

**Transmission Workstream Minutes**  
**Thursday 01 July 2010**  
**Elexon, 350 Euston Road, London NW1 3AW**

**Attendees**

Tim Davis (Chair)	(TD)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Alan Raper	(AR)	National Grid Distribution
Ale-jan Algra	(AA)	GasTerra
Amrik Bal	(AB)	Shell
Andrew Pearce	(AP)	BP Gas
Audrey Luksicek	(AL)	British Gas
Charles Ruffell	(CR)	RWE npower
Chris Shanley	(CS)	National Grid NTS
Chris Wright	(CW)	Centrica
Clare Cameron	(CC)	Ofgem
Colin Thomson	(CT)	Scotia Gas Networks
David Turner	(DT)	GassCo
Debra Hawkin	(DH)	National Grid NTS
Eddie Blackburn	(EB)	National Grid NTS
Fergus Healy	(FH)	National Grid NTS
Guy Hannay-Wilson	(GHW)	Chevron
Jacopo Vignola	(JV)	Centrica Storage Ltd
Jeff Chandler	(JC)	SSE
Jill Brown	(JB)	RWE npower
Joanna Ferguson	(JF)	Northern Gas Networks
John Baldwin	(JBa)	CNG Services
Julie Cox	(JCx)	AEP
Kirsten Elliott-Smith	(KES)	ConocoPhillips
Landon Larson	(LL)	ExxonMobil
Lesley Ramsey	(LR)	National Grid NTS
Lucy Field	(LF)	Poyry Energy Consulting
Mark Dalton	(MD)	BG Group
Mike Wassell	(MW)	National Grid NTS
Paul O'Donovan	(POD)	Ofgem
Phil Hobbins	(PH)	National Grid NTS
Rekha Theaker	(RT)	Waters Wye Associates
Richard Fairholme	(RF)	E.ON UK
Richard Hounslea	(RH)	National Grid NTS
Richard Jones	(RJ)	xoserve
Richard Street	(RS)	Corona Energy
Roddy Monroe	(RM)	Centrica Storage Ltd
Simon Trivella	(ST)	Wales & West Utilities
Stefan Leedham	(SL)	EDF Energy
Sue Ellwood	(SE)	TPA Solutions

**1. Introduction**

*Copies of the various presentations are available to view and/or download from the Joint Office web site at [www.gasgovernance.co.uk/tx/010710](http://www.gasgovernance.co.uk/tx/010710).*

TD welcomed attendees to the meeting.

## 1.1 Minutes of the previous Workstream Meeting

The minutes of the previous meeting (03 June 2010) were accepted.

## 1.2 Review of Outstanding Actions

**Action TR 0303:** Project Discovery - BW to confirm the work that Ofgem is undertaking on gas quality and the next steps.

**Update:** Nothing further to report. POD will keep the Workstream updated with progress. **Action carried forward**

**Action TR 0502:** National Grid NTS (NR) to provide to the June Workstream a list of data items proposed and cross-reference these to the EU Regulation.

**Update:** CS reported that the work was taking longer than expected as a few problems had been encountered with data items and these were under investigation. The updated Data Dictionary would be made available once these had been resolved. **Action carried forward**

**Action TR 0601:** Add discussion of the Authority's decision on Modification 0246, 0246A and 0246B as an agenda item for the July Workstream.

**Update:** Completed. **Action closed**

## 1.3 Review of Workstream's Modification Proposals and Topics

### 1.3.1. Modification Status Report (Modification Proposals Register)

*The Modification Proposals Register is available to view at: <http://www.gasgovernance.co.uk/mods/>.*

TD gave an update on live and recently closed Modification Proposals.

### 1.3.2. Topic Status Report

*The Topic Status Report for the Transmission Workstream is located on the Joint Office website at: <http://www.gasgovernance.co.uk/mods/>*

TD gave an update covering topics not otherwise on the agenda.

### 1.3.3. Related Meetings and Review Groups

**Review Group 0291** – A meeting had been held on 21 June 2010, with a further meeting planned for 19 July 2010.

## 2. UNC Modification Proposals

### 2.1 Modification Proposals 0246, 0246A, and 0246B – Quarterly NTS Entry Capacity User Commitment (Action TR0601)

The Authority's decision to reject all three proposals had been published on 03 June 2010. POD reported that Ofgem's indication of an 'open letter' to follow had generated a number of requests for meetings by interested parties. These meetings were still underway, and once these are concluded Ofgem will indicate an appropriate way forward. The direction of the 'open letter' will indicate how to address the current situation and how to prevent an occurrence, and is likely to be published in the next couple of weeks.

## 2.2 **Modification Proposal 0273 – Governance of Feasibility Study Requests to Support Changes to the Network Exit Agreements**

RF (as Proposer) advised that in light of the forthcoming AEP/NG connections meeting there was nothing to report in the interim.

