

**Transmission Workstream Minutes**  
**Thursday 02 December 2010**  
**Elxon, 350 Euston Road, London NW1 3AW**

**Attendees**

Tim Davis (Chair)*	(TD)	Joint Office
Lorna Dupont (Secretary)*	(LD)	Joint Office
Ale-Jan Algra*	(AA)	GasTerra
Andrew Morris	(AM)	Bacton Agent Company Ltd
Asma Jalal	(AJ)	Centrica
Beverley Viney	(BV)	National Grid NTS
Charles Ruffell*	(CR)	RWE npower
Colin Thomson*	(CT)	Scotia Gas Networks
Debra Hawkin	(DH)	National Grid NTS
Dora Lanora*	(DL)	Ofgem
Graham Jack	(GJ)	Centrica
Jacopo Vignola	(JV)	Centrica Storage Ltd
James Thomson* (for 0348)	(JT)	Ofgem
Jill Brown	(JB)	RWE npower
Joanna Ferguson*	(JF)	Northern Gas Networks
John Costa*	(JC)	EDF Energy
Jon Dixon*	(JD)	Ofgem
Julie Cox*	(JCx)	AEP
Lauren Jones*	(LJ)	ExxonMobil
Lorraine O'Shaughnessy*	(LO)	xoserve
Malcolm Arthur	(MA)	National Grid NTS
Mark Dalton*	(MD)	BG Group
Mike Wassell	(MW)	National Grid NTS
Rekha Theaker*	(RT)	Waters Wye Associates
Richard Fairholme	(RF)	E.ON UK
Richard Miller*	(RM)	Ofgem
Richard Street*	(RS)	Corona Energy
Ritchard Hewitt	(RH)	National Grid NTS
Roddy Monroe	(RMo)	Centrica Storage Ltd
Steve Gordon	(SG)	ScottishPower
Sue Ellwood	(SE)	TPA Solutions
Tim Wyndham	(TW)	Ofgem

\* by teleconference

**1. Introduction**

*Copies of all papers are available at <http://www.gasgovernance.co.uk/tx/021210>.*

TD welcomed attendees to the meeting and explained that, due to adverse weather conditions and difficulties in travelling, the majority of attendees would be participating via teleconference.

**1.1 Review of Minutes of Previous Meetings**

Minutes of the meetings held on 04 and 09 November 2010 were accepted.

**1.2 Review of Outstanding Actions**

**Action TR1001:** Provide evidence regarding the influence of default cash out arrangements on balancing behaviour.

**Update:** No evidence was put forward to demonstrate any change. **Action closed**

**Action TR1003:** Identify any analysis particularly required by Ofgem in respect of Proposal 0333.

**Update:** TW reported that discussions had taken place with National Grid and it was suggested that the raising of a number of industry proposed alternatives for Ofgem's consideration would be welcomed. **Action closed**

**Action TR1101:** Present on the revised requirements to hold a Shipper Licence and their implications.

**Update:** Completed. **Action closed**

**Action TR1102:** Amend Proposal 0333 based on comments received.

**Update:** Completed. **Action closed**

**Action TR1103:** CT to review the role of the linepack manager and provide an update to the next meeting.

**Update:** Due at meeting 14 December 2010. **Action carried forward**

**Action TR1104:** CT to amend the business rules based on changes/comments made at the Workstream.

**Update:** Due at meeting 14 December 2010. **Action carried forward**

### 1.3 Review of Live Modification Proposals and Topic Status Report

The Modification Proposals Register and the Topic Status Report are available to view at: [www.gasgovernance.co.uk/mods/](http://www.gasgovernance.co.uk/mods/).

TD gave an update on the status of Live Modification Proposals.

### 1.4 Industry Updates

#### 1.4.1 Agency Arrangements for BBL notional reverse flow service

AM, as Bacton Agent, gave a brief presentation on the background to the BBL Agent Consultation, drawing attention to the main points of the consultation and pointing out that the closeout date was Friday 10 December 2010. Further information and copies of the draft agreements were available from [Andrew.morris@poyry.com](mailto:Andrew.morris@poyry.com) or [matthieu.mollard@poyry.com](mailto:matthieu.mollard@poyry.com).

#### 1.4.2 Ofgem ([www.ofgem.gov.uk](http://www.ofgem.gov.uk))

RM reported on recent activities.

