he was concerned that it was not economic and efficient to be paying unnecessary costs and that issues concerning pricing were evident here. There were also some concerns regarding barriers to entry for new entrants. MW thought these concerns to be more those relating to policy than implementation. It was a question of balance of costs between existing and new gas supplies.

RS questioned the value of capacity. In some circumstances it may have some value or none.

MW observed that 10 per cent of baseline capacity would still be held back as protection for the short term.

JB2 commented that a tension appeared to exist between economy and efficiency and the availability of the supply of gas, creating a 'perceived shortage' by reducing the baseline.

2.2 003TR Review of Exit Capacity Arrangements - Interim Exit Capacity Release

MW explained the background. AB observed there was a trade off between small savings on capacity and potentially large commodity costs. By continually squeezing the NTS network to be efficient and economic, there would come a time/point beyond which it would be seriously detrimental to continue to exert such pressure. Insufficiency/lack of capacity will be causing major problems on the commodity side of the market, where the cost would be greater. AB was interested to know how Ofgem weighed up the benefits/costs of the two areas.

PO advised that Ofgem took a strategic long term view on these areas, and that the development of the system had been progressing for some considerable time. Neither JB2 nor AB could recall anything in the PCR about this and would like Ofgem to return to the Workstream to present a detailed overview (with actual figures) of the interaction of the capacity regimes and the operation of the gas market. It was agreed that principles might be theoretically sound but that applying them in practice seemed to be causing so many adverse impacts in various parts of the industry

Action 1068: Ofgem to return to the Workstream to present a detailed overview of the interaction of the capacity regimes and the operation of the gas market.

MW stated that any representations sent in response to the methodology statement would be taken on board and shared at the next Workstream (providing they were not confidential). The proposal would be revised and a report would be provided to Ofgem.

SW questioned how the pricing and economic test could be consulted on, but thought that this was probably a question for Ofgem. MP suggested the application of a second economic test to make it 'softer'. PO and MW agreed that the licence drafting was very fluid at the moment, and this may in effect be precluded. RF asked when the licence obligations draftings were likely to be finalised. PO advised that Section 23 should be ready within the next week (final drafting).

2.3 008TR Entry Capacity - Review of Existing Interruptible Arrangements and Potential Reforms for this Winter

FH (National Grid NTS) gave a presentation on Interruption. FH stated that National Grid NTS was aware that it was going to be a tight winter and was seeking to address this. National Grid NTS would be happy to raise a draft modification proposal to the next Workstream and believed there was merit in pursuing reform to facilitate the market. The existing arrangements were reviewed and the viability of three options was discussed.

Option A – System issues would need to be further explored, as would the rest of the rights. This may preclude doing anything prior to this winter.

SW thought that this may be the most sensible option.

Option B – There may be some benefit in the introduction of a ‘new’ auction through the utilisation of an existing auction, but not much.

Option C – RM acknowledged that National Grid NTS was trying to improve and remedy the experience of last winter and questioned whether the incentives on National Grid NTS be increased to flow more gas and increase capacity.

MW advised capacity could only be released up to the baseline, and there was a problem with the UIOLI calculation. The existing Interruption arrangements would benefit from a review, to protect long term signals as well as bringing the right level of capacity to the market without erroneous curtailment; a good restoration mechanism was also required. The aim was to get as much gas in as possible, ie additional and protecting this also. First National Grid NTS should be able to release more, and then see what else could be done for this winter/next winter. It should be seen as enduring and beneficial to the market. It was good for the industry to release more interruptible and should not be restricted to UIOLI.

In RM’s view, a package of improvements was needed to see more gas flow this coming winter; restoration may make some difference. MW responded that National Grid NTS was happy to discuss incentives. Buy Back could be expensive and therefore would not incentivise National Grid NTS to make additional capacity available. RM raised the aspect of accrued and interruptible rights – would any change enable National Grid NTS to take a greater risk? RS was concerned that any degradation of accrued rights could cause significant problems for Producers, and could be an issue elsewhere upstream.

AB thought that Option A did not preclude Option B and suggested that it would be sensible to proceed with A, while having further discussions on B.

Action 1069: National Grid NTS to develop Interruptible Arrangements Option A into a draft Modification Proposal for discussion at the next Workstream.

JB2 and RM were of the view that as a balance to the ‘accrued hit’ National Grid NTS needed an incentive to flow gas.

