

Transmission Workstream Minutes

Thursday 07 February 2008

Elxon, 350 Euston Road, London NW1 3AW

Attendees

John Bradley (Chairman)	JB	Joint Office
Lorna Dupont	LD	Joint Office
Alan Raper	AR	National Grid Distribution
Alex Barnes	AB	BG Group
Amrik Bal	AB1	Shell
Andrew Fox	AF	National Grid NTS
Andrew Pearce	AP	BP Gas
Angela Love	AL	Poyry Energy Consulting
Antony Pearson	AP1	Northern Gas Networks
Beverley Grubb	BG	Scotia Gas Networks
Chris Logue	CL	National Grid NTS
Christian Hill	CH	RWE Npower
Christiane Sykes	CS	Statoil (UK)
Clare Temperley	CT	Gas Forum
Fergus Healy	FH	National Grid NTS
Francesca Di Cesare	FDC	ENI UK
Graham Jack	GJ	Centrica Energy
Jayne Reader	JR	Chevron
Jeff Chandler	JC	Scottish and Southern Energy
John Baldwin	JB1	CNG Services
Jon Dixon	JD	Ofgem
Joy Chadwick	JC1	ExxonMobil
Julie Cox	JC2	AEP
Leigh Bolton	LB	Cornwall Energy
Liz Spierling	LS	Wales and West Utilities
Mike Young	MY	Centrica
Paul O'Donovan	POD	Ofgem
Peter Bolitho	PB	E.ON UK
Phil Broom	PB1	Gaz de France
Rekha Patel	RP	Waters Wye Associates
Richard Fairholme	RF	E.ON UK
Ritchard Hewitt	RH	National Grid NTS
Roddy Monroe	RM	Centrica Storage
Shelley Rouse	SR	Statoil UK
Stefan Leedham	SL	EDF Energy
Stephen Rose	SR1	RWE Npower
Steve Gordon	SG	Scottish Power
Tim Davis	TD	Joint Office of Gas Transporters
Apologies		
Robert Cameron-Higgs	RCH	Northern Gas Networks

1. Introduction and Status Review

JB welcomed all attendees to the meeting.

1.1 Minutes from the previous Workstream Meetings

The minutes for the meetings held on 03 and 11 January 2008 were approved.

1.2 Review of Outstanding Actions

Action TR1068: Return to the Workstream to present a detailed overview of the interaction of the capacity regimes and the operation of the gas market. (Ofgem)

Update: POD advised this was covered in the Baseline Consultation exercise which was now in its final phase. **Action closed.**

Action TR 1069: BW to feed back industry concerns relating to Modification 0149A within Ofgem.

Update: POD confirmed that industry concerns had been relayed and Ofgem had been in discussion with National Grid. **Action closed.**

Action TR 1070: RH to look at further options to address concerns relating to Modification 0149A.

Update 07/02/08: RH reported that this was still under consideration and that it was hoped to bring something for debate to the next meeting. PB pointed out that opportunity for industry dialogue was very important in order to move this forward. **Action carried forward.**

Action TR 1071: RH to seek a presenter to give an overview from a practical point of view of events in an emergency and a perspective on the scenarios referred to in the Ofgem Decision Letter.

Update: No further update available. **Action carried forward.**

Action TR1073: Gas Quality - BK to obtain an update on progress/next steps.

Update: Priorities had changed and this was no longer seen to be of prime importance. **Action closed.**

Action TR1077: User Pays Implications – JO to write to Ofgem summarising the questions asked at this meeting.

Update: Responding to the JO's request, JD answered the questions raised at the last meeting. "Costs greater than benefits" - An assessment of the cost of the 6 service lines had been made, and it had been ascertained that there may be other costs but that these would not be significant; the costs should still equate to £2.83 million. However JD pointed out that this may change over a period of time, depending on whether parties use some or all of the services. There would naturally be a degree of flux and redistribution if necessary. "Who pays for Modification Proposals" – this would depend on the nature of the modification proposal.

POD advised that Ofgem may be renewing its consultation as a result of discussions with National Grid.

