

Special Transmission Workstream Minutes
Trades and Transfer Workshop 2
Tuesday 6 November 2007
Ofgem, 9 Millbank, London SW1P 3GE

Attendees

Tim Davis (Chairman)	TD	Joint Office
Alex Barnes	AB	BG Group
Andrew Fox	AF	National Grid NTS
Andrew Pearce	AP	BP Gas
Andy Simpson	AS	xoserve
Angela Love	AL	Pöyry Energy Consulting
Catherine Bear	CB	Cargill Power and Gas
Claire Dykta	CD	National Grid NTS
Clive Woodland	CW	British Gas Trading
Fergus Healey	FH	National Grid NTS
Gerry Hoggan	GH	Scottish Power
Ibrahim Ait-Salem	IAS	Gaselys
Indra Thillainathan	IT	Ofgem
Jeff Chandler*	JC	Scottish and Southern Energy
John Baldwin	JB	CNG Services
Joy Chadwick	JC1	ExxonMobil
Leigh Bolton	LB	Cornwall Energy
Lorna Dupont	LD	Joint Office
Louis Hurmic	LH	Gaz de France
Martin Watson	MW	National Grid NTS
Nick Wye	NW	Waters Wye Associates
Paul O'Donovan	POD	Ofgem
Richard Fairholme	RF	E.ON UK
Richard Miller	RM	Ofgem
Richard Street	RS	Statoil
Roddy Monroe	RM1	Centrica Storage
Stefan Leedham	SL	EDF Energy
Stephen Rose	SR	RWE Npower
Yasmin Sufi	YS	ENI UK
* by telephone		

1. Introduction

TD welcomed all attendees to the meeting.

2. Review of Minutes and Actions from previous meeting (30 October 2007)**2.1 Minutes**

Comments were received from National Grid NTS, Ofgem and BG Group. Amendments were made as follows:

Section 2, paragraph 1: "Ofgem published a direction on 29 October requiring National Grid NTS to have an ~~agreed~~ approved methodology statement in place by 02 July ~~June~~ 2008."

Section 2, paragraph 3: "TD asked whether Ofgem had any concerns with the information received to date. Ofgem attendees confirmed that they were not aware of

any. It was confirmed in the meeting that the information submission had not started yet.

Section 3, paragraph 3: “CS asked about the definition of materiality in the methodology statement. National Grid NTS had developed a working definition which relied upon Network failures occurring ~~on several days within the winter due to the change in supply patterns~~ following a the redistribution of capacity bookings allocations. The analysis was based on a supply pattern anticipated to occur on several days in the winter.”

Section 3, paragraph 4: “MW acknowledged the point but responded that National Grid NTS had identified constraints at the Easington zone at an early stage and reiterated this throughout the process.”

Section 3, paragraph 8: “JB1 agreed with MW that unintended consequences could easily occur; for example exchange rates might undermine the investment signals that are reflected in ~~reserve~~ prices.”

Section 3, paragraph 11: “MW responded that ~~there~~ National Grid NTS would be have much more certainty of exchange rates, and hence could commit to more favourable exchange rates, if it was done monthly.”

Section 3, paragraph 12: “MW responded that this was to reduce the incentive for purchases at one ASEP being made for transfer elsewhere with Shippers at the ASEP effectively being priced out by a high reserve price. MW asked whether the industry regarded this as an acceptable outcome of the enduring Transfer and Trades process.”

Section 3, paragraph 15: “MW responded that, in general, high East Coast scenarios caused the most problems with constraints. AB understood National Grid NTS’ concerns that Shippers might be able to “game the system” and force buybacks if they knew the flows which gave rise to constraints. However, this simply underlined the need for an independent audit of National Grid NTS’ scenarios to give Shippers the confidence that they were reasonable whilst avoiding the risk of gaming.”

2.2 Actions

TT1/001: Ofgem to consider sponsorship of an audit into the Transfer and Trades auctions that took place this winter.

Update: POD advised that Ofgem was considering this internally, and reiterated that it would be interested in the community’s views. In response to Ofgem’s concern as to who might have the capability to perform such a task, JB suggested Advantica.

TT1/002: Centrica Storage to define a more compact analysis request based on the Transfer and Trade bids and send this to Joint Office to inform other participants.