*TransMit* – Responses to the recent call for evidence were now available on Ofgem's website. Ofgem was considering and developing a view on these and intended to publish options in the spring. Some views had been received for the

gas side but these had not indicated widespread support for gas to be included in scope as an immediate priority.

*LNG Price Control Consultation* – Closes out on Monday 20 December 2010 but early submission of responses would be preferred.

*OM Contestability Consultation* – Closes out on Tuesday 04 January 2011.

*Licence Modification (Exit Substitution)* – Three months for the Impact Assessment; closes out on Tuesday 21 December 2010.

*European 2<sup>nd</sup> Package (Relevant Points)* – Reconsulting soon.

*Licence Modification (Designation of Moffat as an Entry Point)* – Consultation closes out on Friday 10 December 2010.

*Licence Modification (Relevant System Costs/Income Adjusting Events)* – Consultation closed on 25 November 2010 and responses have been published on Ofgem's website; a Modification directive may be expected sometime this month.

TD then asked if an update could be provided on the proposed Significant Code Review, for which a meeting had been arranged on 18 January 2011. JD reported that responses to the consultation were under review; the most urgent subject was gas security of supply. A paper was being submitted internally to the Authority for review on 16 December 2010, following which a paper would be published together with an indication of proposed meetings – provisionally in January 2011. All other topics would be commented on following the Authority's meeting.

CR asked how gas emergency cash out would fit with the provisions of the new Energy Bill and JD indicated there would be a paper issued early in the New Year.

## **2. UNC Modification Proposals**

### **2.1 Modification Proposal 0333: "Update of the default System Marginal Buy Price and System Marginal Sell Price"**

RH briefly explained that the first presentation (Mod 0333 – Additional Info) included additional information as requested at a previous meeting, and presented historical trend graphs updated with the latest information.

JC queried whether or not the number of balancing actions should be looked at rather than the volumes, because it was the fact that an action had been taken that counted and not the volumes? RH responded that an action could not be taken out of price sequence, and explained various scenarios and commented that he anticipated the output would be similar.

Referring to the graph on Regression Analysis (slide 4) TD observed that the 10 points on the graph seem fairly valueless – to be statistically significant more observations were needed, for example looking at every day rather than annual averages. RH responded that the information had been provided as a result of the last discussion relating to whether a default cash out price will/will not influence a Shipper's behaviour.

A second presentation was then made by RH, giving the latest progress update and reiterating the key points of the Modification Proposal following the amendments made in response to previous Workstream discussions.

There was a brief discussion relating to costs, and RH confirmed that the Proposal was based on TO transportation charge revenue and so included all costs associated with operating the NTS.

RF questioned if the default value would be the same, whether long or short. RH replied that the Proposal was seeking to apply the same incentives to encourage parties to balance; it was trying to reflect the costs of absorbing any imbalance and giving an equal incentive to remain in balance.

AM commented that if there was a change in gas prices, default values could be bigger/smaller when compressor costs go down/up. RH believed this to be a minor effect. As discussed at the previous Workstream meeting, the aim was to strike a balance and encourage a Shipper to balance on the day without a penal charge. National Grid NTS prefers each Shipper to concentrate on its own position and refrain from attempting to 'second guess' other Shippers' actions, leaving the Residual Balancer (NTS) to be able to perform its own responsibilities/actions in achieving the total balance in the most efficient way possible.

RS referred to the indication that this would be User Pays and asked what this would entail, as he was not entirely clear. RH said this was related to Shipper cash out and will therefore need changes to xoserve's systems/processes.

SG commented that balancing arrangements for the European Market were in development and this Proposal should be reflective of this.

The Workstream Report was then completed on-screen.

The main discussion centred on the User Pays section. RS voiced concern that this should be regarded purely as a User Pays Modification, and was not convinced that any perceived Shipper benefits were proportionate to the envisaged costs. RH explained the changes envisaged for which National Grid NTS was not funded. RS repeated that it was not possible to tell what the benefits were because they were theoretical, and Shippers would not be able to make any decisions on these; £200k seemed to be a large amount given the potential system changes.

Acknowledging there would be some costs to all Users, and some to only those parties who actually use the service, RS commented that it was very difficult to assess these in relation to this Proposal and that the raising of modifications by one party that places all the costs solely on others was something to be wary of. CR added that he shared many of RS's concerns; no Shipper had evinced any support and the costs seem disproportionate. It was suggested that it was unreasonable to be charged for an unsupported modification put forward by a Transporter who was not picking up any of the costs that it deemed would be necessary.