It was questioned how the service lines and the charging methodology were set up. The original costings were based on historical usage together with an xoserve exercise on projected usage; based on a rationalised volume forecast. **Action closed.**

1.3 Review of Workstream's Modification Proposals and Topics

1.3.1 Modification Status Report (Modification Proposals Register¹)

Ofgem's decision was awaited on the following Proposals:

- 0116A, 0116BV, 0116CVV, 0116V, and 0116VD "Reform of the NTS Offtake Arrangements" – These Modifications had been returned to the status of Live Modification Proposals, awaiting a further determination from the Authority.

The Authority's direction to implement has been received for the following:

- 0165V "Change to Measurement Provisions Change Process" – implemented on 01 February 2008.

The following new Proposals had been raised:

- 0195: "Introduction of Enduring NTS Exit Capacity Arrangements" – the Workstream Report was reviewed and agreed at this meeting.
- 0198: "Extension of the current Sunset Clauses for Registration of Capacity at NTS Exit Points" – subject to decision by the Modification Panel (meeting to be held following this Workstream meeting).

The following Proposals have been issued for consultation:

- 0187 "Alterations to the RMSEC Auction to Accommodate Transfer and Trade of Capacity Between ASEPs" – consultation ends 08 February 2008.
- 0187A "Alterations to the RMSEC Auction to Accommodate Transfer and Trade of Capacity Between ASEPs" – consultation ends 08 February 2008.

The following Proposals are subject to determination by the Modification Panel:

- 0182 "Information Provision at LNG Importation Facilities" – consultation ended 23 January 2008.
- 0189: "Amendment to the QSEC Auction Timetable" – consultation ended 15 January 2008. Recommendation to be made at the meeting of the Modification Panel following this meeting.

Review Group closed:

- 0166 "Review of necessary reform of NTS Offtake Arrangements" – following acceptance of the Review Group Report by the January Modification Panel, this Review Group was closed.

1.3.2 Topic Status Report

003TR Review of Exit Capacity Arrangements

0166 "Review of necessary reform of NTS Offtake Arrangements". This Review Group was now closed and Minutes from previous meetings were available on the Joint Office website. Modification Proposal 0195 was raised on 17 January 2008, reflecting the work of the Review Group and has been placed on the agenda of the February Modification Panel.

Modification Proposal 0198 was raised on 30 January 2008 to extend the sunset clause.

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

008TR Entry Capacity

The baseline reconsultation process was continuing, with papers available on the Joint Office and Ofgem's website. No further Workshops are planned. All outstanding actions from the 2007 Workshops have now been addressed and closed.

Following the issue of Ofgem's renewed consultation of the baselines document initial ideas will be reviewed and brought forward.

018TR Information Transparency.

0140: "Review of Information Provision on National Grids Information Exchange." Minutes from the meetings were available on the Joint Office website. All outstanding actions from this Review Group were agreed closed at this meeting (see 1.4 below). Status: Closed

014TR Operating Margins Procurement

Status: Remained On Hold.

015TR Constraint Management

Status: Remained On Hold

016TR Storage Commodity Charge

Status: Remained On Hold.

019TR Emergency Market Arrangements

See 1.3.1 above, and 1.5 below. RH advised that National Grid NTS will bring something forward in the near future.

Status: Remained On Hold.

020TR Gas Quality

Status: Remained On Hold. For an update on progress/next steps see Action TR1073 above.

1.4 Related Meetings and Review Groups**1.4.1 Review Group 0140 – Outstanding Actions**

All outstanding actions were agreed closed at this meeting. See separate document published on the Joint Office website² ("Summary of Outstanding Actions and latest Updates").

1.4.2 Trades and Transfer Workshop 2 – Outstanding Actions

All outstanding actions were agreed closed at this meeting. See separate document published on the Joint Office website³ ("Summary of Outstanding Actions and latest Updates").

1.4.3 Ops Forum

JB reported that National Grid NTS had presented on the scale-backs at Easington.

