

Transmission Workstream Minutes**Thursday 01 May 2008****Elexon, 350 Euston Road, London NW1 3AW****Attendees**

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|--------------------------|-----|----------------------------------|
| John Bradley (Chairman) | JB | Joint Office |
| Lorna Dupont | LD | Joint Office |
| Alex Barnes | AB | BG Group |
| Amrik Bal | AB1 | Shell |
| Andrew Pearce | AP | BP Gas |
| Angus Paxton | AP1 | Poyry Energy Consulting |
| Charles Ruffell | CR | RWE Npower |
| Chris Logue | CL | National Grid NTS |
| Chris Wright | CW | Centrica |
| Christiane Sykes | CS | Statoil (UK) |
| Clare Temperley | CT | Gas Forum |
| Colin Hamilton | CH | National Grid NTS |
| David Cox | DC | Poyry Energy Consulting |
| David Jones | DJ | Elexon |
| Fergus Healy | FH | National Grid NTS |
| John Baldwin | JB1 | CNG |
| Jeff Chandler | JC | Scottish and Southern Energy |
| Jo-Anne Tedd | JT | xoserve |
| Joy Chadwick | JC1 | ExxonMobil |
| Kirsten Elliott-Smith | KES | ConocoPhillips |
| Leigh Bolton | LB | Cornwall Energy |
| Martin Watson | MW | National Grid NTS |
| Natasha Ranatunga | NR | National Grid NTS |
| Paul O'Donovan | POD | Ofgem |
| Peter Dickinson | PD | Ofgem |
| Phil Broom | PB | Gaz de France |
| Rekha Patel | RP | Waters Wye Associates |
| Richard Fairholme | RF | E.ON UK |
| Roddy Monroe | RM | Centrica Storage |
| Shelley Rouse | SR | Statoil UK |
| Sofia Fernandez Avendano | SFA | Total Gas and Power |
| Stefan Leedham | SL | EDF Energy |
| Yasmin Sufi | YS | ENI UK |
| | | |
| Apologies | | |
| | | |
| Beverley Grubb | BG | Scotia Gas Networks |
| Tim Davis | TD | Joint Office of Gas Transporters |
| Liz Spierling | LS | Wales and West Utilities |
| Julie Cox | JC2 | AEP |

1. Introduction and Status Review

JB welcomed the attendees to the meeting.

1.1 Minutes from the previous Workstream Meeting

The minutes of the meeting held on 03 April 2008 were approved.

1.2 Review of Outstanding Actions

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

Update: CL reported that a presentation may be made to the next Workstream. **Action carried forward.**

Action TR 1071: CL 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 TR1083: National Grid NTS to provide information on the effect on TO Commodity Charge from the latest AMSEC Auctions to the next TCMF Meeting.

Update: Covered at the TCMF meetings. **Action closed.**

Action TR1085: Ofgem to provide updates to the Workstream on progress with The Gas (Calculation of Thermal Energy) Regulations.

Update: PD reported that Ofgem was in discussion with BERR. **Action carried forward.**

Action TR1086: National Grid NTS to ascertain how much extra capacity would be released under Option A, and possibly Option B.

Update: Covered under agenda item 2.1.1 below. **Action closed.**

Action TR1087: Ofgem to provide some clarity on the issue of potential discrimination in the provision of information necessary under European transparency requirements.

Update: POD reported that Ofgem's European Team was consulting with the Legal Team. **Action carried forward.**

1.3 Review of Workstream's Modification Proposals and Topics

1.3.1 Modification Status Report (Modification Proposals Register¹)

An update was given on the outcome of the Modification Proposals closed since the last meeting and the current status of the Live Modification Proposals.

- 0116V, 0116A, 116BV, 0116CVV, 0116VD, 0195 and 0195A

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

Ofgem has published its pro forma questionnaires on the cost impacts of enduring gas offtake reform and incentives. Responses are required by close of business on 12 May 2008.

