

Transmission Workgroup (Issues) Minutes

Wednesday 27 June 2012

31 Homer Road, Solihull B91 3LT

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Alison Chamberlain	(AC)	National Grid Distribution
Charles Ruffell*	(CR)	RWE npower
Chris Wright	(CW)	Centrica
Claire Spedding	(CS)	National Grid NTS
Dave Adlam	(DA)	National Grid Distribution
David Evans	(DE)	BG Group
Derek Jamieson*	(DJ)	ESBI
Elaine Calvert	(EC)	National Grid NTS
Gerry Hoggan	(GH)	ScottishPower
Graham Jack	(GJ)	Centrica
Iain Morgan	(IM)	Ofgem
James Thomson*	(JT)	Ofgem
Jeff Chandler*	(JC)	SSE
Julie Cox	(JCx)	Energy UK
Lewis Hodgart*	(LH)	Ofgem
Mike Wassell	(MW)	National Grid NTS
Rekha Theaker*	(RT)	Waters Wye Associates
Richard Fairholme	(RF)	E.ON UK
Roddy Monroe	(RM)	Centrica Storage
Shelley Rouse	(SR)	Statoil
Steve Fisher	(SF)	National Grid NTS
Steve Pownall	(SP)	National Grid NTS
Vicky Higgin	(VH)	National Grid NTS

* via teleconference

1. Introduction

Copies of all papers are available at www.gasgovernance.co.uk/tx/270612.

TD welcomed attendees to the meeting.

2. Review of Minutes and Actions from the last meeting

2.1 Minutes

The minutes were approved.

2.2 Actions

TR0501: National Grid NTS to develop more detailed Connections and Capacity processes (commercial changes, pros and cons) for review and discussion.

Update: Covered in presentations. **Closed**

TR0502: National Grid NTS to provide more detail and worked examples of how exit capacity was to be made available in different circumstances.

Update: Covered in presentations. **Closed**

TR0503: National Grid NTS to provide more detail and worked examples of the incremental processes and management of any transitional requests/ arrangements.

Update: Work is continuing. **Carried forward**

Following a brief discussion it was agreed to add the following action:

NEW Action TR0601: National Grid NTS to analyse the constraint costs associated with “connect and manage”.

3. Issues

3.1 Aligning the connections and capacity processes

Presentation 1 (main presentation)

SF gave a presentation aimed at developing and increasing participants' understanding of the problem, the interactions with Modifications 0373 and 0376, and potential approaches to a solution.

Certain problems had been identified and these were detailed. Project funding would be addressed at a later date. SF confirmed that the repercussions of the Planning Act were the main driver for the proposed changes. TD questioned if the lead times may require changing in the Licence. IM confirmed the initial proposals would be published at the end of July; transitional approaches may be required/considered for additional commercial aspects. EC commented that, in the Business Plan, moving the lead times to 24 months was suggested but this may be reviewed following assessment of the initial proposals. TD reiterated that mismatches in lead times are a significant issue and key to what is developed.

The consequences of making no changes were then set out. EC confirmed that analysis was on-going to look at potential extra demand eg in the South West – if constraining off at around 100 days a year so a “connect and manage” approach was probably not an option. More analysis is being done to inform this.

DE observed that if a two stage process was developed, the first phase would require strong incentives to make it clear that things will be delivered - otherwise there was a risk of investment and projects moving abroad. Each project will clearly need different approaches. SF believed there would be effective incentives, including reputational ones, to ensure that progress was made as quickly as possible. DE added that there seemed to be a perception of information ‘disconnectedness’ within the industry at present. CS highlighted various discussions taking place across the industry, and explained that National Grid NTS was attempting to present a generic timeline as a starting point that had evolved from shared lessons learned from project operations. She referred to a couple of projects that were setting a precedent and appear to be very comprehensive. JCx pointed out that developers will have to start talking to National Grid NTS much earlier in the process, explaining how this might fit together and that it should be recognised that any project was going to take a number of years and it was never going to be a ‘small number’. EC added that this was an attempt to move from a ‘one size fits all’ approach to one that was more flexible across a much wider range.