RH pointed out that there was no benefit to the Transporter, hence the view that it should not pick up any costs.

While there was no consensus regarding the impact of the modification, the Workstream Report reflects the differing viewpoints and it was agreed that the Proposal was sufficiently developed to go to consultation. The Workstream considered that legal text should be made available for consultation.

## **2.2 Modification Proposal 0338: "Remove the UNC requirement for a 'gas trader' User to hold a Gas Shipper Licence"**

DL gave a presentation in response to Action TR1101, which gave the background to, and summarised, Ofgem's view that there was merit in making changes to licensing to differentiate between parties carrying out specific activities.

RT asked if the current number of 'pure' traders was known and whether current licences would be revoked. It was considered that xoserve were better placed to indicate the number of currently licensed organisations that fell into this category, and it was confirmed that Ofgem would certainly be looking at revocation.

RT then referred to the electricity industry where 'unlicensed' parties found it very difficult to gain access to necessary information, and asked if potential problems of access to information would be addressed – it would be perverse if a party needed to obtain a licence just to access information. JD responded that not being licensed should not preclude access to legitimate information; a licence should not be necessary to cover 'trader' activities.

RS observed that while removing a licence requirement contributed to the concept of removing barriers to entry, it was relatively easy and inexpensive to acquire a licence, and to remove any such requirement might be leaving a large regulatory 'black hole' in this area of the market which naturally would give other industry parties cause for concern (the FSA covers upstream regulation of the paper market, and Ofgem covers downstream regulation). JD suggested it was a question of trying to recognise and identify where risks lie and mitigate appropriately, which was not by licence as at present (the gas Shipper licence was not fit for purpose for this particular activity). Ofgem had revoked a number of dormant licences recently, and may take the view that it will not issue a licence if the party concerned is not intending to physically ship gas. If a party was not doing anything prohibited by the Gas Act then the requirement to hold a licence was not appropriate.

RS reiterated his concern regarding the apparent creation of a regulatory vacuum. JD responded that there was no blueprint as yet but issues were being looked at and a more appropriate model would be devised.

RH commented that Ofgem's presentation had added clarity to the Modification Proposal, and that National Grid NTS would work on the issue before bringing the Proposal back to the Workstream, most likely in February.

JCx pointed out that there were some European initiatives to have a standard requirement to trade and there may be a requirement brought in to hold a licence in a party's own country. She had concerns relating to market integrity and the potential for market abuse, and emphasised that a Regulator needs the power to address these concerns and give the industry reassurance. JD responded that each nation state has different licence obligations and are looking at risks including those associated with carbon trading, fraud, etc. The new regime will be pan Europe and a licence for a particular activity may operate across all states; this would need to be recognised. However, physical conveyance and trading of commodities are to be dealt with separately.

SG asked if a trading volume threshold was envisaged above which a licence might be required. JD said that there was no threshold in mind as yet. It might be considered if a legitimate reason was put forward and it could be argued that that was appropriate (eg risk to market, barrier to entry, etc). SG then asked if Ofgem intended writing to affected entities, or addressing this through the modification process. JD indicated that communication would be addressed through the modification process and it will be widely publicised when the time comes.

RF voiced concern that the failure of a non-physical Shipper will affect physical Shippers, and there may be other impacts. RH confirmed that the impact of neutrality and other effects were being considered when looking at carving out the two activities in a clearer way within the UNC. All views would be welcomed as soon as possible to help identify the parts of the UNC that might be affected. It was hoped to complete the review within the timescales allotted.

### 2.3 **Modification Proposal 0341: “Manifest Errors in Entry Capacity Overruns”**

SE gave a presentation covering proposed process timescales, what details should be taken into account in relation to making a claim and its adjudication, and how adjustments might be addressed. The ways in which the proposed changes might enhance the relevant objectives was also illustrated, together with identified impacts on various parties and the benefits.

RF suggested that it might be clearer to state that UNCC decisions would be made by ‘simple’ majority. SE noted this and stated it would be helpful to have any further views/comments before the next UNC Panel meeting (16 December 2010).

