

Review Group 0166 Minutes
Thursday 04 October 2007
Elxon, 350 Euston Road, London NW1 3AW

Attendees

John Bradley (Chair)	JB2 Joint Office of Gas Transporters
Lorna Dupont	LD Joint Office of Gas Transporters
Alan Raper	AR National Grid Distribution
Amrik Bal	AB Shell
Andrew Pester	AP Ofgem
Avian Egan	AE Bórd Gáis
Christian Hill	CH RWE Npower
Christiane Sykes	CS Statoil
Conor Purcell	CP Electricity Supply Board
Craig Purdie	CP1 Centrica Storage
Graeme Thorne	GT Canatxx Shipping Ltd
Jeff Chandler	JC Scottish and Southern Energy
Joy Chadwick	JC1 ExxonMobil
Julie Cox	JC2 AEP
Karen Healy	KH xoserve
Leigh Bolton	LB Cornwall Consulting
Martin Watson	MW National Grid NTS
Matthew Hatch	MH National Grid NTS
Mike Hayes	MH1 BGT Centrica
Mike Young	MY British Gas Trading
Peter Bolitho	PB E.ON UK
Phil Broom	PB1 Gaz de France
Rekha Patel	RP Waters Wye
Richard Fairholme	RF E.ON UK
Ritchard Hewitt	RH National Grid NTS
Robert Hull	RH1 Ofgem
Roddy Monroe	RM Centrica Storage
Stefan Leedham	SL EDF Energy
Stephen Rose	SR RWE Npower
Steve Fisher	SF National Grid NTS
Steven Sherwood	SS Scotia gas Networks
Tim Davis	TD Joint Office of Gas Transporters

Apologies

Mark Freeman	MF National Grid Distribution
Liz Spierling	LS Wales & West Utilities
Chris Wright	CW British Gas Trading
Simon Trivella	ST Wales & West Utilities

1. Introduction and Review Group Operation

JB2 welcomed members to the meeting.

1.1 Minutes of the previous meeting

The following comments were received and noted:

Section 3.6, paragraph 2 should read: "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."

Action RG0166/004 was therefore not accepted by National Grid NTS and it was agreed as closed.

The minutes of the previous meeting were accepted.

1.2 Actions arising

Action RG0166/003: MY and JB2 to develop work programme for subsequent meetings.

Update: MW expressed concerns about the timetable and the ability of National Grid NTS to deliver any required system changes. PB argued the timeline was driven by the sunset clauses in the Uniform Network Code (UNC) and that it may be worth revisiting these given the tight timetable. MY suggested that it may be feasible to deliver a User Commitment based approach in the available time, and possibly Interruption. Delaying Flexibility would be consistent with the CC decision that suggested there was no immediate problem. MY asked Ofgem whether the group's development of a User Commitment and Interruption approach was worthwhile or would Ofgem be likely to implement one of the 0116 Proposals. RH1 was unable to comment, but believed that the work being undertaken by the industry was worthwhile and that considering the options had merit.

PB felt the workplan was ambitious in respect of Interruption and that additional session time may be required.

MY suggested that the right approach was to deal with the issues sequentially, in the order identified in the workplan, i.e. User commitment first, including a UNC Modification Proposal, and then move on in stages. Given that MW had identified an immovable deadline, MY was of the opinion that it was better to develop something rather than nothing. It was believed that there would still be time to raise a Modification Proposal for the bundled product and Interruption by mid-November.

It was agreed that the workplan should be kept under review, including at the end of the meeting.

Provisional workplan agreed. **Action agreed closed.**

1.3 Ofgem Address

RH1 advised that Ofgem would be indicating its next steps by the end of the month. RH1 also urged all to take account of the Competition Commission (CC) words and views in their decisions in the areas of User Commitment and Interruption, and pointed out that Ofgem had clearly set out its position on Prevailing Rights. PB suggested that the CC did not consider and endorse the details as opposed to the principle of User Commitment. With regard to Interruption, PB pointed out that reference had been made to the use of spare capacity, and that a range of different arguments was apparent. PB did not believe the CC had provided a clear way forward, as it set out arguments both for and against the approach in 0116V. PB agreed with RH1 that all should read the CC decision and reach their own conclusions.

