

Development Work Group Modification Proposal 0090

Minutes

Thursday 14 September 2006

Elexon, 350 Euston Road, London NW1 3AW

Attendees

John Bradley (Chair)	JB	Joint Office of Gas Transporters
Lorna Dupont (Secretary)	LD	Joint Office of Gas Transporters
Denis Aitchison	DA	Scotia Gas Networks
Alex Thomason (alternate)	AT	National Grid Transmission
Anne Young	AY	National Grid Distribution
Hydreace Ali	HA	RWE npower
Indra Thillainathan	IT	Ofgem
Julie Cox	JC	AEP
Lewis Hodgart	LH	Ofgem
Anna Taylor (alternate)	ATa	Northern Gas Networks
Martin Baker	MB	xoserve
Mark Freeman	MF	National Grid Distribution
Phil Broom	PB	Gaz de France
Steve Armstrong	SA	National Grid Distribution
Stefan Leedham	SL	EDF Energy
Steven Edwards (alternate)	SE	Wales & West Utilities
Beverley Grubb	BG	Scotia Gas Networks

Apologies

Liz Spierling	LS	Wales and West Utilities
Shelley Rouse	SR	Statoil
Helen Bray	HB	Chemical Industries Association
Martin Kew	MK	Northern Gas Networks
Nigel Sisman	NS	National Grid Transmission
Brian Durber (alternate)	BD	E.On Energy
Tim Davis	TD	Joint Office of Gas Transporters
Robert Cameron-Higgs	RCH	Northern Gas Networks

1. Introduction and Status Review

1.1 Minutes from previous meeting (07 September 2006)

The following comments were received:

Minutes reference 2.2.4 paragraph 1 – amended to read, “JC ...commented that some customers only wanted to be interrupted by a Transporter just prior to an emergency.”

Minutes reference 2.2.5 paragraph 5 – amended to read, “It was confirmed that Stage 1 would be of shorter duration and Stage 2 would become more likely.”

Minutes reference 2.2.5 paragraph 6 – amended to read, “The DNs thought not as there would be more Firm load shedding in Stage 3 ...”

The minutes of the previous meeting were then approved.

1.2 Review of Actions from previous meeting

As agreed at the previous meeting, the outstanding actions would be addressed within the items scheduled for discussion at the meeting on 20 September 2006.

2. Specific Topics

A discussion on the UNC impact of the following topic took place.

2.1 Pricing

SA gave a high level presentation (“Pricing Proposals for DN Interruption Reform”) on behalf of the DNs, explaining the general assumptions, the DNs’ requirements, criteria used for choosing between the options, pricing assumptions and issues, and pricing options, and advised that there was more work to be done in this area.

Points were raised and discussed throughout the presentation.

Slide 3 – Assumptions

Exit Zone definition was queried and SA commented that the current Exit Zones were used for Transmission (ie NTS) purposes, not DNs. JC questioned how a site would know which zone it would be in. Postcode mapping was thought to be a possibility, but it might vary by network and within a network, depending upon the geography and complexity of a network. Shippers and Consumers preferred this to be simple to establish and would like standardisation where possible. The DNs stated that they were awaiting internal feedback on internal analysis carried out so far, and then further discussions might be necessary.

There was a short debate on the use of the term “market-derived”. This implied that a market in capacity would be developed and an alternative term may better describe the proposed structure.

Slide 4 – DN Interruption Requirements

SA commented that a zone could be very specific, ie one NSL, or that it could be generic over a much wider area.

The graph shown was for illustration purposes only, and the potential publication of this type of information was under discussion.

Slide 5 – Criteria for choosing between methods of sale

Bullet point 3 - JC observed there could be an issue surrounding the different treatment of different customers. BG observed that potentially some sites could be in a ‘dominant’ position and the price they are then looking for is not necessarily cost reflective. The DNs stated that investment cost would be reflected in the price.

Bullet point 4 - Shippers and Consumers were pleased to note the focus on providing stability.