## 3. **Topics**

### 3.1 **Draft Modification Proposal: Further Security Request (FSR)**

RS gave a presentation, briefly outlining the reasons for the proposed change. This was to address a flaw in the existing process and thereby reduce the industry's financial exposure, by requiring parties to put sufficient security in place for an appropriate period of time to cover their energy balancing activities. The main principles of the draft Proposal were explained, and an example of the calculation of a FSR was provided. The Proposal had been discussed at EBCC over the past year and it was envisaged that the Modification Proposal would now be formally raised and issued for consultation. Comments were invited.

CS referred to the Modification Proposals that had been raised in response to the output from Review Group 0252, which had looked at a number of areas of UNC in relation to credit, and was assured by ST that this new proposal did not conflict with any of the RG0252 Modification Proposals currently under formal consultation. RS added that it would have no adverse effect on any party who was operating its portfolio correctly. It would also provide the EBCC with an earlier recourse to appropriate remedies.

### 3.2 **Connecting Coal Bed Methane to the NTS**

Subsequent to the initial introduction of this topic at the June Workstream and the identification of a number of issues that it was suggested needed further consideration, PH gave a follow up presentation to address the concerns noted and responded to questions from the floor as delivery of the presentation progressed.

Issue 1: *Will the arrangement generate CV shrinkage?*

RS believed that National Grid NTS's statements did not answer the question; a precedent could be set and thereby generate a different effect. More clarity was required. RS referred to the work carried out on bio methane within Review Group 251, and pointed out that no landing had been reached there either. SL added that it was not a standard connection and therefore the impacts needed to be clearly understood. RS was concerned that an impression that a problem did not exist should not be given, when there is one in reality. ST believed these types of arrangements should be looked at on a case-by-case basis, and should encourage new sources of supply. RS still believed there should be more clarity regarding the proposed arrangements. TD pointed out that National Grid NTS would have to defend the case it was making to change the UNC on a general basis and not for a specific case.

JBa asked about progress in implementing the RG0251 recommendations.

**Action TR0701: JO to obtain progress updates on the recommendations of Review Group 0251**

Issue 5: *Will short-haul apply?*

In response to a question from JCx as to how nominations would work, PH expected a daily net entry nomination. JCx wondered how this would fit in with other things where entry information has to be made available, and thought there may be other transparency issues.

*Issue 9: Mod Proposal 0164*

SL questioned how this was different. PH believed there was just a requirement to nominate for the net entry. SL wondered why a difference was being created between 2 sites. PH believed the development was genuinely different to anything else at present on the system. RS referred to the possibility of designing a storage site with much the same configuration, which could be incentivised by the arrangements.

*Issue 10: Could there be an adverse impact on balancing the NTS?*

JCx asked if linepack is an issue depending on how close a facility is to the NTS, and believed this was an idealised view of looking at the problem. There could be pressure differentials and net entry is not necessarily positive – how would this be dealt with in UNC? Where does the pre process happen that leads a party to set the net entry into the Gemini system? JCx pointed out that changes may be required to the Gemini system, and PH agreed that further work needed to be done.

*Issue 11: Should the UNC Mod Proposal cover DN networks as well as NTS?*

In response to an enquiry from TD, the networks present confirmed they had no plans to raise a UNC Modification Proposal relating to this topic and PH confirmed that an NTS only Proposal was being developed.

*Issue 13: How does the proposal interact with the enduring exit regime?*

JCX and RS questioned why it should be called a CSEP if it does not pay charges and fit the existing rules.

*Issue 14: Is it possible for the site to have a net exit end of day position?*

JCx observed that the system will need to be able to handle a negative entry allocation, so all the mechanisms will need to be able to do this. She was also unclear as to how this will all work through the Gemini systems in terms of exit/entry flows and positive/negative numbers.

JBa interjected at this point that, in his view, this was a modification proposal of relatively trivial importance, with no real commercial or practical issues. TD pointed out that this forum provided a transparent opportunity for the industry to recognise and discuss any previously unidentified consequences and unintended effects on other parties.

DT questioned the ratio of within specification gas to CBM, and whether this was reasonable. PH responded that the ratio was 3:1, and this appeared to be reasonable from a technical and a commercial standpoint. It was pointed out that if the significance/order of magnitude of the CV variation and flow was known parties may feel more relaxed about the proposal.

Concluding these discussions and having noted the further points raised, PH believed the way forward would be for National Grid NTS to produce a comprehensive 'issues' list and draft business rules to address each individual issue. Any further questions/suggestions for taking this forward would be welcomed. It was envisaged that a draft Modification Proposal would be produced around September/October.

