

Review Group 0166 Minutes
Thursday 18 October 2007
Elxon, 350 Euston Road, London NW1 3AW

Attendees

John Bradley (Chair)	JB	Joint Office of Gas Transporters
Tim Davis	TD	Joint Office of Gas Transporters
Andrew Pester	AP	Ofgem
Beverley Grubb	BG	Scotia Gas Networks
Chris Hill	CH	RWE Npower
Chris Wright	CW	Centrica
Christiane Sykes	CS	Statoil Hydro
Conor Purcell	CP	Electricity Supply Board
Craig Purdie	CP1	Centrica Storage
Graeme Thorne	GT	Canatxx Shipping Ltd
Jeff Chandler	JC	Scottish and Southern Energy
John Baldwin	JB2	CNG Services
Leigh Bolton	LB	Cornwall Energy
Liz Spierling	LS	Wales & West Utilities
Mark Freeman	MF	National Grid Distribution
Matthew Hatch	MH	National Grid NTS
Mike young	MY	Centrica
Peter Bolitho	PB	E.ON UK
Phil Broom	PB2	Gaz De France
Richard Fairholme	RF	E.ON UK
Richard Street	RS	Statoil
Ritchard Hewitt	RH	National Grid NTS
Robert Cameron-Higgs	RCH	Northern Gas Networks
Stefan Leedham	SL	EDF Energy
Stephen Rose	SR	RWE Npower
Steve Fisher	SF	National Grid NTS
Steven Sherwood	SS	Scotia Gas Networks
Eddie Proffitt	EP	MEUC

Apologies

Avian Egan	Bórd Gáis
Karen Healy	xoserve
Julie Cox	AEP

1. Introduction and Review Group Operation

JB welcomed members to the meeting.

1.1 Minutes of the previous meeting

The minutes of the previous meeting were accepted.

1.2 Actions arising

Action RG0166/005: RWE (SR) and AEP (JC2) to develop some initial guidelines on how an open season might work in practice, in time for the next meeting.

Update: SR provided a presentation of his thoughts on a way forward (see 3 below).

Action Closed

Action RG0166/006: National Grid NTS (MW) agreed to provide an outline agreement similar to an ARCA for a future meeting.

Update: Carried forward

Action RG0166/007: National Grid NTS (MW) agreed to investigate the licence requirements on National Grid NTS with respect to auctions.

Update: SF explained that daily releases and obligations to release were included in the Licence, referred to as flat and flex. He therefore believed a Licence modification may be necessary if no auctions were to be proposed as part of the solution. **Action closed**

Action RG166/008: BGT (MY) and JO (JB) to draft a Modification Proposal relating to User Commitment.

Update: JB/MY reported that a draft had been produced, but progress was awaiting views on the issues which SR was planning to present. **Carried forward**

Action RG0166/009: National Grid NTS (RH) agreed to investigate the occurrences of commercial and constraint management interruption in the last 5 years, including the issue of P70 forms and report back its findings to the Review Group.

Update: SF reported that data on NTS interruption had been compiled for circulation following the meeting (see JO website, alongside these minutes). In Winter 2005/06, about 30 – 35 P70 forms were issued. RH confirmed to PB that this involved complete curtailment. **Carried forward**

2. Agreement of the Principles of Interruption

PB presented an interruption service strawman which builds on the existing approach – a ‘lose it or pay more for it’ service. Genuinely firm users, who use the system at peak, would pay more than others under this approach; while ‘interruptible’ customers would continue to contribute towards NTS costs through their transportation charges.

RH asked if a stronger incentive was needed to encourage Shippers to declare themselves firm – perhaps backdating firm charges to the last time the peak trigger was observed - as opposed to being limited to one year. EP felt that would be akin to strengthening the existing two year FTI charge, which provides a sufficient incentive.

SR asked if automatic re-designation as firm would apply if any gas was used when a peak day trigger was hit. PB suggested that the detail could include an allowance for small quantities to flow, as per the existing services.

CS thought, and EP agreed, that the proposed approach would help with emergency management, by maintaining the incentive for back-up fuels to be available.

MY was concerned that some existing firm loads might believe they could safely opt for the proposed interruptible service in the belief that the triggers for re-designation as firm were unlikely to be hit. Additional firm load might take the risk of being interruptible.

SL questioned how the suggested approach would sit with user commitment. MY felt that if capacity was booked automatically, as with ratchets, this issue could be solved by providing the appropriate commercial incentives – it should be anything but cheap to be found to be flowing gas on a peak day (‘Use it or pay even more’).

