

Transmission Workstream Minutes
Operating Margins Workshop 1
Tuesday 04 November 2008
Ofgem, 9 Millbank, London SW1P 3GE

Attendees

John Bradley (Chair)	JB	Joint Office of Gas Transporters
Lorna Dupont	LD	Joint Office of Gas Transporters
Andrew Pearce	AP	BP Gas
Alan Raper	AR	National Grid Distribution
Alessandro Rubino	AR1	Ofgem
Bogdan Kowalewicz	BK	Ofgem
Craig Purdie	CP	Centrica Storage Ltd
Chris Wright	CW	Centrica
Heather Lockyer	HL	National Grid LNG Storage
Ian Pashley	IP	National Grid NTS
John Costa	JC	EDF Energy
Julie Cox	JC1	AEP
Juliana Urdal	JU	National Grid NTS
Louise McGoldrick	LM	National Grid NTS
Phil Broom	PB	Gaz de France
Ritchard Hewitt	RH	National Grid NTS
Stefan Leedham	SL	EDF Energy
Shelley Rouse	SR	Statoil (UK)
Simon Trivella	ST	Wales and West Utilities

1. Introduction

JB welcomed the attendees, thanked Ofgem for the use of its facilities, and explained the purpose of the meeting. Changes to the original agenda proposed by National Grid NTS were accepted. RH introduced and briefly outlined the programme.

This workshop had been established on an informal basis, under the auspices of the Transmission Workstream, to review and agree business rules to facilitate competition in the provision of Operating Margins (OM).

2. Operating Margins Contestability Update

IP described the background and reported on the progress made to date following the two consultations carried out this year. National Grid NTS had been in discussion with Ofgem on appropriate incentives for OM arrangements going forward and a document will be published shortly. Over this winter, it was the intention to arrive at a set of principles.

IP proceeded to give National Grid NTS' views relating to the current and potential OM providers, and then briefly outlined the consultation responses received, indicating that the focus would be on OM provision from NTS Demand.

CW observed that in respect of CCGT interruption, nothing appeared to have been decided in terms of compensation for turning down. More clarity would be welcome. Acknowledging this, IP responded that National Grid NTS was seeking to address this concern.

IP said that parties would soon be approached for their views as National Grid NTS started work on the Business Rules.

3. UNC Section K Walk-through (current provisions and required changes)

LM gave a brief overview of UNC TPD Section K as it currently stood, (which covered the sources of OM, the procurement mechanisms, and the cost recovery mechanisms), and explained the aims for the proposed review. It was noted that this Section was extremely

complex and would benefit from additional clarity. Changes to UNC TPD Section K would facilitate the provision of the service from a wider pool of potential providers and provide the flexibility to enable competitive services to be taken up, should they be seen to be economic and efficient so to do. In order to facilitate the review, a Consent to Modify (CTM) would also be raised to realign Section K with current practice, as longstanding errors had been identified. The CTM would be produced and submitted to Ofgem for its approval.

At various points JU explained the required changes that National Grid NTS had identified, and responded to questions as the presentation progressed.

How and when OM gas would be used was described, together with its service characteristics and a brief description of the current OM service providers. JB questioned how locational this needed to be, and was advised that a more detailed list of characteristics was available on the National Grid website, in the Gas Operating Margins section.

www.nationalgrid.com/uk/Gas/OperationalInfo/GasOperatingMargins

Current principles, and the changes required, were explained and discussed. Various questions centred on the relationship with the Safety Case. JB commented that a more flexible way of meeting the profile was adopting the concept of a flexible “Operating Margins Requirement Period” to replace the current basis of “Storage Year”. RH commented that the UNC, whilst providing safeguards, should not restrict National Grid NTS from taking the most efficient decisions. PB recalled Modification 0086: “Introduction of Gas Demand Management Reserve Arrangements” and suggested that another look at this may be useful. JB recalled previous Transco Network Code Modifications that were withdrawn. With one of these, it had become apparent that a year’s trial of the Demand Side alternative was required to provide confidence in the principle. This would have been costly, as it would have involved a degree of duplicate provision of OM for that year.

Post Meeting Note: The Transco Network Code Modifications were: 0585: “Provision of Contestable System Reserve Services” and 0605: “Provision of Contestable System Reserve Services”.

RH expressed the importance of approaching the required changes in a logical fashion, identifying what barriers could be removed and developing the flexibility to achieve this. The service provision should be defined, which could then be taken to the HSE to see if all the requirements were met. JC1 asked if procurement was defined in another document. JU responded that it was contained within the Procurement Guidelines; it was not believed that these would require modification as they were compatible with the changes proposed. JC1 then asked whether it more appropriate to have a Safety Case before tenders. RH responded that the principles needed to be discussed, a service defined, described and proposed delivery demonstrated before approaching the HSE. JC1 commented that vagueness did not help parties in respect of tenders; Demand Side participation required a significant mind shift and it was disappointing to learn that HSE discussions were not very far forward at this point. RH responded that some guidance had been received from HSE and IP confirmed that there would shortly be a meeting with them. Referring to Modification 0090: “Revised DN Interruption Arrangements” as an example, JC1 commented that the Safety Case for 0090 was still not in place, and therefore wondered how it would operate for this new proposal given that the timescales were much shorter. The prospect of a tender contingent on a Safety Case revision, that may not be approved, did not encourage Demand Side participation.

