

**Transmission Workstream Minutes**  
**Substitution Workshop 4**  
**Wednesday 09 July 2008**  
**Ofgem Offices, 9 Millbank, London SW1P 3GE**

**Attendees**

Tim Davis (Chairman)	TD	Joint Office
John Bradley	JBr	Joint Office
Adam Cooper	AC	Merrill Lynch
Amrik Bal	AB	Shell
Andrew Fox	AF	National Grid NTS
Bogdan Kowalewicz	BK	Ofgem
Charles Ruffell	CR	RWE
Clive Woodland	CW	British Gas Trading
Darren Reeve	DR	Interconnector UK
Dave Turner	DT	Gassco
Debra Hawkin	DH	National Grid NTS
David Linden	DL	BP
Jayne Reader	JR	Chevron
Jeff Chandler	JeC	Scottish and Southern Energy
Jemma Spencer	JS	National Grid NTS
John Baldwin	JBa	CNG
John Costa	JoC	EDF Energy
Julie Cox	JuC	AEP
Keith Harsham	KH	GdF Storage
Leigh Bolton	LB	Holmwood Consulting
Martin Watson	MW	National Grid NTS
Mary Simmons	MS	Interconnector UK
Rekha Patel	RP	Waters Wye Associates
Richard Fairholme	RF	E.ON UK
Richard Miller	RiM	Ofgem
Roddy Monroe	RoM	Centrica Storage

**1. Introduction and Status Review**

TD welcomed the attendees to the meeting.

**1.1. Minutes from the Previous Meeting**

MW clarified that National Grid NTS had not accepted Action SUB007 and, subject to this caveat, the minutes of the meeting held on 11 June 2008 were agreed.

**1.2. Review of Outstanding Actions**

**Action SUB001:** Ofgem to consider producing a document, prior to the first substitution auction, setting out its rationale for approving substitution applications.

See 2.1 below

**Carried Forward**

**Action SUB005:** Ofgem to Consider and report back whether it is able to model the effect on gas prices of various substitution scenarios.

See 2.1 below

**Carried Forward**

**Action SUB 006:** Ofgem to consider the case for increasing the percentage of baseline capacity held back for shorter term auctions.

See 2.1 below

**Closed**

**Action SUB 007:** National Grid NTS to advise the Workstream of likely QSEC auctions for new ASEPs to be conducted prior to the 2009 QSEC auctions.

MW stated that, irrespective of whether or not National Grid NTS was in possession of additional information, commercial confidentiality meant they would not provide any information beyond that already in the public domain. **Closed**

**Action SUB 008:** National Grid NTS to publish a matrix of relevant pipeline distances between ASEPs.

National Grid NTS presented a spreadsheet matrix showing ASEPs in distance order from each other. KH asked why the distances had not been published. MW explained that the information had been derived from the charging Transportation Model, and that they had provided the rank order rather than distance since it is this order that features in the draft substitution methodology. RoM asked whether others could derive distances from the Transportation Model. It was concluded that this could not be readily obtained. National Grid NTS were asked to expand the matrix to include ASEPs in the public domain but not in the Transportation Model. MW offered to derive the data for ASEPs for which the Licence contains a revenue driver, and RoM agreed to provide National Grid NTS with a list of other potential ASEPs which are already in the public domain. A revised spreadsheet would then be published alongside these minutes.

**Carried Forward**

**ACTION SUB012:** RoM to provide a list of potential ASEPs to add to the distance matrix.

**ACTION SUB013:** National Grid NTS to provide an expanded matrix of ASEP distances incorporating additional potential ASEPs.

**ACTION SUB014:** Joint Office to publish, alongside these minutes, expanded matrix of ASEP distances.

**Action SUB 009:** Ofgem to consider presenting an initial view on the draft methodology and the issues raised at the Substitution Workshops.

See 2.1 below

**Closed**

**Action SUB 010:** National Grid NTS to rework the Easington scenario on the assumption that an exchange rate cap of two existed.

AF presented illustrative data on the basis requested. Under this scenario, the incremental requirement could not be met through substitution alone. National Grid would therefore need to consider investment were this scenario to be encountered in practice and this would probably mean that no substitution would occur – the lumpy nature of investment means any increased capability is likely to be sufficient to meet the whole of the incremental signal. BK stated that Ofgem would not dismiss the concept of an exchange rate cap and would welcome industry analysis showing the advantages and disadvantages of implementing this at different levels. **Closed**

**Action SUB 011:** National Grid NTS to calculate SO revenue impacts per 1 mscmd of new ASEP capacity as a consequence of each of the projects outlined by JBa.