1.3.2 Topic Status Report

JB advised the meeting that the Topic Status Reports for each of the Workstreams had now been amalgamated into one document (a spreadsheet), which was located on the Joint Office website at: www.gasgovernance.com/Network Code, together with the Modification Proposal Summary document.

003TR Review of Exit Capacity Arrangements

Following the Modification Panel's consideration of the Variation Request raised with respect to Modification Proposal 0195A "Introduction of Enduring NTS Exit Capacity Arrangements" this Proposal was deemed withdrawn and was replaced by Modification Proposal 0195AV. (A copy of the new Modification Proposal, 0195AV, is available on the Live Modifications section of the Joint Office website: www.gasgovernance.com.)

The Modification Panel determined that the Variation Request was immaterial. In light of this, the Modification Rules provide that Modification Proposal 0195AV continues through the modification process from the point reached by Modification Proposal 0195A, i.e. Panel Recommendation Stage. A Final Modification Report has therefore been published on the Joint Office website for Modification Proposals 0195/0195AV and the Authority's decision is awaited.

It was agreed to place this topic on hold as no further activity was likely in the interim.

Status: Moved to 'On Hold'.

008TR Entry Capacity

Substitution Workshop 2 has been planned for 07 May 2008.

Status: Live.

014TR Operating Margins Procurement

A workshop took place on 17 April 2008 at the Ardencote Manor Hotel, Claverdon, Warwickshire and the consultation is now underway on the future competitive Operating Margins provision; an electronic copy of the consultation is available on the National Grid website at:

<http://www.nationalgrid.com/uk/Gas/OperationalInfo/GasOperatingMargins>.

CL reminded the meeting that responses should be submitted by 02 May 2008 to Ian Pashley at: ian.pashley@uk.ngrid.com.

Status: Live.

015TR Constraint Management

Status: Remained On Hold.

016TR Storage Commodity Charge

Status: Remained On Hold.

019TR Emergency Market Arrangements

Status: Remained On Hold.

020TR Gas Quality

Status: Remained On Hold.

021TR Transmission Planning Code

The first workshop took place on 03 April and the second has been scheduled for 01 May 2008.

Status: Live.

022TR European Transparency Requirements

Two presentations have now been made to the Workstream and its views have been sought on a number of points.

Status: Live.

1.4 Related Meetings and Review Groups

1.4.1 Ops Forum

JB reported that there were no matters arising from the Ops Forum that required the Workstream's attention.

1.4.2 Summer Outlook Seminar

JB reported that the discussion centred mainly on price.

RM advised the Workstream that Centrica Storage Ltd was raising an urgent Modification Proposal: "Revision of the Rough Storage Connection Agreement".

2. Topics

2.1 008TR Entry Capacity

2.1.1 Non-Obligated System Entry Capacity

FH gave a presentation recapping the background and the three product options for consideration by the Workstream:

Option A Ad-hoc release of non-obligated system entry capacity

Option B Ad-hoc release of non-obligated system entry capacity with Buy-Back

Option C Scheduled release of non-obligated system entry capacity with Buy-Back.

He reported that National Grid NTS would raise an enabling Modification Proposal that will allow the release of non-obligated capacity, via an ad hoc auction release, outside the existing Quarterly and Daily auctions. The auction rules would not be contained in the UNC but would be published as Tender Terms and Conditions. FH described the Proposal. MW added that it would give scope to accommodate Option A or Option B.

The general issues and perceived advantages were covered.

RM asked whether it would cover both Long and Short Term products. MW responded that within certain constraints it could cover both and could be structured to match the market requirements where possible. The auction would be triggered by a Shipper's approach to National Grid NTS with its capacity requirements. Sensitivities in respect of other auctions would be taken into account.

This Proposal was an attempt to meet flexibility requirements and was an enabling Modification Proposal that would give xoserve the latitude to advise National Grid on how the outcome could best be achieved.

A timeline that would enable implementation for this coming winter was presented.