RS was concerned that the UNCC should not be overly constrained; he acknowledged that the process would reduce the risk of parties resorting to litigation, but also wanted to be assured that the process was not laying itself open to abuse. He was also concerned that the setting of fees should be such that the industry does not inadvertently end up picking up costs for any failed appeal. SE confirmed that the fee was non-refundable as per the electricity regime.

Referring to neutrality, RF questioned if there was a risk of over/under recovery. SE noted that more clarity might be required in relation to the question of interest payments as it may not be altogether clear in the Modification Proposal.

The meeting then turned its attention to completing the Workstream Report, with TD capturing views and editing the Report on-screen.

RF asked if there were any decisions more recent/relevant to gas that might need to be taken into consideration. SE confirmed that she had reviewed previous Proposals and the various aspects of each, and had tried to ensure that 0341 was consistent with the views put forward by Ofgem in each case.

TD asked if the Proposal was sufficiently clear and understood. RM had received some comments, on which further amplification might be sought. SE noted these points and agreed to amend the Proposal as appropriate.

It was agreed that any further comments should be submitted to the JO as soon as possible, following which TD would revise and publish the Report. Unless concerns are raised at the 15 December Transmission Workstream, the Workstream Report will be presented to the December Modification Panel.

SE added that suggested legal text was being prepared and it was agreed that, if this was provided, the Workstream would not recommend that formal legal text be prepared at this stage.

### 2.4 **Modification Proposal 0348: “NTS Optional Commodity tariff – update to application rules”**

DH reported that this had been discussed and reviewed at TCMF meetings and indicated that further comments from the Workstream would be welcomed, in advance of completing a Workstream Report in January 2011.

It was suggested that the Proposal might usefully be split into three separate Proposals in order to give greater flexibility to Ofgem in their deliberations. GJ indicated that British Gas had concerns about one of the elements and commented that Users might be better placed to respond in a more balanced way if the three individual proposals were raised.

DH responded that views expressed at TCMF acknowledged that this was a ‘tidy up’ Modification Proposal, and that putting forward as three separate Proposals

was not deemed appropriate. The National Grid intention remained to pursue this as a single proposal.

## **2.5 Modification Proposal 0350: “Combining the NTS Entry Capacity and Exit Capacity Credit Checks”**

RH encouraged all to review and submit any comments to National Grid NTS as soon as possible so that any initial revisions could be made before the Proposal was submitted to the Modification Panel on 16 December 2010. It was anticipated that it would then be returned to the Workstream for further discussion.

## **3. Topics**

No new topics were raised.

## **4. Any Other Business**

### **4.1 Moffat Update**

MW reported that two update communications had been sent out on 01 December 2010 giving progress reports. National Grid NTS intended raising a Modification Proposal for submission to the Modification Panel on 16 December 2010. It was anticipated that this would return to the Workstream for discussion. Enquiries could be directed to Ian Bagworth or Carol Spinks, if further clarification was required.

## **5. Diary Planning**

*Further details of planned meetings are available at: [www.gasgovernance.co.uk/Diary](http://www.gasgovernance.co.uk/Diary)*

The next Transmission Workstream meetings are scheduled as follows:

- 10:00 14 December 2010, at Elexon, 350 Euston Road, London NW1 3AW  
(to be a linepack day)
- 10:00 06 January 2011, at Elexon, 350 Euston Road, London NW1 3AW

**Action Log – UNC Transmission Workstream: 02 December 2010**

<b>Action Ref</b>	<b>Meeting Date(s)</b>	<b>Minute Ref</b>	<b>Action</b>	<b>Owner</b>	<b>Status Update</b>
TR 1001	07/10/10	2.2	Provide evidence regarding the influence of default cash out arrangements on balancing behaviour	Shippers	Closed
TR 1003	07/10/10	2.2	Identify any analysis particularly required by Ofgem in respect of Proposal 0333	Ofgem (TW)	Closed
TR 1101	04/11/10	6.0	Present on the revised requirements to hold a Shipper Licence and their implications.	Ofgem (RM)	Closed
TR 1102	09/11/10	2.1.1	Amend Proposal 0333 based on comments received.	National Grid (NR)	Closed
TR 1103	09/11/10	2.1.2	0337 - review the role of the linepack manager and provide an update to the next meeting.	National Grid (CT)	Update due 14 December
TR 1104	09/11/10	2.1.2	0337 - to amend the business rules based on changes/comments made at the Workstream.	National Grid (CT)	Update due 14 December