2. Agreement of the Principles for User Commitment to the Bundled Capacity Product

JB advised the group that five responses to 'Homework' had been received, and that copies were or would shortly be available on the Joint Office website.

JB suggested that the Group considered the questions raised as "homework" with a view to establishing if consensus existed around key issues. Shippers emphasised that responses provided were on the basis of the existing bundled exit product, not separate flat and flex products. The need to distinguish between prevailing and incremental and reduction rights was also emphasised, and between firm and interruptible capacity rights.

Prevailing Capacity (*Questions 1 – 10*)

PB suggested that rights should continue to be evergreen and that a mechanism was then only needed to signal a change in requirements – for example through an ARCA as at present, albeit potentially with a longer commitment period. There was consensus that, once established, rights should be evergreen.

There was consensus that prevailing rights should continue and changes should be captured through a User Commitment in the form of a contract, such as an ARCA, which could be outside the UNC and so provide an available route to non-Shipper project developers.

There was some debate about the merits of a window in which demands for incremental capacity should be signalled. Shippers felt this was restrictive and may not fit with project timelines, although SS emphasised that the DNs expected to follow an annual process. RH said that traditionally capacity was delivered for 01 October, and that the key issue for any window was the end date rather than the period for which the window was open. JC2 emphasised that starting operations on 01 October was unduly restrictive for project developers and that flexibility was required on both sides. Sensible dialogue between the parties involved should help to ensure that timelines on all sides remained aligned as far as possible, with Langage providing an example of how companies seemed to be working sensibly together in both their interests, and any introduced regime should not preclude this.

It was agreed that restricting applications for incremental capacity (including new connections and changes at existing exit points) was inappropriate, although it would also be appropriate to reflect the existence of an annual planning approach followed by the DNs and allow others to feed into a defined process to deliver this. National Grid NTS confirmed that receiving all the data in one window had advantages in terms of efficiency for system development. CS suggested there may also be concerns if a 'first come, first served' approach were created, although others felt this was largely a theoretical rather than real problem. MY questioned whether the introduction of a staged approach could help and be more beneficial, with an annual round being available to clarify and confirm commitments.

MW emphasised that from an NTS perspective, he would want to avoid being in a potentially discriminatory position. JC2 suggested a declaration of interest, a pre-registration through a form of open season – MW felt that this was how he saw the annual process. JC2 also said that processes should be able to continue to keep projects on track before any serious financial commitment was necessary by National Grid NTS. JC2 was not convinced that incremental change by a large user would be likely to be significantly different to a decision to invest in a new site, and that incremental changes were not likely to be made each year. SS indicated that the DNs would also be looking for a flexible process/opportunity to seek additional capacity (not requiring investment) outside any annual window.

There was consensus that a way forward could be to develop JC2's suggestion that any formal application for incremental capacity should trigger an open season. However, consideration would have to be given to commercial confidentiality if this were to be adopted. RH said that there should also be a caveat on the requirements for capacity in a year, and pointed out that capacity had to be backed up by SM capacity at certain times of the year.

Periods

It was agreed that the timescales in existing arrangements were appropriate, with a 36 month lead time. JC2 emphasised that the introduction of an open season should not extend the timeline. SR and JC2 agreed to work together to develop some initial guidelines on how an open season might work in practice, in time for the next meeting.

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.

A four year User Commitment was suggested. CP1 said that an NPV test covering 50% of costs could be appropriate. MW commented that a four year commitment might typically represent around 25% to 30% as opposed to 50%. PB suggested ARCA precedents were perhaps more relevant than the 50% test established for entry. A transparent approach, based on published transportation charges, was preferable to 50% of an unknown figure, and that the CC findings focussed on four year charges, which they felt was preferable to a one year commitment.

