

Transmission Workstream Minutes
Operating Margins Workshop 2
Tuesday 02 December 2008
Elxon, 350 Euston Road, London NW1 3AW

Attendees

John Bradley (Chair)	JB	Joint Office of Gas Transporters
Bob Fletcher	LD	Joint Office of Gas Transporters
Craig Purdie	CP	Centrica Storage Ltd
Chris Wright	CW	Centrica
David Adlam	DA	National Grid LNG
Ian Pashley	IP	National Grid NTS
John Costa	JC	EDF Energy
Juliana Urdal	JU	National Grid NTS
Louise McGoldrick	LM	National Grid NTS
Richard Riley	RR	National Grid NTS
Ritchard Hewitt	RH	National Grid NTS
Shelley Rouse	SR	Statoil (UK)
Stefan Leedham	SL	EDF Energy
Apologies		
Alessandro Rubino	AR1	Ofgem
Bogdan Kowalewicz	BK	Ofgem

1. Introduction

JB welcomed the attendees and explained the purpose of the meeting.

2. Review of previous minutes and actions

RH/JU advised a correction to the last meetings minutes - at the end of section 3. – date should be February 2007 and not 2006 and as usage is rare delete last line.

Minutes accepted subject to the changes above.

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

Update – action completed and closed.

3. UNC Section K: Operating Margins**3.1 Summary of Proposed Section K changes confirmed at previous meeting**

LM commenced a presentation summarising discussions at previous meetings.

The presentation made it clear that only NTS connected loads would qualify for offering demand-side services and not DN connected loads. RH pointed out, however that DNOs could offer the service to National Grid NTS and would in turn procure services from Shippers. CW suggested that if there was any prospect of Shippers offering demand-side services directly to National Grid NTS, in respect of DN Supply Points, the drafting should include this element now. IP responded that discussions had advanced satisfactorily with DNOs and it wasn't necessary to consider including the provision for DN connected loads in the text.

3.2 Further Section K Changes Identified

LM then explained the changes to Section K that had been identified and asked if there were any comments for discussion so these could be considered in addition to the identified changes. JU added that the changes proposed clarified how purchases and

sales would be made. SL asked if this changed capacity rules by allowing National Grid NTS to sell to any parties subject to law and licence. JU responded that this would not change the end of year sale, but would clarify the process within year as Code is unclear on arrangements after the start of the Storage Year.

In respect of Closing Margins Adjustment Change, JU explained that the difference in buy price and sale price of storage gas would be included in this calculation.

In respect of utilisation, SL asked if the 24 hours would begin when the event was notified. RH responded that it would. CW asked why only 24 hours? RH responded that after 24 hours it should be possible to move to normal operating and market conditions. JU added that 24 hours would include the notice period within the contract arrangements.

LM asked if the group were willing to allow these additional points to be included – the group agreed to this.

3.3 Walk through of Section K legal drafting

RR gave an overview of the proposed changes to Section K legal drafting and how the delta view software highlights changes.

RH clarified that the definition of Users in this section included DNOs unless specifically excluded in the text. JB added that a number of the reference numbers need to be corrected and RR agreed that the section numbering would be updated for the next version.

Action TR/OM002: National Grid NTS (RR) to provide an updated draft of changes to Section K.

JB asked if producing an Operating Margins Statement by 1st March each year was compatible with changing “Storage Year” to “Operating Margins Year” in the text (2.2.3). RR responded that it was.

JB asked what the exceptions were for to 1.4 and 1.5 which both included the words “except otherwise expressly stated”. JU responded these mainly applied where gas is sold. For example, National Grid NTS does not sell gas to DNO Users.

JB asked why 2.2.1 (c) has been changed from “Space” to “Gas”. JU explained this is due to gas being held over a number of days and is a more appropriate definition for use with Operating Margins.

RH advised that 2.2.6, 2.2.7 and 2.2.8 haven’t been deleted but combined into 3.1.3. JU added these are the changes previously discussed allowing National Grid NTS to sell capacity etc.

SL asked why DNO Users have been excluded from 3.3 when they might offer Capacity Arrangements. JU replied that DNO Users would only offer Delivery Arrangement which are covered in section 3.2.

CW asked that if National Grid NTS require storage withdrawals and withdrawal is already in progress how do these arrangements work? JU advised that this product represents current storage arrangements: if gas is being withdrawn from storage already, it may reduce Operating Margins requirements on that Day.

SL asked why “Storage Year” is included in 3.3.5. JU said this is required as National Grid NTS would still need to make these Margins Procurement Arrangements either during or prior to the Storage Year as part of the Capacity Arrangements.

JU clarified Section 3.5.3 in respect of around the disposal of gas-in-storage before the end of the Storage Year. JB asked if it was possible for gas withdrawn from storage to be cashed-out rather than sold to another party.

Action TR/OM003: National Grid NTS (JU) to review options for the disposal of storage gas.

