

**Review Group 0166 Minutes**  
**Thursday 20 September 2007**  
**Elexon, 350 Euston Road, London**

**Attendees**

John Bradley (Chair)	JB2 Joint Office of Gas Transporters
Lorna Dupont	LD Joint Office of Gas Transporters
Avian Egan	AE Bórd Gáis
Beverley Grubb	BG Scotia Gas Networks
Chris Wright	CW British Gas Trading
Christian Hill	CH RWE Npower
Christiane Sykes	CS Statoil
Conor Purcell	CP Electricity Supply Board
Craig Purdie	CP1 Centrica Storage
Graeme Thorne	GT Canatxx
John Baldwin	JB1 CNG
John Costa	JC EDF Energy
Karen Healy	KH Xoserve
Keith Dixon	KD Northern Gas Networks
Leigh Bolton	LB Holmwood Consulting
Matthew Hatch	MH National Grid NTS
Mike Young	MY British Gas Trading
Paul O'Donovan	POD Ofgem
Peter Bolitho	PB E.ON
Richard Fairholme	RF E.ON
Ritchard Hewitt	RH National Grid NTS
Roddy Monroe	RM Centrica Storage
Simon Trivella	ST Wales & West Utilities
Stephen Rose	SR RWE Npower
Steve Fisher	SF National Grid NTS

**Apologies**

Mark Freeman	MF National Grid Distribution
Liz Spierling	LS Wales & West Utilities

**1. Introduction and Review Group Operation**

JB2 welcomed members to the meeting.

**1.1 Minutes of the previous meeting**

The minutes of the previous meeting were accepted.

**1.2 Actions**

**Action RG 0166/001:** MY to consider the points raised and draft revised Terms of Reference (ToR) for consideration by the Review Group and Modification Panel.

**Update:** JB2 advised that the ToR had been reviewed by the Modification Panel and that two minor amendments were necessary (Section 2 Purpose; third bullet point: deletion of text following 'allocation'; Section 5 Composition: correction of spelling of 'Graham' to 'Graeme'). There were no objections to the proposed amendments and the ToR was revised accordingly. **Action agreed closed.**

**Action RG 0166/002:** Stakeholders to consider requirements and provide presentations to the Joint Office by 13 September 2007.

**Update:** Presentations were provided and given at this meeting. **Action agreed closed.**

**Action RG 0166/003:** MY and JB2 to develop work programme for subsequent meetings.

**Update:** Provisional workplan agreed – see 4.1 below. **Action carried forward.**

## 2. Competition Commission (CC) – 0116V Appeal decision

PB (E.ON UK) gave an overview of the elements that contributed to the outcome of the Competition Commission decision. Although it was important to note that industry responses were not considered by the Appeal Panel, E.ON believed that industry support and the intervention by BGT had been very influential and critical to the appeal process in that it helped to focus the minds of the CC panel, which was made up of an ex-Director of Public Prosecutions and two economists. All parties' costs were taken into account, and it was believed that at least 75% of these would be borne by Ofgem. It was observed that this financial outcome would also be likely to be an influence on Ofgem's decisions in the future. In response to various questions, on the level of detail/papers that were reviewed by the CC panel, PB believed that the CC panel had been aware that the Modification Panel had not made a recommendation in respect of any of the 0116 Modification Proposals, other than 0116A.

In the light of the CC decision, PB pointed out various key elements to which the Review Group may wish to give further consideration:

- Flexibility of current ARCA user commitments
- Flexibility of User commitments allowing for reservation more than 6 months in advance
- Interruptibility and Transmission Access Regulation 1775 (in terms of understanding what is required of the industry in relation to these arrangements)
- Interruptibility – the new type of service should be genuinely cost reflective; all Users do not necessarily make use of peak capacity – should be possible to design different services for different needs
- Flexibility (case for future scarcity has not been made).

Other questions to be considered:

- What contribution, if any, do various users make to fixed costs?
- Do such users drive investment?
- Should the service be offered up-front?
- What is its function as an anti-hoarding device (UIOLI capacity)?
- What about back-up supplies?

It was confirmed that Ofgem was clarifying the legal status of all of the Modification Proposals concerned within the process and that a letter may be issued.

Responding to E.ON's interpretation of the CC process and decision, POD commented that this interpretation was open for debate, and recommended that, in the absence of any definitive statements from the CC, interested parties look at the relevant paragraphs in the decision document and form their own balanced view.

### **3. Stakeholder Presentations and Discussion**

#### **3.1 Shippers**

##### **3.1.1 BGT's perspective**

MY's presentation, which outlined BGT's approach, was repeated from the previous meeting, identifying three broad areas to be reviewed, as specified in the Proposal, and outlining some specific areas for consideration.

The main questions for the group to address were:

1. What form should user commitment take?
2. What term should be used?
3. Should there be a staged user commitment to take account of delays/slippage in projects, and include a pre-works agreement to be carried out in advance?
4. Should there be an identified process for incremental and new connections?