Consensus was reached on a four year, fixed, commitment. JC suggested an exception be made for a new storage site on the grounds that if the NPV test had already been passed to signal the need for an entry point, it did not seem appropriate to also require the provision of a signal for exit capacity as the infrastructure would be the same. PB suggested that a suitable interruptible product could solve this issue and it was agreed that the situation at bi-directional points would need to be reconsidered when a holistic view was taken.

It was agreed that appropriate incentives and mechanisms should be in place to encourage National Grid NTS to meet demands at the lowest possible cost – for example through reducing baselines rather than investing. JC2 suggested an open season approach would promote transparency and may help to alert all parties to the possibility that baselines may be reduced – this was important for any player relying on short term capacity being available in line with the baselines.

It was agreed that non-Users should be able to signal demands for capacity, for example through an agreement such as an ARCA, albeit that these agreements would remain subsidiary to the UNC. MY emphasised that the contract being considered was not necessarily the same as the existing ARCA, and that it may be appropriate to devise a different term in order to distinguish what was being developed from the existing arrangements. His expectation was that a generic document would be developed, with the governance of this standard form potentially to be defined in the UNC, but with the specific details to apply in each particular case to be outside UNC governance. MW confirmed that he would not expect National Grid NTS to oppose this approach. PB suggested the key was to include clear ground rules in the framework document covering, in particular, the required User Commitment.

Action RG0166/006: MW agreed to provide an outline agreement similar to an ARCA for a future meeting.

A staged commitment option was discussed. MY suggested a preliminary works agreement and said the intention would be to follow the level of expenditure to which National Grid NTS would be committed, underwriting this expenditure prior to moving to the full four year commitment perhaps, say, two years ahead of delivery. SR agreed that this was effectively seeking to shorten the 36 month lead time by underwriting early

expenditure. PB said that general system reinforcement was hard to identify and allocate to a specific project, and so trigger staged payments. JB asked if any early commitments with respect to preliminary works could be entirely outside the UNC. MY agreed this may be possible, but circumstances were likely to be varied rather than capable of a generic approach. SL emphasised a distinction between new connecting pipelines and upstream reinforcement, and that a staged approach is effectively already in place for new connections. JC2 emphasised that flexibility was needed to mirror the existing arrangements in order to avoid creating inefficiency and unnecessary investment. Alignment with investment decisions and agreements as to the way costs are incurred/recovered was favoured.

SR offered to incorporate staged payments as an “option price” into his thoughts on the timeline associated with an open season such that the existing flexibility would be maintained in any future arrangements.

The principle of an annual application window was discussed. MW suggested that NTS still saw a potential need for an annual window to avoid dealing with continuous open seasons, with the issue being materiality if an open season was to be triggered. He saw advantage in encouraging applications to be brought forward during a fixed annual window, consistent with the existing network planning process. AE emphasised that the EC Regulation calls for at least regular publication of available and booked capacities. Baseline numbers could be republished following each open season.

The automatic annual rollover of Prevailing Flat Capacity was discussed. AE would like consideration given to Moffat’s specific circumstances in terms of how existing prevailing rights are allocated to parties. The existing ‘ticket to ride’ principle should be maintained and downstream parties should have a say in how prevailing rights are allocated. SR questioned whether bi-directional points also needed to be considered. PB asked why the industry could not just retain the existing arrangements. CP agreed that the existing arrangements work well.

SR raised some concerns about gaming in the rules for rolling over existing capacity rights, (risks of overbooking to increase prevailing rights in the next year?) and CS agreed that this needed careful consideration. Others were less concerned.

The principle of a minimum notice period for voluntary reduction of Prevailing Flat Capacity was discussed. PB said there is already a robust process in place which is more onerous than that which was proposed under 0116V. He would favour the status quo which requires notice of at least one year. MY suggested that, if there is to be an annual window for increases, this could also include decreases from the following October – being notice in excess of one year. MW said that this should be subject to not being within the User Commitment period.

Annual and Daily Capacity (Questions 11 – 14)

It was generally agreed that the set of auctions proposed as part of 0116V was unduly complex and unnecessary. MW identified that there might be a licence requirement which he would investigate on the Review Group’s behalf.