PB2 saw potential parallels with Modification 0090 - a 'three strikes and you're out' approach.

EP asked whether customer choice as to whether or not to be interruptible was acceptable; since changing this to Transporter choice had been a central plank for Ofgem - the universal firm approach. AP said that the group should look at the wording of the CC decision itself in this respect, but declined to give a view on Ofgem's position on the universal firm approach.

PB emphasised that the strawman was compatible with a buy-back approach which could run in parallel. The 'use it or pay more' approach was primarily targeted at genuinely flexible users, rather than necessarily being appropriate for all.

JB advised the group that responses to the 'Homework' are available on the Joint Office website, and went through the responses received:

Objectives of NTS Interruption Arrangements (Questions 1 and 2)

There was unanimous agreement with the objectives put forward. All who responded to the homework agreed that the present arrangements meet the objectives, although concerns were raised about cost-reflectivity and whether interruptible customers might reasonably be expected to pay more. CS emphasised that storage sites in particular provide a benefit to the system at peak and so should not be paying a firm charge. PB2 supported the view that different user types should be recognised and charged accordingly.

EP expressed concerns about treating customers in different ways dependent on whether they were NTS or DN connected. PB said he would support considering extending his strawman approach to the DNs. LS raised concerns about the ability of loads to be reclassified as firm which would be an issue for DNs when they had chosen which sites they required to be interruptible – additional firm load could not be accommodated. PB saw the distinctions as being between classes of user, not where they were connected. He also pointed out the evidence presented to the CC by Prof Yarrow, which acknowledged that proportionality was not necessarily delivered by 0116V.

Products Available (Question 3)

There was no consensus regarding the products and their associated charge. PB suggested that this was largely a charging issue. However, only National Grid could amend its charging methodology, making it difficult for the group to make progress since this was beyond its remit.

It was generally agreed that long term buy-back contracts should be developed by NTS if needed to manage the system. However, views were split on whether NTS should be able to rely on short term buy-back arrangements as an alternative to investment. SF suggested the short term arrangements were primarily envisaged to deal with short-term problems, not as an alternative to investment even if this was a theoretical possibility. CS felt there could be a need for rules to preclude NTS from using this route

It was agreed that interruptible services should continue to be offered while investment was underway to support a firm connection.

General Entitlement Interruptible Service (Questions 4 – 9)

Based on PB's strawman, there was general consensus in favour of a general entitlement service. There was also support for recognising the differing characteristics of different sites through having specific rules if the general rules developed did not appear to operate effectively in those cases.

Some argued that capacity charges for interruptible sites should be zero, others that it should reflect the probability of interruption. EP emphasised that a case could be made that interruptible sites are currently paying charges in excess of the costs they impose on

the system. CS suggested that the question of charges for interruptible sites was akin to insurance – you pay even though interruption is unlikely to be needed.

JC outlined the triad approach as used in electricity transmission, but felt that PB's strawman was a much simpler way in which to achieve much the same effect. However, it was recognised that defining the trigger at which sites would need to be demonstrably not flowing gas at the peak would be difficult to define and may, for example, need a geographic element.

Universal Firm Regime (Questions 10 – 19)

UIOLI (Questions 10 and 11)

Assuming that a universal firm approach was adopted, there was support for an approach whereby all available capacity was released, with the rules for doing this included within the UNC.

Long/Short term Buy-Back Arrangements (Questions 12 - 17)

There was consensus that these buy-back arrangements could usefully form part of a universal firm regime and provide an alternative to investment, with the contracts subsequently used by NTS when necessary and economic to do so. Standard contracts were supported, although NTS emphasised they would be looking for consistency between the tools available, the risks they faced and the funding provided. The general consensus was that short term buy-back was likely to be most appropriate for dealing with short term issues, such as unplanned maintenance.

The Modification 0090 approach was put forward as a potential model to consider for the structure and pricing of buy-back tenders. However, concerns were expressed about the short term buy-back process allowed for in Modification 0090.

Transitional Arrangements (Questions 18 – 19)

There was consensus that the existing approach should continue.

Other Terms – Failure to Interrupt

There was consensus that the existing approach should continue.

2.1 Agreement of further work

It was recognised that two views had emerged within the Group regarding interruption. The first view was that “general entitlement” interruption service should be provided based on a zero NTS Exit Capacity Charge. The second view was that this type of service should only be provided if a charging structure for this service could be adopted that reflected the probability of interruption. However, consensus on elements such as UIOLI and buy-back (both long term and short term) might be achievable.