In response to a question from RM regarding the congestion at Easington and the numbers available under Options A and B, MW commented that a pure non-obligated

capacity product depended on location; new supplies and their behaviours were quite unpredictable at present. Potentially, under Option A an additional 10 million standard cubic metres per day may be made available at Easington (over the whole winter period) but this was still being evaluated until more accurate information on new behaviours was available, risks assessed and taken into account. The limit under Option B would be much higher. It would depend on the Proposal being approved. It was clear that the market wanted more certainty for this winter and this Proposal was National Grid NTS' contribution.

RM observed that this may influence market participants' behaviours in auctions, and questioned whether the pros and cons of the two approaches would be discussed in greater depth as complexities may surface in respect of Transfer and Trades. MW responded that Option A was much 'cleaner' and that Option B was more complex; the current demand was questionable and no demand had been seen for this winter at present. MW stated that development time would not be given to Option B unless greater need was seen.

JB asked the meeting for its views. The meeting was reasonably happy with the principle of an enabling Modification Proposal.

It was understood that the enabling Modification Proposal was because of the timing issue to get it in before winter, and that it was expedient to do this as some demand could be seen; it was recognised that there was no wish to codify something that would then need another Modification each time something slightly different was requested.

There were still concerns about the interaction with Transfer and Trades. MW pointed out that Option A would impact on Transfer and Trades but would provide greater certainty over a longer term ahead of winter which is what the market has been asking for.

Capacity can only be released in the set UNC auctions at present. This Proposal would give more flexibility to meet demand through an ad hoc mechanism to release capacity via an auction. The Terms and Conditions would be contained in the auction invitation issued seven days in advance.

Setting of reserve prices would be in the methodology statement and not in the enabling Proposal.

The Modification Panel members present expressed a desire to see the Modification Proposal and Suggested Text as soon as possible.

RP asked whether the auction would only be triggered by a customer's requirements. MW responded that an auction could also be held if National Grid NTS saw some unsatisfied bids, and an appropriate risk/reward element had been identified. Terms and Conditions could vary according to the type of request identified.

In response to a question from RF, changes to the legal text would not be substantial. The Modification Proposal would be made as clear as possible. CW asked if this route could be used for the release of obligated capacity. MW replied that obligated would go into the existing auctions, but he would not exclude it - to cover a small remainder perhaps - but will accommodate it in the Proposal.

National Grid NTS will produce a Modification Proposal for presentation to the next Modification Panel.

2.1.2 Incremental Entry Capacity Release Methodology Statement (IECR) - Update

MW gave a presentation and explained the obligations and the timeline for the review of the IECR. No fundamental changes were proposed to the document, but extensive updating was required to improve clarity and consistency. It would be indicated where changes had been made where it was practical to do so. Consultation would

commence on 16 May 2008 and responses should be submitted to National Grid NTS by 13 June 2008.

2.1.3 Substitution Update

MW said that the second workshop was to be held on 07 May 2008. The aim would be to go through a theoretical example step by step; network analysis was not yet in place to enable the use of a real scenario. Licence obligations in relation to Substitution would also be covered.

2.2 European Transparency Requirements

CH gave a presentation recapping on the context and the drivers. There were two key areas, transparency and capacity, for which the TSOs were expected to deliver agreed outputs.

SL questioned how this interacted with RG 0140. AB said that this had been caught up in the wider European debate; there was a short discussion on what was included in the 'wish list'. JC1 commented that although there was a need for harmonisation across Europe, it was difficult to see why there should be a need to deliver ahead of or beyond that which legislation is requiring us to do; once incorporated into the UNC a concept commits the industry above legislation. MW responded that the UK did not want to be seen as obstructive to European liberalisation; bringing the issues to this Workstream was part of the wider consultation and if there was no support from the UK then this could be relayed to the GRI together with the justification as to why, for example if it was deemed to have no relevance to the UK market.

MW asked whether a Modification Proposal should be tabled as part of an evidence trail of consultation and as a way of making known the opinion of the market. AB stated that market participants are the judge of what is of value to their market. Relevant granularity is an issue, because the UK is so much further down the route of liberalisation. Europe is not so open to UK players.