Other questions included: If a universal firm service is available, how are arrangements for interruption determined by the GT? Would this be followed by a tender? How would this be allocated? The legality of Modification 0090 might also be questioned going forward.

BGT favoured a monitoring approach, to pick up the signal (if any) when flexibility was likely to be needed. The flexibility product needed to be treated as a wider concept.

There was a short discussion relating to ARCAs and there was a view that some sort of user commitment needed to be integrated into the UNC.

##### **3.1.2 E.ON's perspective**

In response to the questions posed at the previous meeting E.ON had submitted observations on an email. PB commented that National Grid NTS were being required to have a piece of paper demonstrating user commitment and obviously had no choice but to put forward these proposals to achieve compliance (revenue could be disallowed without user commitment).

PB also commented that advance purchase beyond 6 months was necessary as part of the arrangements. The design of any service must alleviate any concerns that Ofgem might have in respect of cross-subsidies. Key questions were how to make best use of the system, and how to price spare capacity appropriately to encourage use.

#### **3.2 End Users**

SR (RWE Npower) gave Julie Cox's apologies and advised that he would give the End User presentation on her behalf.

SR gave an overview from a power generator's perspective. The interaction between gas and electricity markets was seen to be a key issue. If the flexibility product was not flexible in the Offtake Arrangements this could have an effect on/in the electricity market. It was recognised that National Grid NTS needed assurances over the allowed investment otherwise this would force a more conservative view. In respect of the provision of capacity to new and existing connections, the rigidity of the previously proposed regime was of concern. Compensation was also an issue – current arrangements were inadequate and the proposed regime was lacking.

### 3.3 Storage Operators

A presentation from a Storage Operator's perspective was given by CP (Centrica Storage), which echoed much of what had already been highlighted within the previous presentations. A single user's potential to influence prices was of concern (Easington, Anglesey), as was the monitoring of flex without publication of commercial interests – an issue of confidentiality.

### 3.4 Interconnectors

AE (Bórd Gáis) presented from an interconnector's perspective. She commented that complex arrangements currently govern transportation to Ireland and the Isle of Man. Both would be affected by the proposed arrangements and had serious concerns relating to downstream impacts. The key issues were security of supply, market foreclosure, capacity certification, initial prevailing rights, and overrun rules. Ireland was an immature market and booking out 3 years in advance would present a barrier to new players. Currently the Irish Regulator was proposing a single a party at Moffatt but this could conflict with any proposed exit arrangements. As this party would be recent would it lose out against more established parties and would it be able to book flexible capacity? It had to be recognised that there was a separate operator for Northern Ireland but gas is offtaken from the NTS at the same point. This raised questions on allocation and its effect on overruns.

There was a short discussion on the single capacity product and the differences in levels of user commitment. The NTS needed an underwriter and then this could be kept whole. AE agreed that an ARCA would work well for the Irish parties.

Downstream arrangements needed to be considered in parallel with any proposed developments/changes to arrangements. Irish legislative developments/changes were happening and Irish decisions would necessarily be very dependent upon the NTS decisions, so there was a pressing need to keep abreast of any potential developments in the UK, and for consultation to go on at the same time downstream. Meetings were taking place with Northern Ireland and the Isle of Man. If there was no commitment to the Single Party concept, layers of complexity would be added. There were also concerns that accommodating changes may not be possible within Irish legislation. Implementation for April 2008 would also present many difficulties and it was not certain that this would be achievable for Irish parties.

### 3.5 DNs

Presenting on half of Scotia Gas Networks, BG observed that most of the points had been raised before within previous Workstreams and Workgroups. The DNs were subject to different obligations and requirements to other Users, were looking for clear long term signals for investment, and would necessarily be taking a longer view perhaps than Shippers. It was acknowledged that all users needed NTS transparency and a degree of stability. The DNs were already booking flat/flex separate capacity products on a 5 year horizon, and had noticed a lack of stability, and dramatic swings in the availability of the product in certain zones/areas. A constrained flex issue was apparent to the DNs.

In discussion, RH remarked that before DN sales any constraint issues would not have been visible, as the whole system was internal to National Grid Gas. PB queried the use of the term 'booking'. An incentive mechanism existed to book efficiently (penalties were imposed if parameters were exceeded). It was recognised that different arrangements

for different classes of user might be required. Benefits must outweigh costs and risks needed to be shared on all sides.

CS questioned pressure commitments within the Transfer and Trades process. Entry and Exit needed to be analysed at the same time to establish the potential for any impact. The system is integrated and therefore problem solving in one area should not be seen to create unnecessary problems in another area. It was pointed out that pressure maintenance agreements may need to be looked at. Capacity booking timescales may need to take into account DN interruption, etc.