PB suggested that it may be possible to develop a single way forward. A Proposal might be recommended by the group based on the interruption services set-out in 0116V. A proposer could additionally raise a “bolt-on”, “use it or pay more” proposal in addition to these interruption services, which might not achieve the consensus of the group but would reflect the group's comments. SR agreed that this had promise, but he would like to think further about the “use it or pay more” model which PB had presented. MY also said it would be helpful to have a steer from Ofgem as to what was likely to be acceptable to the Authority, which AP agreed to consider.

RG0116 010: Ofgem to consider whether the “use it or pay more” model would be acceptable and report back its views to the Group.

It was agreed that a draft Modification Proposal should be developed which incorporated the EON strawman as a bolt-on to the 0116V approach.

The actions were, therefore, as follows:

RG0166 011: BGT and JO to draft a Modification Proposal for interruption based upon 0116V.

RG0166 012: E.ON UK to define the “use it or pay more” interruption service as a bolt-on to the main interruption proposal.

3. Review of Draft Modification Proposal and Report Sections on Bundled Capacity

SR presented his further thoughts on an open season approach. His conclusion was that the proposed July window envisaged in 0116V was effectively an open season and hence he had focussed on a mechanism for releasing incremental capacity. SS suggested it was inappropriate for the suggested process to be applied to an existing DN, or DC, Offtake wanting to increase capacity – it did not seem proportionate to apply the full new connection process to an increase.

CS asked if the application for capacity would be public, as in an open season. Users nearby could be concerned if they were faced with capacity being substituted away when they may be looking for future expansion. SR argued against an open season, noting that major developments were usually anything but secret.

SR was challenged as to the extent of user commitment envisaged in his presentation. Others suggested that, as in other circumstances, a four year commitment to pay capacity charges should suffice. Concerns were also raised about the complexity of demonstration events which could act as get-out clauses, although it was recognised that avoiding unnecessary investment was clearly desirable.

It was agreed that that a Modification Proposal, which had been prepared by the JO should be placed on its website as soon as possible, reflecting aspects of SR’s presentation. PB would also consider how the suggested bolt-on might be incorporated into a Modification Proposal.

Action RG0166 008 carried forward.

4. Allocation of Tasks for Flexibility Sessions

It was agreed that the next meeting should focus on finalising the work undertaken to date and hence the flexibility session would be delayed.

5. AOB

None raised.

6. Diary Planning for Review Group

It was agreed that the next meeting should seek to consolidate the work already conducted on the firm and interruptible services based upon draft Modification Proposals with the hope that these would be presented to the November UNC Panel.

Meeting Dates and Workplan Schedule

Date	Venue	Programme
01 November 2007	Following Transmission Workstream, at Elexon, London	Session 5: Progress Check
15 November 2007	13:00, at Elexon, London	Session 6: Flexibility 1
06 December 2007	Following Transmission Workstream, at Elexon, London	Session 7: Flexibility 2

ACTION LOG - Review Group 0166

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0166 005	04/10/07	2	Prevailing Capacity: RWE and AEP to develop some initial guidelines on how an open season might work in practice, in time for the next meeting.	RWE (SR) & AEP (JC2)	SR presented on 18 October 2007. Action Closed.
RG0166 006	04/10/07	2	ARCA: MW agreed to provide an outline agreement similar to an ARCA for a future meeting.	National Grid NTS (MW)	
RG0166 007	04/10/07	2	MW agreed to investigate the licence requirements on National Grid NTS with respect to auctions.	National Grid NTS (MW)	SF reported on 18 October 2007. Action closed.
RG0166 008	04/10/07	2.1	BGT and JO to draft a Modification Proposal relating to User Commitment.	BGT (MY) and JO (JB)	JO to place revised Proposal on website. Action carried forward
RG0166 009	04/10/07	3	RH agreed to investigate the occurrences of commercial and constraint management interruption in the last 5 years, including the issue of P70 forms and report back its findings to the Review Group.	National Grid NTS (RH)	SF reported on 18 October 2007. Action carried forward
RG0166 010	18/10/07	2.1	Ofgem to consider whether the "use it or pay more" model would be acceptable and report back its views to the Group.	Ofgem (AP)	
RG0166 011	18/10/07	2.1	BGT and JO to draft a Modification Proposal for interruption based upon 0116V.	BGT (MY) and JO (JB)	
RG0166 012	18/10/07	2.1	E.ON UK to define the "use it or pay more" interruption service as a bolt-on to the main interruption proposal.	E.ON UK (PB)	