AF presented a slide containing the information requested. In some cases, surrogate ASEP data had been used as a proxy for the revenue driver. MW confirmed that the draft methodology proposed that substitution would first feature at a full QSEC Auction – if there is a single ASEP QSEC auction prior to this, substitution would not be considered. BK confirmed that was one of the aspects of the methodology which Ofgem would wish to consider. In response to questions, MW drew attention to the relevant slides from the previous workshop which demonstrated, for the illustrative scenario presented, the potential impact of substitution on reserve prices at Bacton. National Grid NTS emphasised that SO income was influenced by the amount of capacity that was booked in the shorter term auctions, often at zero prices. **Closed**

## **2. Substitution Methodology**

### **2.1. Ofgem Initial View**

BK identified that Ofgem wanted to retain the option of carrying out an Impact Assessment on the final methodology and so, at this stage, would only comment on some of the issues raised. The key principle was to avoid sterilisation of capacity. RoM asked for a definition of "sterilisation". BK suggested that if capacity was unused it was potentially sterilised. DT contested this definition because there may be new developments in prospect such that, while unused today, it may be used in future. BK responded that Users could book this capacity in the QSEC auctions. DT and MS stated that developments may not have enough certainty for Users to participate in long term auctions and if the capacity were substituted away, this could mean the developments never proceeded. BK responded that shorter term capacity would continue to be available. JuC suggested that making a decision on what is most economic and efficient should not only be based on the current status but on future developments as well.

In respect of an exchange rate cap, BK said Ofgem had not reached a view on whether there should be a cap and at what level it should be set - industry analysis to inform this would be welcome.

DT suggested that the published methodology – which has no exchange rate cap - would lead to a very tight system that could not respond to new sources of supply or emergency sources of supply, which would have security of supply consequences. MW responded that substitution does not of itself affect the capability of the NTS. AC stated that he supported the principle of substitution, and that it was part of the User commitment model which shifted risk from Transporter to User. MS added to this statement that, whilst the primary risk may be on capacity prices, it would inevitably lead to increased risk on gas prices. AC also suggested that Users would overbook capacity in the auction to reduce their risk, but did not believe this would be efficient.

BK stated that whether or not Ofgem would provide an assessment of the potential impact of the substitution methodology on gas prices would only be considered if Ofgem concluded an impact assessment was proposed – it would potentially be part of the assessment. A number of attendees believed the impact on commodity prices was a critical piece of information and should be available in time to inform responses to the consultation on the methodology.

TD outlined the likely timescale for progressing the methodology and identified that carrying out an impact assessment would extend the process and leave the schedule very tight, especially if the conclusion was that there should be a change in the methodology. However, the meeting concluded that only Ofgem would be in a position to carry out an assessment of the likely impact of the methodology on gas prices.

In respect of the percentage of capacity withheld for shorter term auctions, BK stated that Ofgem was not minded to revisit the 10% which is presently provided for in the Licence.

BK responded to a question on the degree of discretion that Ofgem would have in approving or rejecting any substitution proposal that National Grid NTS might put forward. Ofgem was examining the Licence condition and the options it gave to Ofgem. BK would not rule out a licence change if an approach with more discretion was preferable and a licence change was necessary to support this. In this scenario, Ofgem would also consider producing a document indicating how it would apply its discretion.

In response to a question on whether National Grid NTS would consider putting forward a range of options within any Incremental Obligated Entry Capacity proposal, MW indicated that the timescales would be very short and this would not be practicable.

JuC believed that when deciding whether or not to approve substitution, information should be taken into account from TBE and developments on the electricity generation

side. She concluded that discretion should be available for either National Grid NTS or Ofgem. KH suggested that, at the onset, National Grid NTS might consider only making a percentage of unsold capacity available through substitution. National Grid NTS responded that the discussion paper considered this option. Other attendees supported this concept of limiting the maximum permissible extent of substitution.

## **2.2. National Grid NTS Walk-Through**

AF emphasised that the National Grid NTS document issued on 7<sup>th</sup> July was not the formal consultation document.

On Question 1, DT commented that the security of supply aspects and impact of substitution on the use of linepack had not been considered in this question. It should be recognised that substitution would discourage supplies from coming to the UK, and would incentivise a tighter system which would in turn remove flexibility to respond to events. AF responded that question 4 touched on this aspect. MS believed that this was too narrow. The question did not cover the economics and efficiency of the market - only the Transmission System. It was asserted about 2% of the cost of gas is accounted for by transmission and a saving of as much as 5% would only be 0.1% of the final price – the small prize should be set against the potential downside of reduced security of supply. MW responded that this was more a matter for the impact assessment. Some attendees pointed out that the question in National Grid' draft statement accurately reflected the licence requirement. BK confirmed that, as substitution reflected Ofgem's policy, the principle of substitution would not be revisited – it was the methodology that was under consideration not the policy.

JuC, whilst recognising the benefits of gradual introduction, as suggested by some, pointed out some of the drawbacks, such as investing because substituting a very small amount of required capacity may be prevented by an arbitrary limit.

The meeting agreed that Questions 2, 3, 4a and 4b were appropriate. TD emphasised on 4b that responses that indicated support for one of the options for withholding capacity should state the reasons for that choice. JBa suggested other options not covered in the draft, such as applying recent flows or TBE data.