² <http://www.gasgovernance.com/Network Codes/Workstreams/Transmission Workstream/2007 Meetings/06 December 2007>

³ <http://www.gasgovernance.com/Network Codes/Workstreams/Transmission Workstream/2007 Meetings/06 December 2007>

2. Topics

2.1 003TR Review of NTS Exit Capacity Arrangements

2.1.1 Ofgem Information Request on the Availability of NTS Exit Flexibility Capacity

Ofgem had requested further information from National Grid NTS through a series of 8 questions. RH's presentation covered both the questions and the answers and provided the meeting with an opportunity for discussion. RH gave the background to the request and explained the premise on which the core assumptions had been made.

Reflecting on the figures provided in the answer to Question 3, PB stated that he felt that analysis was the most disturbing of the whole report, and wondered whether there was an aspect of artificiality to this. He expressed doubt as to whether it was a real assessment and thought that other drivers may have been brought into play here. If the DNOs acquired the flex, what was the consequence for the market as a whole? In PB's view this was a major concern and he urged those present to deconstruct and reflect on the information contained within page 15 of the report, regarding the scarcity of flex. Responding to PB, RH confirmed that these were actual figures requested from National Grid NTS. The Competition Commission discussions had occurred before this OCS process was completed. BG commented that at this time there was also the PCR and that these bookings were going on last summer. Different outcomes were to be expected depending on the booking requirements. PB requested that the 2005/06 figures be made available. RH agreed to this.

Action TR 1078: Demand for Flex capacity from the DNs, storage sites and large Users - 2005/06 figures to be made available.

MY agreed with PB as to the criticality of this analysis and the need to understand the drivers, and reasons behind the patterns; PB pointed out that there was a need for parties to respond thoughtfully on this; the close date (18th) was unrealistic, and would force comments rather than any detailed analysis. POD responded that this was driven by 0116 and the impact assessment, which was being made to uncover any fundamental flaws in the analysis. PB reiterated that contextual analysis will be critical; consideration should be given to the point that if there was a genuine need for flex by the DNOs what would be the holistic impact on the wholesale market, and would undermining be a consequence.

Responding to the second slide relating to Question 3, PB understood the reasons for conservatism but believed the paper to be focused on the worst case and negatives, rather than the positives; it did not capture the positive aspects of flows in the system - what about front loading? RH took the point that it appeared to be weighted towards the negative, and said that it came down to the definition of the product that has to be provided (relied upon from a Safety Case perspective). PB commented that linepack flexibility and capacity was not the same thing nor were they interchangeable; the DNs were really interested in the linepack flexibility in the NTS. Different parties needed different products (physical/absolute or commercial). There was a question on the analysis carried out for Ofgem's Enduring Offtake Working Group. This was given at the meeting on 17 May 2006 and can be found on Ofgem's website at:

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=5&refer=Networks/Trans/PriceControls/TPCR4/WorkingGroups>

There was a short discussion centred on Question 4. It was questioned whether the alignment of flows was important and two extreme scenarios were discussed. MY observed that the distribution of supply was changing and that this was having an increasing effect on the system; more was now entering at the southern area, although this did not necessarily mean that more flex would be available in the south.

BG commented that this paper looks at a national basis and that it would be very interesting to see what happened if viewed on a zonal basis.

RH commented that pressure change impacts delivery of flexibility in the pipes and at the offtakes.

Explaining the response to Question 6, RH said that the ability to Offtake flexibility during the day is not restricted to the DNOs. PB reiterated that different parties had different requirements, and that commercial parties have different options. He was concerned that this may have consequential effects that may also have an impact on the electricity market. RH thought that there may be 2 different types of service that parties would like to request, and perhaps this could be looked at.

Discussing Question 7, CS wondered whether substitution would exacerbate this. RH replied that it depended on the nature of the substitution and the two points of the network affected. Analysis of the flows and the capability would be required. LS and BG pointed out that the DNOs have taken individual and different approaches to OCS bookings, which have tended to be conservative. BG also commented that there was lots of sensitivity around the numbers and that these should not be taken at face value. At the time of the DN Sales the assumption was that the DNOs take all their flex requirements from the NTS. There were incentives on the DNOs to moderate their behaviour and requirements. It was pointed out that each DNO made different assumptions and used the word 'conservatively' in a different way. BG observed that product definition and structure gave different numbers, signals and outcomes.