RH and IP responded that National Grid NTS wished to encourage Demand Side participation and work in partnership with a Demand Side party to design a service that could be demonstrated to the HSE. This service design would then form the basis of competitive tendering.

Given the fairly tight timescales indicated by National Grid NTS, JC1 further questioned the need for Business Rules as discussion/production of these often contributed to delay. She suggested, instead, a move straight to legal drafting.

PB asked what happened to title to gas. RH responded that he would expect most parties to retain title, and either turn down or transfer to another site. JU then outlined a few examples to explain the flexibility requirements, and this was followed by a brief discussion on the calculation of costs, the treatment of costs and revenues associated with the utilisation of OM, and the Closing Margins Adjustment Charge. Some of these principles only apply to storage capacity reservation arrangements, and no change to these was proposed.

SL suggested consideration should be given to interactions on the electricity side, particularly the impacts that interruption might have on security of electricity supply. RH acknowledged the possibility but pointed out that use of OM in the past had been very rare.

AR expressed concerns in respect of Demand Side OM provision. Users, for a number of different and complex reasons, might exercise interruption, either full or partial. When it was exercised, however, the site essentially would become unavailable for further demand reduction such as exercise of OM. He asked how the interruption hierarchy might work?

JU responded that OM would often be exercised first as the contract arrangements would probably specify a notice period of two hours, whereas conventional Interruption Notices were five hours. However, National Grid NTS was aware of the issue and would factor the probability of Demand Side availability in its assessment.

Discussion then turned to “delivery” of interruption. National Grid NTS pointed out that assessment against Offtake Profile Nominations (OPNs) are, currently, the only way by which this delivery can be quantified. However, this is complicated by the fact that OPNs frequently change within Day for a variety of reasons.

RH pointed out the requirement for short-notice locational action, citing the example of a short duration operational problem with a compressor set. Exercise of OM also buys time for the market to respond, depending on the actions taken. Use of OM would have a shorter lead time than a locational action on the On-the-Day Commodity Market. It was pointed out that locational OM short-term use was rare. The last example was in 2006.

AR observed that OM was available as a last resort prior to declaration of a Gas Supply Emergency. JU confirmed this and pointed out that this was separate to the use of OM for orderly run-down, which would be required after a Gas Supply Emergency had been declared.

JB summarised the discussions and asked the Workstream to confirm that there were no objections to any of the changes put forward by National Grid NTS. This confirmation was given.

4. Next Steps

RH reiterated that the position had not changed since the discussion at October’s Transmission Workstream. The aims were to draft UNC TPD Section K as a logical sequence that reflected the process (procurement, use, associated costs, etc), with a simplified and more readable text. RH was discussing this with National Grid NTS’ legal team and had instructed them to produce a first draft of text ready for review at the next meeting. If it was found that the text could not be simplified and given sufficient clarity following this review, then Business Rules may be produced to accompany the text.

This approach was agreed.

Action TR/OM001: Produce draft legal text for review at next meeting.

It was the intention that the resulting Modification Proposal would be presented at the December UNC Modification Panel (18 December 2008) and then be issued for consultation.

5. Any Other Business- Proposed Sale of Dynevor Arms LNG Storage Facility

HL reported that, following completion of its strategic review, National Grid NTS intended to sell its facility at Dynevor Arms. It confirmed that Ofgem had no objections to this but may

choose to consult nearer the time. HL confirmed that there were no longer any locational OM requirements in South Wales. It expected to complete the sale in the first quarter of 2009 and, to facilitate this, a UNC Modification would be proposed at the next Transmission Workstream (06 November 2008).

Glenmavis and Avonmouth would remain essentially unchanged

Two of the four LNG tanks at Partington would be taken out of service.

6. Diary Planning

Operating Margins Workshop 2" will be held from 10:00 – 13:00 on Tuesday 02 December 2008 at Elexon, 350 Euston Road, London NW1 3AW,

Operating Margins Workshop 3 has been provisionally scheduled for 10:00 - 13:00 on Friday 12 December 2008 also at Elexon.

Details of future meetings may be found on the Joint Office website at: www.gasgovernance.com/Diary).

Action Log
UNC Transmission Workstream: Operating Margins Workshop 1
04 November 2008

Action Ref	Meeting Date(s)	Min Ref	Action	Owner	Status Update
TR/OM 001	04/11/08	4	Produce draft legal text for review at next meeting.	National Grid NTS (RH)	02 December 2008