Slide 6 – Pricing Assumptions

SA emphasised that the amount paid will not be a rebate or reduction on transportation charges (a change to previous indications). PB questioned when the option fees would be paid. MF advised when the contract was struck, eg 2007

would be paid monthly in 2010. Over a 5-year period, there would be 60 equal monthly payments. AY questioned whether the charges would remain the same throughout the life of the contract? The DNs commented that they were reviewing this.

PB observed that the signals/incentives were not very strong for customers, and MF agreed that customer switching could make it very complex.

SA stated that the aim was consistency across all DNs, and that there would be separate methodology from the Transportation charging methodology, ie no transportation discount for interruption.

JB questioned what governance would surround the new methodology. SA thought that this might be similar to the Transportation charges. PB thought that it was a tender process contractually, like the NTS Operations Margins tender. JC observed that it needed more thought if this sat outside everything. DNs, Shippers and Consumers acknowledged that this was different to Transportation methodology.

Action D9035: DNs to devise appropriate governance arrangements and a “payment methodology statement”.

Slide 7 – Impact of move to Flat Rate Benefit (Graph)

JC observed that this slide highlighted what she saw as the problem with the whole reform – to the left of the intersection, sites would stay Interruptible and to the right, sites would have no choice but to be Firm. It was understood that there was a trade-off but not necessarily a fair one.

There was a short debate on DN revenue that, it was stated, was ultimately defined by Price Control; whether it was from smaller or larger loads made no difference. DA commented that the revenue kept by the DNs was not actively affected by this graph.

Slide 8 – Issues for any Pricing Method

The level of granularity required was discussed. JC asked what were the other options. MF stated that greater flexibility or choice could be offered but this would introduce greater complexity into what was already being viewed as extremely complicated. MF commented that the DNs were testing the customer/Shipper appetite for choice in order to gauge the level/complexity of choice that might be required/offered.

It was observed that some customers might want more choice, but that others may resist this.

Slide 9 - Issues for any Pricing Method (2)

SA observed that there could be a lot of choice, but asked how valuable was this to the community? JC felt that this could not be viewed in isolation but should be considered in conjunction with how the DNs called Interruption. It was expected that customers would want the 100% option. It was also observed that as NSLs get interrupted more frequently the relevant shippers should they get a better level of discount.

Shippers and Consumers were concerned at the greater level of complexity that would be introduced, and questioned how it could be cost-reflective.

The DNs needed to establish some confidence in their understanding of a potential acceptance rate to achieve the level of customer response that the DNs required and also to give consumers the level of confidence such that they would be interested in participating in this process. Consumers and Shippers thought that DNs might find it hard to deliver, if the level of complexity became too great. The DNs acknowledged that too much detail would make customers averse to participation - and there was a preference for something that was reasonable and simple, such as tick boxes. ATa commented that not all the options were necessarily available but that it was a way of checking had everything been covered and that nothing was missed. Other suggestions would be welcome if there was any concern that something might have been missed. Shippers and Consumers appreciated this, but felt that they could not give any definite decisions on what would be suitable at present.

Slide 11 – Administered Prices

The DNs commented that until they have seen what the incentive is they cannot set the price. All that Customers/Shippers will see is a price to be accepted or rejected. In response to questioning by PB, SA did not think there would be a second tender if the level of Interruption offered was not sufficient the first time. ATa stated that Ofgem required that DNs to optimise the use of capacity either by investing or through the customers' offers of Interruption.

There was a short discussion on the on the identified positives and negatives and the perceived value of a customer being Interruptible. Following this discussion, it was agreed that to identify a price that reflected this value was very difficult. It was felt that the tender approach was not necessarily good and that administered prices will not necessarily be more efficient either. The DNs observed that there was a risk in getting the level wrong and thereby not getting the sufficient customer response to match the requirements. Complexity was not conducive to participation and could also be inefficient.