MY and SR commented that in Ofgem's "Final Impact Assessment on modification proposals" published on 7 February 2007, the highest usage of flex on a day was quoted as being approximately 15 mcm/day. In response to further questions RH confirmed that usage across the entire system (2006) had increased to 17.9m. National Grid NTS agreed to publish the graphs showing the dates on the axis. This has been published on the Joint Office website.

www.gasgovernance.com/Code/Workstreams/TransmissionWorkstream/2008Meetings

In the possible actions listed under Question 8 JC2 pointed out that there was also the option for National Grid NTS to ask the DNOs to help, RH acknowledged this.

2.1.2 Modification Proposal 0198 "Extension of the Current Sunset Clauses for Registration of Capacity at NTS Exit Points"

This had been discussed at the Modification Panel meeting and it had been agreed that this would now be issued for consultation.

2.1.3 Modification Proposal 0195 "Introduction of Enduring NTS Exit Capacity Arrangements"

SR gave a presentation explaining the proposed changes to version 1.0. A question was raised on whether the proposed changes to be made to Section 2 constituted any change to the current arrangements under the UNC. Following discussion it was established that the current arrangements remained unaffected.

POD advised that Ofgem was meeting on 21 February to discuss what actions to take in relation to 0116; a plan was to be presented that assessed 0116 and 0195; the decision however might be in November 2008. Ofgem might also initiate a data request while 0195 consideration was in progress.

Assuming the February 2008 Modification Panel agreed that the Proposal would go to consultation and the standard consultation period was agreed the Final Modification Report would be submitted to the April 2008 Modification Panel for a decision. It was pointed out that an extended consultation period could be considered that would still meet the deadline for the April 2008 Panel.

The Workstream Report was reviewed and discussed; it was agreed that legal text was not required as the Modification Proposal was supported by detailed Business Rules (which would be amended to reflect the changes proposed and agreed today). It was then agreed that the Workstream recommended that the Modification Proposal should proceed to consultation.

2.1.4 Draft Alternative Modification Proposal

PB explained the background to the alternative Proposal and presented the marked up version to the meeting. This will be submitted as an alternative Proposal after the main Modification Proposal 0195 has been issued for consultation.

2.2 008TR Entry Capacity

2.2.1 Substitution Update

AF gave a presentation on Substitution. A discussion paper was issued 01 February 2008 and responses were to be submitted by 26 February 2008. Following review and compilation of the responses AF expects to return to the next Workstream with initial proposals, with the intention of consulting on final proposals in early April 2008.

The issues raised in the presentation were discussed. Concerns were raised regarding sterilisation, which RM and AB thought to be a timing issue. What remained 'spare' was also of concern. LB commented that there seemed to be conflicting ideas within substitution and trade and transfers, etc. Just because capacity had not been booked, it cannot be assumed/labelled 'spare'. Reference was made to the final proposals of the PCR, reducing the amount held back. AB1 believed that Ofgem was viewing this area in too narrow a sense, and that unintended consequences could result. AB recalled that previously the view that holding back 20% enabled access for new entrants, but that this view now seems to have been discarded. RM commented that it was making it very difficult for producers to bring gas to market. MY questioned the validity of the signals for incremental investment and the potential for skewing the market – Did the auctions actually support/work for this? RM agreed that the regime seemed to be creating a tighter rather than a more flexible network. AB believed that the encouragement of long term bookings had not been sufficiently examined, and that short term booking enabled a more flexible approach.

JB1 also agreed there was a timing issue; the baseline could be a legal obligation but the gas was not there, and the investment was not needed (North Sea decline). Capacity at Easington was being reallocated and substitution makes it explicit that this is happening. Not having substitution for 2007/08 might lead to a windfall gain for National Grid NTS. RM commented that this crystallises the windfall through the exchange rate mechanism and AB observed that exchange rates are absolutely critical.

The Regulator could review (audit) every 5 years to see if too much windfall gain was accruing. POD said that after the next PCR, further developments may be possible because more information would then be available on the workings of the regime. JB1 thought that he would need to understand what infrastructure/investment had been put in place and what revenue had been made in order to compare the two which would then inform the position.