National Grid NTS' current position, actions and expectations were explained. Working together was going to be critical, as was a clear understanding of when certain things needed to take place and how capacity can be made available in a timely fashion. There was a need to demonstrate that due process has been followed before it goes into Planning. TD questioned the definition and understanding of the references to 'capacity' – whether this meant commercial capacity or the capability of the pipeline - differentiation between the commercial and the physical should be clear in any references.

GJ asked if there would be a minimum standard of service that National Grid NTS would offer, eg a recognition that a connection might be wanted at 7 years out but with an absolute worst case parameter at 9 years out, with a pipeline guaranteed to be in place so capacity is not 'stranded' for the customer through delays, etc. SP pointed out this can be problematic as site visits can reveal obstacles to what was originally thought to be possible; it can only ever be indicative as a timeline. GJ believed that any incentives needed to drive National Grid NTS's behaviour to do things as quickly and as efficiently as possible. CS confirmed the aspiration to work together to ensure the contracts deliver what everyone wants, through the discussions and developments made through these workgroups.

The focus then moved to the second presentation. (Delivery of Presentation 1 was resumed following Presentation 2.)

Presentation 2: RIIO-T1 – Mod 373 and Capacity process examples

VH gave an explanation of the end-to-end processes for different types of projects to aid understanding of what is being proposed and how this is linked with UNC Modification 0373. Assumptions were clarified.

Four examples were illustrated:

- Case 1 – no reinforcement* for either NGG or developer
- Case 2 – NGG needs reinforcement, but not developer
- Case 3 – NGG doesn't need reinforcement, but developer does
- Case 4 – both need reinforcement.

Worked examples of these typical projects were discussed and an interactive session took place, with participants being invited to capture issues, concerns, suggestions and views on post-it notes, in respect of each example. (These will be collated by National Grid NTS and published alongside these minutes.)

Case 2

It was noted that the capacity signal occurs earlier, before the planning application, so the customer is tied in to capacity earlier. This creates a dilemma where the need case is required at that point. EC pointed out that in the current world there was no obligation on the customer to sign a pre-works agreement, etc. CS added if there was 'spare' capacity at that point on the system it can skew the perception indicating you may only be needing to build 'a smaller pipe' yet this may not be big enough for the ultimate requirement of the completed project.

TD believed that it may not be necessary to know that the capacity had been sold for the planning process to proceed, and suggested considering decoupling.

JCx thought the key was whether commercial or physical rights were required. There will be bids for capacity assuming it will go live and it is not there in actuality – it may only give a firm right, but the need is to know that there is physical availability at the point/time of requirement. TD also observed that it is

not always evident that the new build cannot flow, for example if it is first in locational position on the pipeline, and it may be an older established connection that then encounters constraints.

Action TR0602: Case 2: National Grid NTS to consider whether the capacity signal is needed or not for planning to proceed, and if it should be decoupled.

Case 3

JCx suggested differentiating the capacity signal and capacity commitment. Planning requires a party to demonstrate it has a connection. If capacity is expensive at that time a party is not going to commit to that very readily.

RF made suggestions to realign the timeline.

Case 4

Viewing the timeline, RF commented that Shippers would have started to do things earlier. MW thought this came back to TD's question – what is the trigger for doing the Planning works? Scenarios were discussed and the time taken for each considered. RF pointed out that CCGTs also needed to align both their electricity and gas projects. DJ stated that these must run in parallel and described various examples. JCx commented that, on reviewing the publicly available information in respect of ESBI's project, it was obvious that this was way ahead of National Grid NTS's progress relating to the project. MW asked if Modification 0373 (if implemented) would provide an acceptable level of comfort.

TD summarised that the problem remains how best to align different parties' timetables for investment and delivery.

The discussion moved on to transitional projects, ie projects which already have their consents, but for which National Grid NTS needs to build reinforcement on the system (eg Case 2). MW summarised a long-term non-firm product that may help to 'bridge the gap' until firm capacity rights can be delivered.