Slide 12 – Auction

The DNs commented that the matrix (alluded to by Shippers and Consumers) devised for pre Network Sales days contained option type arrangements that were deemed to be too complicated so other ways were looked at.

LH questioned why the option approach was more complex for customers than the matrix approach. BG explained that, from a customer viewpoint, DN connections are a lot smaller (and these smaller customers did not have resources to look at the cost impacts on their processes/businesses or invest in standby equipment.) The matrix was simpler to use and contained less detail so it was easier to make decisions. It was agreed that too much complexity and detail would drive more customers towards Firm.

Slide 13 – Hybrid - Auction with Guide Prices

The identified positives and negatives were discussed. PB observed that it came down to how the guide price is set – was a methodology required? SA advised that reserve prices could be set (minimum/maximum), but efficiencies would need to be reviewed. Numbers and decisions would be made for each zone, bearing in mind how much competition there was in a particular zone and whether the discount was sufficiently attractive for customers to want to participate. It was felt that the benefit of a guide price would be in helping the decision to participate.

There was a further short discussion on the value of Interruption and an acknowledgement that customers who do not value Interruption will go Firm.

The group was asked their views on whether they felt this had simplified the auction process to make it more acceptable, or whether more simplification or more choice should be provided

JC preferred to see a Pricing discussion paper that could be circulated to a wider audience, before any decision could be arrived at. She also observed responses may be better if the references to 'option' were replaced by 'tender' as the word option was greatly disliked. In JC's view most customers were likely to go Firm because it was all too much trouble and they were not very interested.

The DNs agreed with the idea of a Pricing discussion paper, and acknowledged that this might give a feel for the potential level of interest, which may then enable a reasonable level of variability to be arrived at. JC reiterated that she felt it was essential to do this as the Work Group only provided a very limited audience. Timescales of the Modification Proposal were reviewed, together with the lead times required for potential systems and processes changes before June 2007. Price setting was discussed, and the publication of information on the sale of rights. MF stated that publishing is effectively informing the market and devaluing the method of sale, especially on an annual basis. JC agreed that behavioural effects would be seen following the industry's analysis of any information published, and thought that the DNs would need to look at what could be published without revealing too much. The DNs commented that it may be dependent on zone peculiarities and the level of confidentiality affecting sites and Shippers.

Action D9036: The DNs to produce and publish a Pricing discussion document to be issued as soon as possible to a wider audience. Once produced the Pricing paper to be tabled for discussion at appropriate industry meetings.

There was a short discussion on capacity payments.

It was agreed that a process of education for consumer groups to make everything clear would be a good idea. The DNs commented that their Customer Services staffs were being prepared to handle the new changes. It was also observed that Ofgem had organised seminars in the past when far reaching industry change was taking place and that this might be helpful in this case.

3. Any Other Business

None.

4. Diary Planning for Work Group

The Programme for the next meeting(s) was reviewed. It was agreed to make a change to the start time of the next meeting on 20 September 2006. This will now commence at 11:00hrs (previously 10:00hrs).

Date		Venue	Time
Wednesday 20 September 2006	Meeting 7	Elexon, 350 Euston Road, London NW1 3AW	11:00
Wednesday 27 September 2006	Meeting 8	Elexon, 350 Euston Road, London NW1 3AW	13:00
Thursday 28 September 2006	Meeting 8 (continued if necessary)	Elexon, 350 Euston Road, London NW1 3AW	13:00
Thursday 05 October 2006	Meeting 9	Elexon, 350 Euston Road, London NW1 3AW	13:00

Action Table (Appendix 1)