Update: Action carried forward.

TT1/003: National Grid NTS to consider demonstrating the potential outcome of its enduring proposal for Transfer and Trade using data from the Winter 2007/8 TTSEC auction.

Update: Action carried forward.

TT1/004: Ofgem to confirm whether the exclusion of ex-ante exchange rates, or other overriding principles, was likely to mean that the National Grid NTS proposal was unlikely to be accepted.

Update: The meeting reiterated to Ofgem that signals regarding overriding principles/insurmountable obstacles would be appreciated as soon as possible, but before work was completed on the Modification Proposal. POD said Ofgem saw no absolute show stoppers at this stage, but asked if Shippers were willing to enter into a

mechanism without ex ante exchange rates; RF responded, "at a high level". AB commented that 1:1 exchange rates limit possibilities, and a mechanism without ex ante exchange rates lacks transparency. Exchange rates and nodal maxima were the key issues, with the key being setting the bar at a reasonable level for both sides. It needed to fit in a broader framework, so that the risk is not unreasonable to either side. An audit would help assure Shippers of the acceptability of compromises made. Action carried forward.

TT1/005: National Grid NTS to provide a revised timeline indicating any critical paths/deadlines that needed to be taken into account.

Update: Provided within the presentation. Action closed.

TD pointed out that this was the final planned Workshop and it was agreed that outstanding actions would be monitored by the Transmission Workstream.

3. Development of Modification Proposal - National Grid NTS

MW gave a presentation on the proposed elements for an enduring solution. A broad level of support for the proposed approach had been recognised from the previous meeting; feedback from two Shippers had been received and MW would seek to address points raised in his presentation. MW then demonstrated the process used to calculate exchange rates, with theoretical data used to illustrate the outcome.

RM1 queried the illustrative Easington baseline, which had been 136 (in the Updated Proposals) but dropped to 128. MW explained that Ofgem's proposals were based on a 2008 network whereas his illustrative figures were based on 2007.

MW emphasised that the National Grid NTS approach was deliberately simple, using minimal assumptions. MW then set out the issues faced for the calculation of exchange rates from an ex ante perspective.

RM1 questioned when sold capacity is 65 at Bacton (100 unsold), but you expect a 71.8 flow, is what you expect to flow the key thing such that you have only got 6.8 to transfer? MW responded that there may be some capability in the network that allows more to flow and/or transfer - the modelling uses numbers from last winter to create realistic flow scenarios.

In response to further questions, MW repeated his explanation of the rebalancing of the network - flows at St Fergus can more easily be assumed to reduce and provide the greatest benefit in the illustrative example, although reduction can happen anywhere on the network to ensure supply reduces demand. AB thought the key point was that if the network fails, the exchange rate moves away from a 1:1 ratio. JB asked why, if a regulator continues to trip, it is not just replaced to relieve the constraint. MW emphasised that this was theoretical modelling and that the modelled system could trip in several places.

RM reiterated that there was still no sense of what was a good or bad assumption to make in the modelling, and that an audit was required to give some sense of the fitness of the figures used.

AB commented that doing a test scenario every month, and doing a different test scenario in different months, will give different exchange rates. MW argued that running the process on a monthly basis would give a greater degree of accuracy; doing it annually would make it too far removed from the reality of the system. AB said that the donor baseline is going to be worth more in one period than another period because it will reflect the physical reality of the system, and wondered, for example, if better exchange rates would be offered for if flows came in at Milford Haven. NW asked if

more than one test would be done at a time. MW responded that only one would be done at a time; a homogenous demand pattern would be used.

RF asked if the 150% cap was to remain. MW said that in National Grid NTS' view this was sufficient, and some key entry points did not reach the 150% cap. However if the industry did not believe this was sufficient then National Grid NTS would be happy to discuss this with any party. MW stated that the numbers used in the test scenarios were realistic and take into account behaviours and conditions that are seen on various points of the system as well as any known developments. National Grid NTS had shared the test scenarios with Ofgem but, for reasons of commercial sensitivity, were reluctant to share these with a wider audience.