The meeting agreed that Question 5 was appropriate. TD suggested that National Grid NTS could write the methodology in a way that would disregard single quarter bookings. MW responded that such a change would require a UNC Proposal.

On Question, 6 JuC believed that, to answer the question, respondents needed to know whether the zones were consistent with the ranking order. MW responded that the information presented showed that there were some inconsistencies. With this qualification, the meeting agreed that this question was appropriate.

The meeting agreed that Question 7 was appropriate.

On Question 8, JBa believed that a separate pipeline distance question would be appropriate.

On Question 9a, the meeting believed that this should be supplemented by a wider question rather than one focussed only on National Grid NTS's licence.

The meeting agreed that Question 9b and 9c were appropriate, except that more explanation of 9c might be useful.

On Question 10, CW suggested that respondents may wish to propose alternative transitional rules. This was acknowledged.

RoM suggested having an additional question of whether Users believed that implementation would affect gas prices. MW responded that it was more appropriate to ask this question elsewhere.

MW stated that these issues would be taken into account and further documents will be issued accordingly.

**SUB 014: National Grid NTS to update the consultation document or produce an addendum that reflects the Workshop discussion.**

**3. Next Steps**

No further workshops have been arranged. DT believed that a meeting to share responses would be useful. MW questioned whether there was value in doing this as the formal consultation would be launched soon after the responses had been received. AF identified that responses would be placed on National Grid's website. It was agreed that all outstanding actions should be considered by the Transmission Workstream and that the desirability or otherwise of additional substitution specific meetings could be reconsidered at both the 7 August and 4 September meetings.

**SUB 015: Joint Office to include consideration of outstanding actions and the possibility of future meetings on the Transmission Workstream agenda.**

TD suggested that it would be helpful if, should there be one, the impact assessment and final consultation could proceed in parallel or be combined. This was support by attendees and National Grid NTS and Ofgem agreed to consider this.

**SUB 015: National Grid NTS and Ofgem to consider conducting any consultations either in parallel or as a combined consultation.**

A number of attendees emphasised that a decision on whether or not Ofgem would instigate an impact assessment should be conveyed to the industry at the earliest opportunity.

**Action Log – Substitution Workshop: 09 July 2008**

<b>Action Ref</b>	<b>Meeting Date(s)</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
SUB 001	08/04/08	3	Ofgem to consider producing a document, prior to the first substitution auction, setting out its rationale for approving substitution applications	Ofgem (POD)	<b>Carried Forward</b>
SUB 005	07/05/08	4	Consider and report back whether it is able to model the effect on gas prices of various substitution scenarios.	Ofgem (POD)	Ofgem to consider including this in any Impact Assessment <b>Carried Forward</b>
SUB 006	11/06/08	2	Ofgem to consider the case for increasing the percentage of baseline capacity held back for shorter term auctions.	Ofgem (BK)	Ofgem indicated it did not intend to revisit this. <b>Closed</b>
SUB 007	11/06/08	2	National Grid NTS to advise the Workstream of likely QSEC auctions for new ASEPs to be conducted prior to the 2009 QSEC auctions.	National Grid NTS (MW)	National Grid NTS unable to produce this due to confidentiality <b>Closed</b>
SUB 008	11/06/08	3	National Grid NTS to publish a matrix of relevant pipeline distances between ASEPs.	National Grid NTS (MW)	Ranking data presented. More specific data to be provided when a revenue driver applied or when requested in respect of a new ASEP <b>Carried Forward</b>
SUB 009	11/06/08	4	Ofgem to consider presenting an initial view on the draft methodology and the issues raised at the Substitution Workshops.	Ofgem (BK)	Presentation made at July meeting <b>Closed</b>
SUB 010	11/06/08	4	National Grid NTS to rework the Easington scenario on the assumption that an exchange rate cap of two existed.	National Grid NTS (MW)	Presentation made at July meeting <b>Closed</b>
SUB 011	11/06/08	4	National Grid NTS to calculate SO revenue impacts per 1 mscmd of new ASEP capacity as a consequence of each of the	National Grid NTS (MW)	Presentation made at July meeting <b>Closed</b>

<b>Action Ref</b>	<b>Meeting Date(s)</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
			projects outlined by JBa.		
SUB 012	09/07/08	1.2	RoM to provide a list of potential ASEPs to add to the distance matrix.	Centrica Storage (RoM)	
SUB 013	09/07/08	1.2	National Grid NTS to provide an expanded matrix of ASEP distances incorporating additional potential ASEPs.	National Grid NTS (MW)	
SUB 014	09/07/08	1.2	Joint Office to publish, alongside these minutes, expanded matrix of ASEP distances.	Joint Office (JBr)	
SUB 015	09/07/08	2.2	Update the consultation document or produce an addendum that reflects the Workshop discussion	National Grid NTS (MW)	
SUB 016	09/07/08	3	Consider conducting the final consultation and the associated document either in parallel or as a combined consultation	National Grid NTS (MW) Ofgem (BK)	