JB1 thought there were 3 elements involved: capacity, nominations and flow. DC observed that this was about making information more publicly available after the Day, as the information was already available to the Regulators now. AB thought that the level of capacity was also relevant. He referred to the Rule of Three and thought that relevant pipeline level was more acceptable. CL commented that some information was already available at the Ops Forum, but this was only for 'exceptional' days.

JB1 pointed out that the whole regime does not work on Shipper nominations in a flow sense; there was not much relationship between nominations and flows. MW said that nominations were of greater importance to the Continent where they carried a stronger contractual commitment. JB1 suggested that analysis should be done to prove the point. JT pointed out that there were incentives on Shippers to flow close to their nominations in their Licence.

AB asked if there was a relevant text from the GRI that highlighted this gap. CH responded that the UK had to 'tick off' what it did/did not do. AB was concerned that there was a gap between what is required and the level required, and would still like to see the text. JC1 was not convinced of the value or relevance of the information to the market. AP1 pointed out that 'nomination' in European terms means something different to the UK accepted definition, and that perhaps definitions should be more closely scrutinised. If the concepts do not match and it was not a relevant concept we cannot respond.

MW and CH returned again to the point – how can Shipper reaction be collated and fed into the process.

AB and SR were against the raising of a Modification Proposal as, drawing on past experiences, there was some risk of it being approved even if the industry were not in support.

CT and LB suggested that the Gas Forum members should also be consulted so that they could participate in any response.

Action TR1088: Gas Forum members to be consulted on the key deliverables of the GRI so that they can participate in any response.

Following the restating of the question “Should we limit publication to GRI NW list or extend to all points to avoid possible discrimination issues?” the meeting was asked for its views on Option 1 and Option 2.

Option 1: data at ASEP level was thought to be more relevant

Option 2: not thought to be relevant.

No favourable views were expressed and the Workstream did not offer its support to either option.

Further discussion took place and it was confirmed that Real Time data was published. It was questioned whether publication of data would be more acceptable after the Day, thereby giving less scope for gaming. CS stated that she would like to see the GRI text before any decision was reached so that a better understanding could be developed.

(Link: http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/GRI/North_WestSL)

SL was happy for data to be published ahead of the Day, and thought this should cover all points to avoid discrimination.

AB commented that the anomalies that have surfaced in the discussions underline the difficulties of having something prescriptive at a European level, and that he would be quite willing to explain these views to the European TSOs. CH agreed that the UK market was very transparent, but that relevance to the UK market, appropriate definitions, and context, still needed to be considered.

The focus moved on to Exit Capacity; the three options were explained and the views of the meeting were sought. CL said that the UNC changes raised under the 0116/0195 Modification Proposals, if approved, would ensure that the UK was compliant though the implementation timescales may be effective after the compliance date. The three options were discussed.

Of the three options the meeting indicated that it was in favour of Option 1 and this could be relayed to the GRI.

It became evident from the discussion that there was a distinct lack of appetite for the GRI requirements and it was suggested that it should be made clear to the GRI why the UK position is different to that of Europe.

The discussion moved on to the requirement to consult on Relevant Points.

The clear interpretation of various words was seen to be important. Technical capacity is defined but probably meant something different to baseline.

CL observed that it was necessary to ensure compliance with the current regulations and also with the 3rd package regarding information transparency requirements. There was an obligation to consult and agree what the ‘Relevant Points’ were. National Grid NTS would conduct a consultation in the usual manner, and will propose a methodology that will indicate the relevance of points.

AB expected that this would just be a formality as the definitions were already in the UNC. It should not lead to the identification of errors that may need to change, but after the 3rd package there may be a need to review. CL confirmed that the consultation

timescale was likely to be within the next 2-3 months and that a methodology would be presented at the Workstream for discussion.

