

## Development Work Group Modification Proposal 0090

### Minutes

Wednesday 20 September 2006

Elxon, 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
Alex Thomason (alternate)	AT	National Grid Transmission
Anne Young	AY	National Grid Distribution
Bethan Winter	BW	National Grid Distribution
Christiane Sykes	CS	Statoil
Eddie Proffitt	EP	MEUC
Hydreace Ali	HA	RWE npower
Helen Bray	HB	Chemical Industries Association
Indra Thillainathan	IT	Ofgem
Julie Cox	JC	Association of Electricity Producers
Joel Martin (alternate)	JM	Scotia Gas Networks
Lewis Hodgart	LH	Ofgem
Mark Freeman	MF	National Grid Distribution
Phil Broom	PB	Gaz de France
Paul Roberts	PR	National Grid Transmission
Paul Smith	PS	Ofgem
Stefan Leedham	SL	EDF Energy
Mitch Donnelly	MD	BGT
Mike Young	MY	BGT
Gareth Evans	GE	Total
Brian Durber	BD	E.ON
Alan Raper		National Grid Distribution

#### Apologies

Beverley Grubb	BG	Scotia Gas Networks
Liz Spierling	LS	Wales and West Utilities
Martin Baker	MB	xoserve
Martin Kew	MK	Northern Gas Networks
Nigel Sisman	NS	National Grid Transmission
Tim Davis	TD	Joint Office of Gas Transporters
Shelley Rouse	SR	Statoil

#### 1. Introduction and Status Review

##### 1.1 Minutes from previous meeting (14 September 2006)

The minutes of the previous meeting were approved.

## **1.2 Review of Actions from previous meeting**

The majority of the outstanding actions from previous meetings were addressed within the items scheduled for discussion at this meeting, and were subsequently agreed closed at the end of meeting. Status updates where appropriate have been added to all remaining outstanding actions (see Action Table below).

## **2. Specific Topics**

MF gave a high level presentation (“UNC Modification Proposal 0090: Revised DN Interruption Arrangements”), which covered the first two topics: ‘Interaction with NTS exit arrangements’, and ‘Information, Publication and Transparency’. A discussion on the UNC impact took place.

### **2.1 Interaction with NTS exit arrangements**

#### **Slide 3 – Current Arrangements**

MF explained that these were set out in UNC Offtake Arrangements Document Section I, and describes information provision, requirements for Interruption, and the financial treatment, relating to the NTS and DNs.

#### **Slide 4 – Interaction of DN Interruption Reform with Current NTS Arrangements**

In response to a question, MF confirmed that in the Modification Proposal the procurement is for DN purposes and not on behalf of NTS.

#### **Slide 6 - Interaction of DN Interruption Reform with Revised NTS Arrangements**

The issues captured on the slide were discussed and it became apparent that there might be further issues with timescales and the timings of certain process events.

Bullet point 2 – It was asked, should there be a minimum length of contract for 4 years? JC thought that the contract duration could be for a single year but agreed 3 years in advance. She was not sure whether customers would commit to that. Committing 4 years from 3 years out (ie 7 years) would be even more difficult for customers. EP remarked that he could see a customer bidding in for the first year but then preferring to go Firm. Then if the customer changed their mind after that, it was probable that they would not be able to change again as the DN would have invested and consequently would not have an Interruption requirement.

JB queried if there were any particular nodes that are more exposed ie those who have a higher proportion of potential interruptible loads, but MF did not know if this was so.

Bullet point 3 – PR remarked that Ofgem was consulting on the default lead-time and buyback incentives. No answer was available yet, as more work had to be done. It was acknowledged that there would be an effect on DNs and MF observed that the DNs would want some form of protection if NTS Capacity cannot be provided. PR thought that this was a Price Control issue rather than a UNC issue.

JC questioned whether the DNs would have a problem with their Safety Cases ie in meeting ‘1-in-20’ in Year 3? PR said that the rolling 5 year investment programme covered this. JC commented that failure to deliver on the plan might be an issue.

Bullet point 4 – This was not part of the UNC proposal but would be part of IExCR. JC observed that it was difficult to be incentivised when you have little control over something. PR stated that this type of issue relating to incentives is not new and thought that there must be some ways to factor something in to the DN incentives. He suggested considering the Shrinkage Incentive scheme which was perhaps very similar and a good example.

MF observed that it came down to an equitable share of risk and an appropriate incentive scheme; PR commented that a transparent test for the release of capacity was being aimed for.

Bullet point 5 – MF stated that he had ‘no feel’ for this risk but it could possibly be built into the incentive or the UNC. It may increase the DNs’ requirements or investments. It was questioned whether NSLs would be affected in terms of pressure commitment. EP questioned whether the proposal sought to completely remove NSLs, as consumers assumed that NSLs would become Firm. MF responded that this could be the outcome and for information stated that currently approximately 140 NSLs existed.