SL asked if there were still going to be arrangements where the gas remains as part of the User's daily imbalance when Operating Margins Delivery Arrangements are exercised by National Grid NTS. JU said in all cases the quantity will be transferred to the National Grid NTS Operating Margins account. IP added this is due to utilisation costs and ensures the Shipper does not retain gas it is paid for.

SR asked where the Consent to Modify (CtM) changes applied and these were clarified by JU.

3.4 Update on Consent to Modify

RH gave an update on CtM There are now two requests as additional items have been identified.

CtM1

RH explained how the drafting of UNC is proposed to be changed or reordered as there were a number of referencing errors.

RH advised that the initial view at the October Transmission Workstream was a financial impact of £35k. However, this has been revised up to £125k which would have been recovered over a six year period at just over £20k per year. CW asked if the industry had been fully advised of the financial impact, RH thought that many CTMs are likely to have a financial impact and should not therefore be unexpected. CW added that the industry operates on an interpretation of code as it currently stands. RH agreed but there had been changes to Codes that allowed costs to be recovered. CW was concerned whether this group had the authority to agree this change and if not what should be the appropriate governance for these changes? SL asked if National Grid NTS had discussed the proposed Code changes with Ofgem. RH explained the discussions had been held with Ofgem and this had included costing scenarios

SL asked if the proposals in the CtM should be discussed at Panel as he did not believe this group could agree a change for the industry. RH advised that although CtMs are placed on the Panel Agenda they are not normally discussed or agreed at Panel. He didn't believe therefore that pursuing this CtM would be setting an unsatisfactory precedent. The issue is that the Code neither reflects current practice nor the intention of the Proposal that introduced this anomaly. RH confirmed if the CtM goes through there would be an increased charge to Shippers compared with what they would have been charged if the calculations had strictly followed the existing Code text. CW pointed out that retrospective charging was limited to 5 years due to previous UNC Modifications.

Due to the complexity of the situation, a number of members asked National Grid NTS for clarification. JU responded that their current calculation assumes that the CtM is in place, and the difference of £125k is between this assumption and calculations that follow current Code text.

To clarify the situation further National Grid NTS agreed to provide the relevant calculations.

Action TR/OM004: National Grid NTS (JU) to provide calculations of charges based on code as drafted and current practice.

SL also asked why this cost recovery would essentially be retrospective. RH responded that this was the nature of this CtM; it is retrospective due to the error being in code referencing and not a mistake in the administration of code services or an operational error such as a physical meter error.

JC thought there were two issues to understand:

1. What is required to correct Code?
2. What are the correct charges?

He questioned whether it was fair to recover retrospective costs, based on an interpretation of how the cost should be calculated rather than what is currently reflected in Code. RH asked if JC was, therefore, suggesting a Modification Proposal rather than a CtM. SL thought that a Proposal would be an appropriate route and satisfy governance. JC concurred and thought it would send the right signals to the industry.

RH added he will raise CtM1 at Panel, if Ofgem agreed with the CtM process and proceed as planned. Otherwise, he would consider raising an amendment to this current Proposal to include the CtM1 issues.

Action TR/OM005: National Grid NTS (RH) to consider either raising CtM1 at Panel to get a view on whether to continue with the CtM, or raise a Modification Proposal.

CtM2

RH explained CtM2 contains mainly referencing and paragraph numbering errors and National Grid NTS would be seeking to implement these changes as soon as possible.

5. Any other business

JB asked attendees if they had any additional items to be discussed and no items were raised.

6. Diary Planning

RH asked if the group wanted to meet again or review text and discuss at the next Panel. JC suggested Users review the information received at this meeting with a suggestion that an additional meeting be held in January 2009. RH advised that contracts can't be offered until Code changes are made. IP clarified the service specification and process adds the detail to the high level code requirements. JC asked what the timeline was. RH said the aim is to complete the agreements by end of March 2009 with contracts in place 1 April 2009. IP advised Tenders for contestable OM will be issued in December with a close out around end of January.

Action TR/OM006: Attendees to review changes and advise by 5 December if the meeting for 12 December is still required to review legal drafting.

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 2
02 December 2008

Action Ref	Meeting Date(s)	Min Ref	Action	Owner	Status Update
TR/OM 001	04/11/08	4.0	Produce draft legal text for review at next meeting.	National Grid NTS (RH)	Action Complete. Closed
TR/OM 002	02/12/08	3.3	Provide an updated draft of changes to Section K.	National Grid NTS (RR)	Pending
TR/OM 003	02/12/08	3.3	Review options for the disposal of storage gas	National Grid NTS (JU)	Pending
TR/OM 004	02/12/08	4.0	Provide calculations of charges based on code as drafted and current practice.	National Grid NTS (JU)	Pending
TR/OM 005	02/12/08	4.0	Consider either raising CtM1 at Panel to get a view on whether to continue with the CtM, or raise a Modification Proposal.	National Grid NTS (RH)	Pending
TR/OM 006	02/12/08	6.0	Review changes and advise by 5 December if the meeting for 12 December is still required to review legal drafting.	All	Pending