2.3 013GOV: Industry Codes Governance Review

2.3.1 Proposed Guidance – Environmental Issues and the Code Objectives

JB advised that this item had been deferred to the June Workstream, pending Ofgem's analysis of responses. CL pointed out that Ofgem had indicated a compliance date of 19 May 2008 - presumably this had not changed? POD would verify this.

Action TR1089: Compliance date indicated by Ofgem to be verified.

DJ reported that Elexon were consulting on this area and the standing of 'Guidance'. CUSC see it only as guidance and will establish a working group and carry out an impact assessment. The BSC will discuss and feed back to Ofgem. Gas and electricity were looking to work together in a broader debate to reach a consensus, and a potential meeting was under discussion for early June.

3. Any Other Business

3.1 Proposed Environmental Incentive and Development of SO Incentives

MW gave a brief presentation. National Grid NTS was launching an industry consultation on initial proposals on 02 May 2008. Responses should be submitted by 17:00 on 30 May 2008 to: so_incentives@uk.ngrid.com.

Further information on the development of the SO Incentives plan for this year will be brought to the June Workstream.

3.2 Gemini Contingency Arrangements

CL reported that National Grid NTS intended to bring forward a Modification Proposal to look at Gemini contingency arrangements, looking to capture and consolidate all the relevant information into one document that would sit under the governance of the UNC Committee. It would be presented to the next Modification Panel and to the UK Link Committee. It was suggested that it should also be presented to the Ops Forum.

3.3 Transfer and Trades Process: Audit Findings

AP updated the meeting on current progress. The confidentiality arrangements had been agreed, and liaison with National Grid had taken place; a report had been drafted and was now with Ofgem awaiting comments, following which it was AP's intention to bring a more detailed update to the June Workstream.

RM requested that the meeting receive an update on how everything is going to work together, ie the mechanisms and the methodology, and that this should be added as an agenda item to the next Workstream meeting.

5. Diary Planning

The next Transmission Workstream meeting has been arranged for 10:00hrs on Thursday 05 June 2008 at Elexon, 350 Euston Road, London NW1 3AW. This meeting will be followed by Transmission Code Planning Workshop 3. (Details of future meetings may be found on the Joint Office website at: www.gasgovernance.com/Diary).

Action Log – UNC Transmission Workstream: 01 May 2008

| Action Ref | Meeting Date(s) | Minute Ref | Action | Owner | Status Update |
|-------------------|------------------------|-------------------|---|------------------------|--|
| TR 1070 | 01/11/07 | 1.5 | National Grid NTS to look at further options to address concerns relating to Modification 0149A. | National Grid NTS (CL) | See 1.2 above. Carried Forward |
| TR 1071 | 01/11/07 | 1.5 | National Grid NTS 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 (CL) | See 1.2 above. Carried Forward |
| TR 1083 | 06/03/08 | 3.3 | National Grid NTS to provide information on the effect on TO Commodity Charge from the latest AMSEC Auctions to the next TCMF Meeting. | National Grid NTS (MB) | See 1.2 above. Closed. |
| TR 1085 | 03/04/08 | 1.2 | Provide updates to the Workstream on progress with The Gas (Calculation of Thermal Energy) Regulations | Ofgem (PD) | See 1.2 above. Carried Forward |
| TR 1086 | 03/04/08 | 2.1.1 | Non-Obligated System Entry Capacity: National Grid NTS to ascertain how much extra capacity would be released under Option A, and possibly Option B. | National Grid NTS (FH) | See 1.2 above. Closed. |
| TR 1087 | 03/04/08 | 2.1.3 | Provide some clarity on the issue of potential discrimination in the provision of information necessary under European transparency requirements. | Ofgem (PD) | See 1.2 above. Carried Forward |
| TR 1088 | 01/05/08 | 2.2 | European Transparency Requirements: Gas Forum members to be consulted on the key deliverables of the GRI so that they can participate in any response. | The Gas Forum (CT) | |
| TR 1089 | 01/05/08 | 2.3 | Proposed Guidance – Environmental Issues and Code Objectives: Compliance date to be verified. | Ofgem (POD) | |