Bullet point 6 - The sale of Interruptible Rights in June each year, and pre-release of information and then allocation, would be followed closely by the NTS sale of capacity in July of each year. Currently the Demand Forecasting information available in mid May and the analysis requirements dependent on this make the timescales very tight. It was thought that this, or the information used, might need to be changed in order to carry out the most up-to-date analysis. JC questioned whether this was solely a DN activity. PR responded that he thought that the DNs contracted out some of the demand forecasting work. A possibility may be to start work at the end of February but this may or may not have a material effect. Assessments needed to be made on this and the feasibility of using earlier information.

**Action D9037:** The DNs and the NTS to establish with xoserve the feasibility of bringing forward the demand forecasting activities.

A short debate took place, airing views on ‘economic and efficient investment planning’.

MF and JB agreed that economic and efficient planning could be achieved provided the correct incentives were in place. PS argued that the question should be rather is it an improvement on the current situation – is the information provision better? CS observed that if interruption were not attractive to customers and could not be offered below investment costs a ‘gold plated’ service would be provided because pipeline would have to be built. EP made similar observations and agreed that the majority if not all customers would likely be Firm.

The value to a customer of being interrupted was discussed, which as a benefit in monetary terms according to EP’s calculations was thought to be around 0.2 p per therm.

JC observed that the industry might lose the current economic irrationalities and inertia that exist, as change will promote customers’ re-evaluation of their business decisions. On checking the financial costs/benefits, more and more customers will realise that interruption is not really economically viable for them.

PB agreed with the Consumers’ argument, but thought that where customers could name the price (open market based tender) the reaction might be different, but this might influence the DNs to invest more. JC repeated that everything still centred on pricing.

The discussion returned to the issues relating to timescales. In response to various questions, PR advised that investment planning was carried out over the summer followed by the issuing of option contracts. Buyback tenders could then be issued if appropriate. JC commented that the NTS asked for sites willing to be interruptible for NTS purposes in September and then used the information to participate in the tender and then advise customers. She questioned whether customers will understand who is calling them off and for what purpose and at for what price? In EP's opinion DN customers would not want separate contracts.

Providing sufficient notice was given for tenders PR wondered if it was really necessary to have timescales prescribed in the UNC.

If it was one process JC and PB queried how costs would be apportioned. Prices had to reflect the risk of being (DN) Interruptible, and this risk could be higher in one network than in another; the risk could also be lower for NTS as opposed to DN. The Consumers stated they felt confused, as the timescales do not seem to tie up.

It was questioned whether DNs can participate in NTS buyback. The response was that networks needed to efficiently use capacity between the systems. A DN's requirements do not need to be detailed; it just needs to be able to use the tools available to efficiently manage its system.

Other concerns were raised. JC observed that the reason for Interruption has to be declared at present – did this now mean a movement towards contracting to interrupt with no reason? CS wondered what would happen if an Emergency Interruption was called and there were no Interruptibles? Stage 1 disappears, Stage 2 may be bypassed, and the focus moves immediately to Stage 3.

ARCAs were discussed. PR advised that ARCAs remain to give the right signals in a situation where the site developers have yet to arrange for the involvement of a Shipper. UNC parties will be allowed to bid into the process once known. The inconsistency between the NTS connection and the DN connection process was noted. MF commented that in previous discussions there had been no appetite for ARCAs, and that the engagement of a Shipper was required first. A power station connecting to a DN would need to engage a Shipper earlier in the process than if connecting to the NTS. JC queried the status of a new connection on connection day and was advised that it would be Firm if this were available; otherwise it would be on minimum Interruptible terms in that location. It would then be able to apply for new rights in the next available application process (3 years later).

## **2.2 Information, Publication and Transparency**

MF presented the remaining two slides and the discussion turned to these topics.

### **Slide 7 – Information, Publication and Transparency**

MF advised that location might signified on a postcode basis but that this could not yet be confirmed as analysis was still being undertaken. It was not yet known how many zones, but there would be a common methodology across all DNs.

### **Slide 8 – Information, Publication and Transparency**

MF advised that information would be made available on the website.

Bullet point 2 – Negative views were expressed about making the price of the Interruptible contracts (if it was done on an auction type basis) readily available to potential competitors. Some thought that this information could be obtained through the nominations/confirmations process and it was questioned whether this should be acceptable also. Ofgem advised that it was uncomfortable with Users obtaining

information through this process unless customers were happy to release this information to all Shippers, and stated that it would be customer-led in its view on this. EP stated that customers were happy with the existing system, but not widespread access to price sensitive information and would not want to see this being made readily available. Price discovery remained a point of contention and MF agreed that the DNs should not publish this information and also that it should not be available through the nominations/confirmations process.

Ofgem advised the Group that it would welcome any comments or feedback that could be included before the publication of the consultation document.

### **2.3 Review of re-drafted Business Rules (Initial)**

Handouts were provided to the Group. Consumer representatives made known that they would prefer to see the legal text, but understood that it was not yet available.

MF presented the initial redraft of the Business Rules, which were now at version 1.3. He explained the amendments, additions and removals that had been made.