MW went on to explain the uncertainties inherent in setting ex ante exchange rates. To cover various possibilities, it may be possible to produce, say, five exchange rate bands. MW asked, given the uncertainties and ranges shown by the modelling, what could be offered as a reasonable ex ante exchange rate that met the Licence conditions and did not lead to a material increase in costs? The uncertainty and need for many more assumptions to be made would lead to less efficient exchange rates than would be seen under the National Grid proposal.

RM1 observed that there was a trade off between the level of exchange rates and what parties required to inform their positions. National Grid NTS will increase in experience as the process is run and may move to ex ante exchange rates in future. MW suggested that with a monthly process, the resulting exchange rates would be known and provide a good indication of the exchange rate likely to apply in future.

JB commented that Shippers will make assumptions based on patterns they see; if extra capacity was available through one set of circumstances, it was then possible to make assumptions about the next set, and so on. However, increasing baselines would be an easier solution.

CW believed ex ante exchange rates offered advantages in terms of information at both recipient and donor ASEPs. Without this, in an auction a party would be blind, not knowing if it needed to protect capacity at a particular ASEP. MW thought that this concern may be alleviated by the provision of information in advance. In response to a request for indication of support for ex ante exchange rates, Ofgem and CW confirmed this was their preference.

TD observed that the supply pattern can change from day to day, and asked if parties are being driven towards overbooking to keep options open. AB commented that with the baseline changes, there was a much higher premium for booking capacity in advance, and that Ofgem should be aware that this has an impact on Shipper behaviour.

Attendees suggested that having capacity transferred away permanently was of great concern. However, JB observed that if it was transferred for only one month the position would be correctible the following month (the interruptible risk for that one month could be bearable). Repetition would give the opportunity to learn. AB thought that a monthly process was an improvement on the initial TTSEC process and that a party could fine tune their position accordingly.

MW then explained the timeline associated with the overall process. The starting point was to be the Surrender Invitation Letter, and attendees confirmed support for the surrendered capacity reserve price to be the generally applicable RMSEC reserve price at the ASEP concerned.

MW advised that National Grid NTS would like to run the proposed process offline from June next year, with a system solution for November.

RS was concerned at the advancement of the RMSEC to the beginning of the month previous which would be difficult for producers. MW said the aim was to run RMSEC auctions as late as possible, with experience reducing the time needed for processing.

MW then explained the allocation process. Batching was proposed to help avoid extreme exchange rates, and that in National Grid NTS' view a maximum 10:1 exchange rate provided a reasonable, albeit arbitrary, starting point. Limits were needed to prevent excessive capacity destruction. RM wondered if there should be a rule, e.g. starting with 10:1, then go through the various hoops and then revisit to get a more efficient outcome for bids that were still unsatisfied. MW was unsure where the limit could be drawn with this approach - it may not be problematic to do this but it may lead to a slower process and more capacity destruction, such that a number trade offs need to be considered. MW was happy to receive views on this; he stressed that his intention was to take a fully developed Modification Proposal to the next Transmission Workstream so it would be important to accommodate any minor additions/alterations beforehand.

SR asked if the surrendered capacity would be allocated first, and MW responded that this would depend on price. However, MW acknowledged that while unsold capacity would be offered again in daily auctions, there would be no further opportunity on surrendered. It may be that this area would require more debate.

MW suggested there would be benefit in being able to quickly change the exchange rate limit and put forward three potential options (UNC, Methodology Statement, and National Grid NTS discretion). TD suggested a governance approach would be to allow change subject to majority approval by the UNC Committee or implementation of a Modification Proposal. MW stated that National Grid NTS' preference was to use the UNC approach so that any party can raise a Modification Proposal to change. He would welcome other views on alternative options.

RS then asked how it would be known if the exchange rate limit was not working – the provision of reports should be a minimum requirement. MW responded that a fixed number would be put in to see how it works. A hard rule would be best to avoid a climate of continually having to justify actions if some party thinks that a 'wrong' decision has been made. Attendees concurred that the exchange rate should not be set through Licence Conditions and that putting it into the UNC seemed more appropriate, allowing parties to propose alternative rates.