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

Transfer/Trading of Capacity (Questions 15 and 16)

It was recognised that the purpose of assignment was to facilitate the transfer process. Everything is currently in place to ensure that capacity transfers when a change of Shipper occurs.

Overruns (Questions 17 – 19)

It was acknowledged that there needed to be a strong incentive to book accurate capacity and not overrun. CS observed that the existing UNC rules worked well and saw no reason for change. The consensus was to keep with the status quo.

The principle of overrun User was accepted. AE pointed out that more specific arrangements needed to be in place at Moffat.

In discussion of overruns in respect of bi-directional points it was recognised that storage facilities do not pay overrun charges, so no reason was established for change.

Buy Back (Question 20)

The principle of buy back as a means by which National Grid NTS can address constraints was accepted.

Neutrality (Question 22)

It was agreed that if the capacity product was designed in accordance with the agreement reached within the meeting, there would be no requirement for an exit capacity neutrality mechanism.

At the end of the discussions JB2 asked the group if there were any other items to be addressed under this topic. None were identified.

2.1 Agreement of further work

It was agreed that the next step would be to draft a Modification Proposal taking into account the considerations from the discussions.

Action RG166/008: BGT (MY) and JO (JB2) to draft a Modification Proposal relating to User Commitment.

The group were satisfied by the progress achieved within this meeting and it was agreed to review the Workplan after the next session.

3. Allocation of Tasks for Interruption Session

The 'Homework' for the next session on Interruption was focussed on exploration of the use of spare capacity and to what extent Interruptible Users contribute to investment in the system. PB thought it would be useful to know what the 1-in-20 levels had been for the past few years, and posed the following questions:

- How many times this had been reached?
- Do you have to interrupt at that point?
- To what extent is this affected by commercial loads shedding?
- How much demand side response to market price/peak day should be assumed?
- How close has the NTS come to a 1-in-20 peak day?
- To what degree does commercial interruption occur before National Grid NTS need to interrupt?
- If you are not prepared to offtake gas at a certain point could this be classed as a genuine interruptible customer and make use of spare capacity on the networks?

RH pointed out that there were also other network issues other than high demand, eg maintenance outage, which needed to be considered.

National Grid NTS was asked if it had any information on any commercial/constraint management interruption carried out over the last 5 years that could assist the debate – such as P70 data. RH agreed to check what interruption data it had in its possession and share it with the Review Group.

Action RG0166/009: 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.

Focusing on the fixed/variable costs split, PB said that the data demonstrates that Interruptible Users more than cover the variable costs (PB could make this information available), and are also making a contribution. MY questioned whether there was a distortion between TO and SO charges.

Referring back to Transmission Access Regulation EC NO 1775/2005, PB said that the removal of the interruption service appeared to be illegal but there were conflicting views on this, which could be addressed and reconciled through the design of the service. It was then pointed out that if this was the case the arrangements under Modification 0090 may also be in conflict with the Regulation.

The group viewed the questions for Session 4 and JB advised that a Word document was available for downloading from the JO website. It would be appreciated if the completed 'homework' could be returned to the Joint Office a few days before the next meeting.

4. AOB

None raised.

5. Diary Planning for Review Group

Meeting Dates and Workplan Schedule

Date	Venue	Programme
18 October 2007	13:00, at Elexon, London	Session 4: Interruptibility
01 November 2007	13:00, at Elexon, London	Session 5: Flexibility 1
15 November 2007	13:00, at Elexon, London	Session 6: Flexibility 2
06 December 2007	13:00, at Elexon, London	Session 7: Flexibility 3

ACTION LOG - Review Group 0166

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0166 003	06/09/2007	3	MY and JB2 to develop work programme for subsequent meetings.	MY (BGT), JB2 (JO)	Provisional workplan agreed. Action agreed closed.
RG0166 004	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)	Action agreed closed.
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)	18 October 2007
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)	
RG0166 008	04/10/07	2.1	BGT and JO to draft a Modification Proposal relating to User Commitment.	BGT (MY) and JO (JB2)	
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)	