### 3.3 Topic 008TR Entry Capacity

#### 3.3.1 Entry Capacity Substitution and Revision Methodology Statement Update

LR, reiterating the Licence obligation to review the methodology each year and indicating that no major changes were planned, gave a presentation. National Grid NTS had analysed the outcome following QSEC 2010, and concluded that although the ECS methodology had been successful in enabling incremental entry capacity to be released without the need for investment, the methodology had not been fully tested and current timescales for substitution analysis were very challenging. Initial feedback was encouraged, to be submitted to National Grid NTS by 16 July 2010.

It was the intention to commence the formal consultation on Friday 13 August 2010, closing out on Friday 10 September 2010; the proposals would then be submitted to the Authority within 14 days.

#### 3.3.2 Draft Modification Proposal: Manifest Errors Procedure related to Overrun Charges

With the aid of a presentation, AA gave an overview of GasTerra and its activities as a prudent Shipper, and described its recent experiences relating to a manifest error, which had resulted in GasTerra incurring significant Overrun Charges (>£1 million). AA pointed out that in the Netherlands the system is different and would have caused automatic rejection, thereby enabling a party to avoid such an error. GasTerra had objected to, but paid, the overrun charges, but was planning to appeal this position. AA emphasised that while Shippers could expect to see a credit in forthcoming invoices, a subsequent debit could also be expected. In response to a question from SE, MW confirmed that the payment had been processed.

The current rules relating to Overrun Charges were outlined, and the opportunities for inadvertent error and what appeared to be unduly severe consequences in such circumstances

AA then suggested and examined various options that might reduce the severity of any penalty in specific circumstances, and establish a formally recognised route/mechanism for notifying/correcting a manifest error. GasTerra's preferred option was to raise a Modification Proposal for a Manifest Error Arrangement related to overrun charges. The scope and principles of the proposal were outlined, and attention was drawn to the formalised arrangements that are in the BSC to cover such events that occur within the electricity industry.

RF observed that E.ON (as PowerGen) had raised a similar proposal in the past that had been rejected, and that this might be worth reviewing. AA confirmed that this had been reviewed.

In response to questions relating to the system in the Netherlands, AA said that the rules were not written down in the same way as in the GB. The SO had some authority to deal with such genuinely inadvertent errors and Shippers could expect favourable assistance in such cases.

Some parties present recalled other isolated instances where a precedent may have been set for informally agreeing a (industry acceptable) remedy to mitigate genuine errors with associated financial consequences.

AA would like to introduce a concept whereby a committee might be convened to address this type of error. EBCC was suggested as a possible parallel, with similar operating lines.

SE asked those present what kind of industry advance notification would be appropriate in this kind of circumstance, other than coming to this forum. No further suggestions were made.

FH and CW felt that more discussion was required to develop the proposal, eg how to appoint a committee, how to take detailed views of effects on other parties, etc. RF believed that defining a manifest error might prove quite difficult. Responding to a question from RT, AA confirmed it was the intention to limit the Proposal to entry overrun charges only; otherwise it could be too broad. SE confirmed that principles would now be developed following these discussions.

### **3.4 Topic 003TR Review of NTS Exit Capacity Arrangements**

#### **3.4.1 Exit Overruns**

MW gave a brief presentation outlining the background to Exit Overruns, and then focused on the deemed application principles, with a simple illustration of how these would work, followed by a more complex illustration. Views were then sought on what appeared to be unintended consequences of the deemed application business rules, and whether it was appropriate to make any changes or leave alone.

ST agreed that it was quite plain that the consequences were unintended, and that the situation was indubitably “bonkers”. JCx believed there to be many different ways of forming an assessment, including looking backwards. It could also be found that an error could be retained on a portfolio for years. She added that the rules were not given too much attention at the time of the 0116/0195 Modification Proposals; it was recognised that they were not perfect and may carry unintended consequences, and would need to be looked at again.

ST asked if National Grid NTS had any views on flow swapping, and should this be extended to cover overruns. National Grid NTS had this on the list for review.

### **3.5 NTS Exit Capacity – Amending the DN Adjustment Window**

Due to time constraints, the presentation provided by FH was unable to be delivered and discussed at this meeting. However a copy may be accessed at: [www.gasgovernance.co.uk/tx/010710](http://www.gasgovernance.co.uk/tx/010710). It gives a brief overview of the DN Adjustment Window for the transitional period (up to September 2012) and the enduring period (October 2010 onwards) and advises that National Grid NTS is proposing to amend the existing timeframes (for both periods) to allow Indicative OCS/OPS to be issued no later than 15 Business Days after the closure of the July Application Window. It includes examples illustrating the effects of altering the dates (under the current UNC rules and proposed changes) and a table summarising and comparing the current and proposed positions.

In response to a question from TD, ST (for Wales & West Utilities) and CT (for Scotia Gas Networks) declared themselves in favour. ST believed all the DNAs were in support. JCx believed the Modification Proposal should be raised forthwith.