MY recalled in the 2002/07 PCR that British Gas had raised a question as to why a large investment had been made on the Trans Pennine Link – presumably to enable delivery of baseline at Easington.

JB1 said that the cost of projects did not seem to be available, and wondered if this could be addressed. No projects appeared to be evident for the Eastern area. No planned projects were to be seen as evidence of de facto substitution being made of Barrow, St Fergus and Teesside.

AF encouraged those present to make these legitimate points in the responses to the consultation. He also emphasised that requests for any analysis should be made much earlier than the close out date and any requests should be sent to him as soon as possible.

AB questioned Ofgem's rationale for a lower NPV test; new projects could be constrained. There seemed to be too many changes and expectations that contributed to a muddle rather than a movement towards a better system. AB1 inquired how Ofgem would treat any substitution proposals that went to it for approval. POD responded that it would depend on what was put forward before a decision was made on treatment.

A view was expressed that no one has a particularly clear idea of how any of this will work in practice.

Other members of the Workstream expressed concerns that consultations and licence condition timescales were looming, and that adverse long term consequences may develop over a very short period. Some members believed that there was not enough discussion and or understanding, given the complexities and the areas that may be affected. There was a call for Ofgem to make clear its views on what its expectations and understanding was, so that this could form the basis of more meaningful discussion. It was understood that any decisions would involve compromise and trade offs, but more clarity was required from Ofgem before these were taken.

BG pointed out that the discussion so far had been centred on Entry, but there would most certainly be implications for Exit as well as other areas, and that a holistic approach was to be encouraged so that interactions could be identified and addressed.

RM reiterated that deferral gives National Grid NTS windfall gains and there would be no enthusiasm on its part to share these with the industry. AB commented that he would rather have decent exchange rates than a 'substitution monster', although he understood that by implication substitution meant exchange rates would reduce. BG pointed out the need for understanding before the next 5 year planning horizon – the provision of a range of scenarios, key pinch points on networks, etc would help towards an improved level of understanding of interactions and potential problems. PB pointed out that a reciprocal level of flex information might also be appropriate from all DNOs.

Workshops were also suggested as providing an appropriate way forward to improve understanding. As there were interactions with Exit these workshops might seek to cover the whole NTS capacity area.

3. Any Other Business

3.1 TCMF Survey

It was pointed out that National Grid NTS had placed a survey form on its website seeking feedback on the Gas TCMF process and 2008 Charging Development Work Plan:

www.nationalgrid.com/uk/Gas/Charges/TCMF

Completion of the survey was encouraged. The closing date for submission of responses is Tuesday 04 March 2008, and responses should be emailed to: box.transmissioncapacityandcharging@uk.ngrid.com.

4. Diary Planning

The next Transmission Workstream meeting has been arranged for 10:00hrs on Thursday 06 March 2008 at Elexon, 350 Euston Road, London NW1 3AW. (Details of future meetings may be found on the Joint Office website at: www.gasgovernance.com/Diary).

Action Log – UNC Transmission Workstream: 07 February 2008

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
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 (POD)	See 1.2 above. Closed
TR 1069	01/11/07	1.5	BW to feed back industry concerns relating to Modification 0149A within Ofgem.	Ofgem (BW)	See 1.2 above. Carried Forward
TR 1070	01/11/07	1.5	RH to look at further options to address concerns relating to Modification 0149A.	National Grid NTS (RH)	See 1.2 above. Carried Forward
TR 1071	01/11/07	1.5	RH to seek a presenter to give an overview from a practical point of view of events in an emergency and a perspective on the scenarios referred to in the Ofgem Decision Letter.	National Grid NTS (RH)	See 1.2 above. Carried Forward
TR 1073	06/12/07	1.3	Topic 020TR Gas Quality: Obtain an update on progress/next steps.	Ofgem (BK)	See 1.2 above. Closed
TR 1077	03/01/08	4.1	User Pays Implications: JO to write to Ofgem summarising the questions asked at this meeting.	Joint Office (JB)	See 1.2 above. Closed
TR 1078	07/02/08	2.1.1	2005/06 figures: Demand for Flex capacity from the DNs, storage sites and large Users to be made available.	National Grid NTS (RH)	