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
D9002	03/08/06	2	Ascertain the progress of any charging methodology discussions and provide an update to the group.	NGN (RCH)	Update provided see Minutes ref 1.2. To be discussed under Pricing on 14/09/06 Action carried forward
D9004	10/08/06	3.1	Business Rules paragraph 1.3 DNs to consider how Firm Capacity booking arrangements may be managed in the future.	DNs	Action ongoing
D9007	10/08/06	3.3.1	Business Rules paragraph 5.1.1 DNs to look at the advance provision of information to a potential incoming Shipper (what, when, availability, route, required response times, etc)	DNs	Scheduled for presentation/discussion at Meeting 4 on 30/08/06. Agreed to carry forward. Action ongoing
D9008	10/08/06	3.3.2	Business Rules paragraph 5.2.7 DNs to review wording.	DNs	Scheduled for presentation/discussion at Meeting 7 on 20/09/06. Action ongoing
D9009	10/08/06	3.3.3	Business Rules paragraph 5.3.4 DNs to provide clarity on Customer Charge ratchet and LDZ CSEP	DNs	Action ongoing

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
			Overrun components.		
D9010	10/08/06	3.3.4	Business Rules paragraphs 5.3 and 5.4 DNs to review the inclusion of ratchets and CSEP overruns, and consider segregating and raising as separate modification proposals.	DNs	Action ongoing
D9012	10/08/06	3.3.5	Business Rules paragraph 5.5 DNs to revise Business Rules to permit multiple bids.	DNs	Action ongoing
D9013	10/08/06	3.3.5	Business Rules paragraph 5.5.4.2 DNs to provide indicative pro forma that reflects information set out in this paragraph.	DNs	Provision to next meeting 30/08/06. Agreed to carry forward. Action ongoing
D9015	10/08/06	3.3.5	DNs to consider charging methodology in relation to provision of SOQs.	DNs	Scheduled for presentation/discussion at Meeting 5 (07/09/06) Action carried forward
D9017	16/08/06	2.1	Consider making "application window" a Defined Term within UNC.	DNs	Action carried forward
D9018	16/08/06	2.1	DNs to consider the validation required at the point of application submission.	DNs	Action carried forward
D9020	16/08/06	2.1	DNs to discuss with Ofgem the level of disaggregation at which to make information available.	DNs & Ofgem	Action ongoing
D9022	16/08/06	2.1	DNs to consider what may happen if not enough Capacity is made available though the tender process.	DNs	Action carried forward
D9024	16/08/06	2.3	Business Rules 4 and 5 – contradiction between sections. DN to review and consider referencing.	DNs	Action carried forward
D9028	16/08/06	3.5	Annual Application Process – Shippers and DN to consider number of days required within Annual Application Process. Reworded to: Shippers and DN to consider once the Application window closes how	DNs & Shippers	Following discussion 30/08/06 action reworded. Action carried forward

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
			quickly a Transporter has to respond or a Shipper to resubmit.		
D9029	30/08/06	2.1	Shared Supply Meter Points - xoserve to confirm and advise the number and location of all sites currently designated as SSMPs.	xoserve	Action carried forward
D9030	30/08/06	2.1	Shared Supply Meter Points - The DNs to consider the role of the Allocation Agent within the bid process.	DNs	Action carried forward
D9031	30/08/06	2.3	FTI - DNs to review the use of SMP and consider if this was appropriate for charging in all cases.	DNs	Action carried forward
D9032	30/08/06	2.3	The DNs to consider gas prices, barring, modifying the '5 strikes' rule and appropriate discretionary elements, in relation to the FTI process.	DNs	Action carried forward
D9033	30/08/06	2.4	New Supply Points - DNs and xoserve to look at what happens in the current process whereby the SOQ increases through the ratchet and the increased flow cannot be accommodated immediately.	DNs and xoserve	Action carried forward
D9034	30/08/06	2.4	New Supply Points - DNs to consider UNC G5.5.4 and any impacts, and how to manage an increase/decrease in capacity in an existing site.	DNs	Action carried forward
D9035	14/09/06	2.1	DNs to devise appropriate governance arrangements and a "payment methodology statement".	DNs	
D9036	14/09/06	2.1	The DNs to produce and publish a Pricing discussion document to be issued as soon as possible to a wider audience. Once produced the Pricing paper to be tabled for discussion at appropriate industry meetings.	DNs	