## **4. Ofgem Impact Assessment – UNC Proposals 0284 and 0285 and Charging Methodology Proposal GCM19**

POD gave a presentation on Ofgem’s Impact Assessment regarding the review of NTS entry charge setting arrangements, and outlined the background, the main reasons for under recovery, and the industry views in respect of GCM19,

UNC 0284 and UNC 0285, and “Proposal 3”, followed by Ofgem’s view on each of these proposals.

[Slide 11] AL queried why marginal costs should differ for different categories of capacity. POD responded that the long term reserve price appropriately reflect long run marginal cost including reflecting the need to contribute to investment. In the shorter term, short run marginal cost was appropriate. Short run capacity sales makes no difference to National Grid NTS’s cost base and bids should be accepted if physical capacity is available. AL then asked if Ofgem had considered frequency of interruption; POD affirmed that Ofgem had looked at this, and accepted the likelihood of being interrupted was low. AL believed there was undue preference implied by a zero price. RS believed there was no gain in commercial value from the use of interruptible even if the likelihood of interruption was low.

[Slide 12] EB asked POD about the nature of the commodity charge. POD commented that perhaps charging should be commodity driven. No clear evidence had been provided to suggest this makes the market less competitive and the UK less attractive for gas importation. He repeated Ofgem’s request that the industry make clear in responses if and why a big problem is created by the TO commodity charge.

EB felt that if the proposals were vetoed the alternative was to move to a very complex world regarding the capacity/commodity split. EB observed that the DNs are 100% TO, and asserted that National Grid’s TO costs should similarly be recovered through 100% capacity. SL believed this was an ‘apples and pears’ comparison – entry is a long run marginal cost. TD concluded that the core of the argument was around marginal costs being appropriate in some cases but not others.

MD pointed out that the UK is disadvantaged because of the TO commodity charge, but POD believed that the argument was not yet sufficiently made to support that view; firm evidence would be required in the industry’s responses to give credence to this.

[Slide 14] According to POD a key point was, why restrict the availability of capacity when it is there? EB asked, artificially or naturally? If the price they paid reflected value, 95% of the market places no value on capacity. He did not believe this, and thought it was more about minimise their costs rather than signalling value; Shippers need to make it clear why they are bidding in order to clarify the argument.

JCx read out a paragraph about interruptible capacity from the EU second package - she was not clear how this would be complied with if 0285 were to be implemented. EB responded that the EU has been looking at products before looking at tariffs. JCx asked if either National Grid or Ofgem had any further information that would make consistency with EU requirements clearer?

EB questioned, how do you price an interruptible product as against a firm product.

JCx believed that nothing should be done on this now until more clarity on EU views was forthcoming to encourage stability and regulatory certainty.

It was acknowledged that the GB gas industry might be in a position of less compliance than most other EU states at present. EB said that 0285 was constructed to facilitate movement towards the current EU model. JCx pointed out that balancing discussions were still going on in the EU and the outcome may give further clarity. However, the EU takes precedence over GB rules, and GB is already in a position of infringement, and AL believed, given that, we should continue to ameliorate the position. TD pointed out that change might usefully be progressed if there was confidence it would be in the right direction.

POD noted the views of the meeting and, acknowledging there were areas of disagreement, strongly encouraged early submission of detailed points of view to enable full consideration within the available timescales.

**5. Any Other Business**

None raised.

**6. Diary Planning**

The next Transmission Workstream meetings are scheduled as follows:

10:00, 05 August 2010, at Elexon, 350 Euston Road, London NW1 3AW.

10:00, 02 September 2010, at Elexon, 350 Euston Road, London NW1 3AW.

10:00, 07 October 2010, at Elexon, 350 Euston Road, London NW1 3AW.

10:00, 04 November 2010, at Elexon, 350 Euston Road, London NW1 3AW.

10:00, 02 December 2010, at Elexon, 350 Euston Road, London NW1 3AW.

Further details of planned meetings are available at:  
[www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary).



**Action Log – UNC Transmission Workstream: 01 July 2010**

<b>Action Ref</b>	<b>Meeting Date(s)</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
TR 0303	04/03/10	3.1	Confirm the work that Ofgem is undertaking on gas quality and the next steps.	Ofgem (BW)	Update due 01 July <b>Carried forward</b>
TR 0502	06/05/10	3.2	Provide to the June Workstream a list of data items proposed and cross-reference these to the EU Regulation.	National Grid NTS (NR)	Update due 01 July <b>Carried forward</b>
TR 0601	03/06/10	1.3	Add discussion of the Authority's decision relating to Modifications 0246, 0246A and 0246B as an agenda item for the July Workstream.	Joint Office (TD/LD)	<b>Completed. Closed</b>
TR 0701	01/07/10	3.2	Obtain progress updates on the recommendations of Review Group 0251.	Joint Office (LD)	<b>Pending</b>