It was illustrated how Case 2 might receive treatment as a transitional project.

EC asked if parties would value the introduction of this product. Various scenarios were discussed. It was important to have as much flexibility as possible and bi-lateral discussions to achieve the best outcome in the most appropriate timescales for each case. TD questioned if those present would like Modification 0420 to include NTS loads rather than cover DNs only.

EC illustrated a potential solution for Case 1. JCx pointed out there are many different scenarios. The issue might be the gap between the offer being made/accepted and the capacity signal.

VH illustrated a potential solution for Case 2. EC indicated that the signing of agreements would provide surety and certainty. The alternative is to take the risk of 'future capability' actually being there, ie through a reliance on 'reasonable endeavours'. The lead-time is predicated on the signing of agreements; if a bi-lateral contract is signed, the capacity delivery process could start earlier.

JCx emphasised that the risks of not having a PCA in place would need to be quite clearly articulated to the industry so that the risk of not having one is very evident and clearly understood.

IM confirmed that Ofgem had an interest in both long and short-term solutions and would hear all industry discussions before forming a view.

SF suggested that some parties might believe that reserving a 'slice' of capacity that is not available to others is a way forward. JCx pointed out that project slippages could occur; the effects of these needed to be considered, such as

whether any reserved capacity can be released back to the market. It was suggested that Ofgem might like to form a preliminary view in this area to aid Workgroup discussions.

RM voiced concerns about doubling the time to obtain obligated capacity. EC responded that National Grid NTS was trying to make capacity obligations more realistic and more certain, and agreed that initially it was going to take longer to take a project through the Planning Act timescales. If after experience it was believed that timescales could be condensed, then this would be reviewed and appropriate incentives applied. From a practical standpoint there was no reason why earlier completion of phases could not be accomplished with the co-operation of the Shipper. JCx commented that it needed a much bigger and more visible commitment from National Grid NTS to progress more quickly. GJ suggested the application of a minimum standard of service to each phase.

Is it appropriate to reserve capacity on the system? This was a key point. If so, how... and without sterilising it indefinitely? Should there be retainer fees and/or other commitments? There were no firm conclusions yet. JCx believed this might depend on Ofgem's views on 'taking capacity out of the market' - should a party book and pay the full fee, or be able to return it if not required (currently this was only possible on the secondary market). Should it coincide with break points in the project? It must be transparent so that other parties can react appropriately, and EU developments will have to be considered - a Tariffs paper is expected later this year.

DE believed there should be greater consistency between Exit and Entry; volatility needed to be contained. GJ also observed that charging volatility is not going to help the devising of an appropriate solution. IM added that Ofgem's charging volatility consultation was generic across all sections and may not present answers to all of these questions.

EC indicated that differences between Exit and Entry could be considered at a later time, because there were other issues associated with Entry.

SF agreed that points raised in these discussions needed further consideration.

EC questioned whether the complexity of having an auction/allocation was required, or whether it was preferable to go through this bi-lateral route. For Exit it seems cleaner to use the latter.

Would this translate to the Entry side also? JCx believed that a different solution may be required, for example for Interconnectors at Entry. DE highlighted an issue relating to differing regimes being in operation at Entry Terminals and on National Grid's system (terminal processing capacity as opposed to NTS capacity) and gave a couple of examples of this. He believed change should not be looked at in isolation because the rules at Terminals may be different. SF noted DE's concerns for further consideration. JCx believed that the degree of transparency would be significant in devising a workable solution. DE commented that Ofgem's focus and concern may be with what is happening in the nearer term. SF acknowledged it is a bigger problem the longer a project takes.

On being asked which solution it preferred, ie the "second Application" (as discussed at the meeting on 01 May 2012), or "the Reservation", the Workgroup indicated that on balance it preferred "the Reservation", subject to understanding its details.

JCx reiterated that Interconnectors should be given separate consideration, because of known EU developments, and because Entry and Exit are combined and have got to be linked. Solutions would be required for each point and they may all have to be different, including the DNs.