SR asked whether reasons for exchange rate changes between months would be highlighted. MW suggested that a change driven by bidding behaviour would not, but this may be possible if there were factual changes or there was a change in assumptions. Variation may also be seen on a seasonal basis, and it was acknowledged that after a full year there would be a good indication of the way in which exchange rates operated.

TD asked for suggestions of any other information Shippers would want publishing to increase transparency either before or after the process. In response to SR, MW confirmed that amounts surrendered would be published. When asked if modelling assumptions of flows would be published, MW said he was reluctant to offer this because of commercial exposure – which others acknowledged was real. However, the assumptions would be made available to Ofgem.

JB mused on the significance of flow variations and wondered whether this would affect exchange rates for the better or the worse - did more gas coming in cross Pennine or at the west make it better or worse? RM1 thought that perhaps a matrix could be developed to give an indication of possible effects. MW thought that the NAMs might be able to be redone – this would show the most favourable supply pattern for next winter's network, otherwise it was very subjective. Information requests would be welcome if specified to MW.

MW confirmed that the UNC Modification Proposal and Methodology Statement approval process would run in parallel with a target of implementation in June 2008 for July allocations.

RM1 asked whether the issues in Ofgem's decision letter on the existing TTSEC process would be addressed in the revised Methodology Statement, as this should really be done now. MW suggested that the revised Methodology Statement would be extremely straightforward, reflecting the presentations he had made at the Workshops. If any specific concerns are submitted to National Grid NTS, MW will seek to address them as appropriate.

AB reiterated that between now and the meeting on 06 December 2007, Ofgem need to decide on the viability of an independent audit to give assurance on the assumptions - depending on the set of assumptions, very little might be traded or transferred. An audit might usefully verify exchange rates and flows at various points. MW confirmed that National Grid NTS had no problem with an audit or providing as much transparency as was possible, subject to commercial sensitivities.

MW offered to run additional sessions if requested, either as Workshops or on a bilateral basis.

RS raised Ofgem's proposed user pays approach to funding of xoserve costs and asked how this proposed Modification would fit in with the new concept, given Ofgem statements that Modification Proposals to be implemented after 01 April 2008 will need to indicate how each is to be funded.

Action TT2/006: Impact of user pays concept on T&T Modification Proposal - POD to bring Ofgem's view to the December Transmission Workstream.

SR returned to the issue of information publication 'after the event', and asked if explanations would be provided, e.g. for system failure, etc. MW said that this would be considered.

Action TT2/007: All to provide any further comments on the proposed process by Friday 9 November 2007.

4. Any Other Business

None raised.

5. Diary Planning

The next Transmission Workstream meeting will take place at 10:00hrs on Thursday 6 December 2007 at Elexon, 4th Floor, 350 Euston Road, London NW1 3AW.

Action Log: Transmission Workstream (Trades & Transfer Workshop 2) 06 November 2007

PLEASE NOTE: All outstanding actions will be overseen and progress monitored by the Transmission Workstream.

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
TT1/001	30/10/07	2	Consider sponsorship of an audit into the Transfer and Trades auctions that took place this winter.	Ofgem (BK, POD)	Under internal consideration. Carried forward.
TT1/002	30/10/07	3	Define a more compact analysis request based on the Transfer and Trade bids and send this to Joint Office to inform other participants.	Centrica Storage (RM)	Carried forward.
TT1/003	30/10/07	3	Consider demonstrating the outcome of its proposals on the Transfer and Trade bids for Winter 2007/8 on the revised request defined by Centrica Storage.	National Grid NTS (MW)	Carried forward.
TT1/004	30/10/07	3	Confirm whether the exclusion of ex-ante exchange rates, or other overriding principles, was likely to mean that the National Grid NTS proposal was unlikely to be accepted.	Ofgem (BK, POD)	Carried forward.
TT1/005	30/10/07	3	Provide a revised timeline indicating any critical paths/ deadlines that needed to be taken into account.	National Grid NTS (MW)	Provided within today's presentation. Action closed.
TT2/006	06/11/07	3	Impact of user pays concept on T&T Modification Proposal - POD to bring Ofgem's view to the December Transmission Workstream.	Ofgem (POD)	06 December 2007
TT2/007	06/11/07	3	All to provide any further comments on the process by Friday 9 November 2007.	ALL	09 November 2007