Action 1070: Ofgem to look at existing and potential incentives on National Grid NTS to promote gas flows and report findings to subsequent Workstream.

3. Modification Proposals

No business raised.

4. Any Other Business

4.1 Modification Proposal 0149A: “Gas Emergency Cash Out Arrangements: Keeping the On The Day Commodity Market open during a Gas Deficit Emergency”.

RF (E.ON) gave a presentation and explained the key differences between Modification Proposals 0149 and 149A. Feedback received from APX indicated that APX was happy for the OCM to be kept open, and that APX would have concerns regarding any proposal that sought to limit a party's ability to trade.

AT responded to certain points made in E.ON's proposal:

Slide 3: “In an Emergency, normal market conditions do not apply – financial incentives to balance only work if Shippers have the ability to respond!” AT advised that this may be true for a short-term emergency, for example 1 or 2 days, but Modification Proposal 0149 was designed to cover longer-term emergencies too. In such a longer term emergency, Shippers could have an opportunity to revisit their end user contracts or contract for LNG.

Slide 4: “Once in a GDE, scarcity will drive gas prices extremely high.” AT agreed that this would probably be true for the first few days, but in a longer term emergency, it was possible that the situation would stabilise as a result of the NEC taking control.

Discussion took place on E.ON's statement: “Shippers who suffer from effects of an unforeseen sudden incident (e.g. terrorist attack on a terminal) are ‘short’ by no fault of their own.” It was accepted that sudden unforeseen incidents could occur, and that under emergency conditions the ability of Shippers to respond may be substantially reduced. However, it could be argued that Shippers could make contingency plans for such events.

It was remarked that in previous industry discussions, it was agreed that it would not be economic and efficient for Shippers to put aside £50 million to cover such eventualities, to which AT responded that perhaps other less onerous measures could be taken. For example, Shippers might consider putting a demand reduction contract in place with their largest end users.

To E.ON's last point, “(Mod 0149 has the) Potential to send ANY affected shippers out of business in a short space of time, with consequent “domino” effect.” National Grid NTS recognised that this was a concern that was raised during the industry discussions pre-Christmas 2006, but argued that Modification Proposal 0149 was not raised to address this specific issue. If it is still a concern to the industry, then National Grid NTS would be happy to participate in any further industry discussions.

4.2 AMSEC Auction Process – over recovery against allowed revenues

CW (Centrica) tabled the following question: “It is assumed that the recent AMSEC auction process will have significantly over-recovered for National Grid against allowed revenues. How soon can Shippers expect to see this coming back (presumably through a TO commodity charge)?” MW responded that a notice would be going out seeking to revise the charge in October 2007. He anticipated a significant reduction.

4.3 Draft Modification Proposal: “Amendment of Interconnector UK's Network Entry Provisions”

AT (National Grid) gave a brief overview of the content and rationale for this draft Modification Proposal, which would allow gas to flow at a higher rate. A similar proposal had been required last year. AT also advised that, as was the case previously, a

shortened consultation period for the proposal would be required; no changes to text were necessary.

There were no questions from the Workstream.

5. Diary Planning

The next Gas Quality Workshop has been arranged for 10:00hrs on 18 June 2007 at Elexon, 350 Euston Road, London NW1 3AW.

The next Transmission Workstream meeting has been arranged for 10:00hrs on Thursday 05 July 2007 at Elexon, 350 Euston Road, London NW1 3AW.

Appendix A: Action Log – UNC Transmission 07 June 2007

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
TR 1066	05/04/07	3.2.1	NGT to consider producing nodal maxima for Teesside, Easington and Hornsea.	National Grid NTS (Martin Watson)	Now complete. Action Closed
TR 1067	07/06/07	2.1	Provide timeline demonstrating the interactions between various auctions.	National Grid NTS (Martin Watson)	
TR 1068	07/06/07	2.2	Return to the Workstream to present a detailed overview of the interaction of the capacity regimes and the operation of the gas market.	Ofgem (Paul O' Donovan)	
TR 1069	07/06/07	2.3	Develop Interruptible Arrangements Option A into a draft Modification Proposal for discussion at the next Workstream.	National Grid NTS (Fergus Healy)	
TR 1070	07/06/07	2.3	Look at existing and potential incentives on National Grid NTS to promote gas flows and report findings to subsequent Workstream	Ofgem (Paul O' Donovan)	