BG observed that the flex capacity product is still confusing, and questioned what problem we are trying to solve with this. The historical development of the networks was linked to their NTS origins and the flex product is affected by this. A constrained product needed fair allocation/division. It was necessary to know what was available (at area and nodal level, and the maximum available at these levels) and any reasons for probable or possible variations (over 5-10 years).

There was a short discussion on the information required to make efficient bookings. JC questioned whether it was a DN or NTS issue to invest. PB thought that extra linepack would take place within the DNs, giving them 'grandfather rights' and developing investment within their networks. JB1 disagreed that this would be the most efficient way. Gas holders may not be needed if capacity could be obtained from the NTS. BG stated that in order to make appropriate and efficient decisions, figures for availability, pricing, and allocation 5 – 10 years out, would be required in advance. RH agreed with MY's comment that it was evident that not all NTS' calculations were transparent to the industry. There was a need to demonstrate a requirement for the flex product to all parties, and the DNs needed a firm commitment.

JB2 observed that it did not seem to be an immediate problem, but that information was needed to trigger awareness and actions before a real problem developed.

MY remarked that nobody was convinced of the need for this product. PB questioned what is the product? Only the guarantee of pressure was required, and why could this not be defined in terms of operational management?

BG commented that a NExA was what the DNs thought they had, similar to a Shipper, relating to flow rates and ramp rates and appropriate restrictions.

JB1 questioned how does a DN decide what investment to make, and believed that a price was needed for NTS flexibility.

JB2 summarised three alternatives for 0116: Provide a Flex service, monitor now, or consider NExA regime.

### 3.6 National Grid NTS

SF (National Grid NTS) gave an overview, covering similar ground to the previous presentations, but from the transmission network perspective.

In response to JC's question as to whether the NTS balancing mechanism can manage the flexibility, RH advised that this was not an effective within day tool/end of day tool. It was acknowledged that the DNs require good quality/accurate information to manage their operations, and were keen to understand what was causing the constraints – where and why had the situation changed?

**Action RG 0166/0004:** National Grid NTS to provide information on localised linepack and various pressures over different parts of the networks (5 areas).

BG stated that although historical information was welcome she felt there was still a need to look forward and would like to understand what the capability was likely to be for

the future. SF advised that the 22.00 figure had been extracted from the view of the system for 2010.

BG then posed the following questions:

- What does the capability picture look like taken forward from 2010?
- What active utilisation has there been to date (information on this would give a clearer picture of constraints and whether there was any potential risk to capability going forward).

CS wanted to know more about the physical and contractual availability and any differences.

#### **4. Diary Planning for Review Group**

##### **4.1 Agreement of Workplan**

MY observed that, having listened to the presentations given, many common themes had become evident, the most complex of which appeared to be flexibility. Indications of a movement towards a consensus seemed to be greatest in respect of user commitment, less so with regard to interruptibility, and the least in respect of flexibility.

Bearing this in mind he proposed the following schedule to provide structure and focus to the future meetings:

04 October 2007 Session 1: User commitment

18 October 2007 Session 2: Interruptibility

01 November 2007 Session 3: Flexibility 1

15 November 2007 Session 4: Flexibility 2

06 December 2007 Session 5: Flexibility 3

MY believed that a number of separate proposals could be developed as the schedule progressed, which could then be put forward as a suite of Modification Proposals as appropriate.

It was reiterated that any proposals should avoid prejudicing arrangements on the Irish side of the pipeline.

The group may need to consider the following:

- Consolidation of the points from the presentations
- A definition of exit capacity
- The number of years
- The NPV or other economic test
- Phasing/incremental/new connections
- Whether investment was required, or reserving what was already there
- Look at the approach/model used on the electricity side, particularly the stage payments aspect.
- Entry and exit/both directions/storage sites/interconnectors.

##### **4.2 Future Meeting Dates**

13:00, 04 October 2007 at Elexon, London

13:00, 18 October 2007 at Elexon, London

13:00, 01 November 2007 at Elexon, London

13:00, 15 November 2007 at Elexon, London

13:00, 06 December 2007 at Elexon, London

## 5. AOB

None.

### ACTION LOG - Review Group 0166

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0166 0001	06/09/2007	2	MY to consider the points raised and draft revised Terms of Reference for consideration by the Review Group and Modification Panel.	MY (BGT)	See update at 1.2 above. Action agreed closed.
RG0166 0002	06/09/2007	3	Stakeholders to consider requirements and provide presentations to the Joint Office by 13 September 2007.	BG (SGN), MW (NGNTS), RM (CSL), AE (BGE), JC (AEP), MY (BGT)	Presentations were provided. Action agreed closed.
RG0166 0003	06/09/2007	3	MY and JB2 to develop work programme for subsequent meetings.	MY (BGT), JB2 (JO)	Provisional workplan agreed. Action carried forward.
RG0166 0004	20/09/07	3.6	National Grid NTS to provide information on localised linepack and various pressures over different parts of the networks (5 areas).	RH (NGNTS)	