There was a short discussion on ratchets and CSEP Overruns, and clarity was sought on the meaning of 'Applicable Annual Rate'. This was followed by a debate on the contents of Section 7, relating to FTI charges. Such penal FTI charges were deemed to have an adverse effect on attracting customers to participate in the Interruption process. Shippers and Consumers questioned why paragraph 7.10 would be needed if such FTI charges were in place and observed that paragraph 7.11 made paragraphs 7.9 and 7.10 unnecessary.

Section 8 - MF advised that there were 6 Shared Supply Meter Points on the DNs, 3 of which might be wholly Interruptible.

Section 9 – HB observed that care should be taken over the reference to 45 days, ie per year rather than over three years.

Following the review MF advised the Group that it was his intention to circulate a new draft of the Business Rules during the next week.

### **3. Any Other Business**

None.

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

The Programme for the next meeting(s) was reviewed. The Consumer representatives advised that they were unable to attend the meetings planned for 27 and 28 September as these conflicted with important Ofgem seminars. The Group agreed to cancel the meetings on 27 and 28 September. However, at the Modification Panel Meeting on 22 September it was agreed that these meetings be reinstated even if the lack of quorum meant that they would be informal working sessions.

Therefore the next meeting of the Work Group will be held (as previously scheduled) on Wednesday 27 September, commencing at 13:00hrs.

Please also note a change to the start time of the meeting scheduled for Thursday 05 October, which will now commence at 14:00hrs. The agenda for this meeting will include the following topics:

- Review and finalise re-drafted Business Rules
- Review and finalise Work Group Report
- Finalise Modification Proposal

Date		Venue	Time
<b>Wednesday 27 September 2006</b>	<b>Meeting 8</b>	<b>Elexon, 350 Euston Road, London NW1 3AW</b>	<b>13:00</b>
Thursday 28 September 2006	Meeting 8 (continued if necessary)	Elexon, 350 Euston Road, London NW1 3AW	<b>13:00</b>
Thursday 05 October 2006	Meeting 9	Elexon, 350 Euston Road, London NW1 3AW	14:00 (previously 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 <b>Closed 20/09/06</b>
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	<b>Closed 20/09/06</b>
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. 20/09/06: To be included in the next draft of the Business Rules. <b>Action ongoing</b>
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. <b>Action ongoing</b>

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
D9009	10/08/06	3.3.3	Business Rules paragraph 5.3.4 - DNs to provide clarity on Customer Charge ratchet and LDZ CSEP Overrun components.	DNs	<b>Action ongoing</b>
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	<b>Action ongoing</b>
D9012	10/08/06	3.3.5	Business Rules paragraph 5.5 DNs to revise Business Rules to permit multiple bids.	DNs	<b>Closed 20/09/06</b>
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. <b>Action ongoing</b>
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). 20/09/06: Agreed to be considered in charging methodology. <b>Closed 20/09/06</b>
D9017	16/08/06	2.1	Consider making "application window" a Defined Term within UNC.	DNs	Already a Defined Term within UNC. <b>Closed 20/09/06</b>
D9018	16/08/06	2.1	DNs to consider the validation required at the point of application submission.	DNs	Action carried forward. 20/09/06: To be included in the next draft of the Business Rules. <b>Action carried forward</b>
D9020	16/08/06	2.1	DNs to discuss with Ofgem the level of disaggregation at which to make information available.	DNs & Ofgem	Discussed and <b>Closed 20/09/06</b>
D9022	16/08/06	2.1	DNs to consider what may happen if not enough Capacity is made available through the tender process.	DNs	Action carried forward <b>Closed 20/09/06</b>
D9024	16/08/06	2.3	Business Rules 4 and 5 – contradiction between sections. DNs to review and consider referencing.	DNs	20/09/06: To be addressed in Business Rules <b>Action carried forward</b>
D9028	16/08/06	3.5	Annual Application Process – Shippers and DNs to consider number of days required within Annual Application Process. Reworded to: Shippers and DNs to consider once the Application window closes how quickly a	DNs & Shippers	Following discussion 30/08/06 action reworded. 20/09/06: Agreed <b>action carried forward</b>

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
			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	20/09/06: MF to forward data obtained from xoserve to Joint Office
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	20/09/06: Further discussion took place. <b>Action carried forward</b>
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	20/09/06: Business Rules redrafted. <b>Closed 20/09/06</b>
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	20/09/06: Business Rules redrafted. <b>Closed 20/09/06</b>
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	20/09/06: Further discussion took place. <b>Action carried forward</b>
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 and GE	<b>Action carried forward</b>
D9035	14/09/06	2.1	DNs to devise appropriate governance arrangements and a "payment methodology statement".	DNs	<b>Action carried forward</b>
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	20/09/06: MF advised this should be produced and circulated at end of week (22/09/06). <b>Action carried forward</b>
D9037	20/09/06	2.1	The DNs and the NTS to establish with xoserve the feasibility of bringing forward the demand forecasting activities.	DNs and NTS	