Substitution and Baseline might also need closer consideration and a further debate on increasing openness and transparency, etc. A review of unsold and substitution might be required to give a feel for what is coming and for residual parties.

Action TR0603: National Grid NTS to work up the detail of the second solution (“the Reservation”) and offer a comparison with the first solution; and develop some Business Rules.

Action TR0604: IM to check if an Ofgem presentation could be made at NTSCMF on 20 July 2012 and confirm to National Grid NTS (SF).

Continuation of Presentation 1

Commencing at Slide 14, MW confirmed it was envisaged there would be no change to the principles of Modification 0376, and illustrated this with a diagram based on a ‘typical’ Exit project’s timeframe. The 24-month lead-time commenced from October Y0. Build times were discussed, and obligated lead-times under the current regime and under the RIIO Business Plan. JC asked if 36 months was reflected in the ExCR; SF confirmed it was in paragraph 54 of the current version.

JCx expressed concerns that the principles might become subsumed in the new processes should it all change – should there be the workaround solution first, whilst it was being given further consideration? If Modification 0376 is systematised, further changes may be required and two lots of implementation costs should be avoided if at all possible. Confirming the situation would be closely monitored, SF indicated that National Grid NTS would review what requirements were to change and take another view on the position, and that Modification 0376 principles will be borne in mind throughout these developments.

Next Steps

SF reminded the group that all papers, including additional supporting information, were available on the Joint Office website at:

www.gasgovernance.co.uk/tx/270612.

It was suggested that a monthly discussion be included as part of Transmission Workgroup and it was proposed to begin on 05 July – initially to cover outstanding areas from the day’s discussion. In the meantime both SF and MW would be happy to field any questions, or receive any suggestions to feed into the developments. IM indicated Ofgem would also like to hear any strong views on, or preferences for, either approach.

Presentation 3 – Interactions with the implementation of RIIO-T1 (“Plan B”)

Delivery of this presentation was interrupted by evacuation of the building in response to a fire alarm. On the Workgroup’s return it was agreed to defer this presentation and others to the meeting on 05 July 2012.

4. Diary Planning

Further details of planned meetings are available at: www.gasgovernance.co.uk/Diary

The next Transmission Workgroup meetings are scheduled as follows:

10:00 05 July 2012, at ELEXON, 350 Euston Road, London NW1 3AW

PLEASE NOTE - Change of Venue for the AUGUST meeting (in light of the Olympic Games):

10:00 02 August 2012, at National Grid, 31 Homer Road, Solihull B91 3LT
and subsequently

10:00 on the first Thursday of each month, at ELEXON, 350 Euston Road,
London NW1 3AW.

Action Log – UNC Transmission Workgroup (Issues): 27 June 2012

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
TR 0501	01/05/12	3.1	National Grid NTS to develop more detailed Connections and Capacity processes (commercial changes, pros and cons) for review and discussion.	National Grid NTS (MW/EC)	Closed
TR 0502	01/05/12	3.1	National Grid NTS to provide more detail and worked examples of how exit capacity was to be made available in different circumstances.	National Grid NTS (MW/EC)	Closed
TR 0503	01/05/12	3.1	National Grid NTS to provide more detail and worked examples of the incremental processes and management of any transitional requests/arrangements.	National Grid NTS (MW/EC)	Carried forward
TR 0601	27/06/12	2.2	National Grid NTS to analyse the constraint costs associated with “connect and manage”.	National Grid NTS (MW/SF)	
TR 0602	27/06/12	3.1	Case 2: National Grid NTS to consider whether the capacity signal is needed or not for planning to proceed, and if it should be decoupled.	National Grid NTS (MW/EC)	
TR 0603	27/06/12	3.1	National Grid NTS to work up the detail of the second solution (“the Reservation”) and offer a comparison with the first solution; and develop some Business Rules.	National Grid NTS (MW/EC)	
TR 0604	27/06/12	3.1	IM to check if an Ofgem presentation could be made at NTSCMF on 20 July 2012 and confirm to National Grid NTS (SF).	Ofgem (IM)	