

Transmission Workgroup Minutes
Thursday 01 November 2012
ELEXON, 350 Euston Road, London NW1 3AW

Attendees

Tim Davis (Chair)	(TD)	Joint Office
Bob Fletcher (Secretary)	(BF)	Joint Office
Alison Chamberlain	(AC)	National Grid Distribution
Andrew Pearce	(AP)	BP Gas
Anjili Mehta	(AM)	Ofgem
Antony Miller	(AMi)	Centrica Storage
Charles Ruffell	(CR)	RWE Npower
Claire Thorneywork	(CT)	National Grid NTS
Debra Hawkin	(DH)	National Grid NTS
Erika Melen	(EM)	Scotia Gas Networks
Fiona Gowland*	(FG)	Total E&P
Gerry Hoggan	(GH)	ScottishPower
Graham Jack	(GJ)	Centrica
Jeff Chandler	(JC)	SSE
John Costa	(JCo)	EDF Energy
Julie Cox	(JCx)	Energy UK
Laura Mason	(LM)	National Grid NTS
Lewis Hodgart	(LH)	Ofgem
Lorna Lewin	(LL)	DONG Energy
Mark Cockayne	(MC)	Xoserve
Mark Dalton	(MD)	BG Group
Mike Wassell	(MW)	National Grid NTS
Nick Wye	(NW)	Waters Wye Associates
Phil Hobbins	(PH)	National Grid NTS
Rhys Ashman	(RA)	National Grid NTS
Richard Fairholme	(RF)	E.ON UK
Ritchard Hewitt	(RH)	National Grid NTS
Roddy Monroe	(RM)	Centrica Storage
Tom Farmer	(TF)	Ofgem

**via teleconference*

1. Introduction

Copies of all papers are available at www.gasgovernance.co.uk/tx/011112

TD welcomed attendees to the meeting.

1.1 Review of Minutes and Actions of the previous meeting

1.1.1 Minutes

The minutes of the previous meeting were accepted.

1.1.2 Actions

TR0801: *Draft Modification – Development of the capacity and connection processes – Planning and Advanced Reservation of Capacity Agreement (PARCA)* - National Grid NTS (MW) to provide worked examples of the PARCA approach under differing scenarios.

Update: Ongoing. **Carried forward**

TR0902: *Long term non-firm capacity:* Produce a draft discussion paper setting out the options for review/comment.

Update: Paper provided – see item 3.1.1. **Completed**

TR0903: *Capacity and Connections:* Produce an expanded document (based on the structure of a modification proposal template) to clearly demonstrate the need for change, how this might be achieved, and giving consideration to wide ranging industry impacts.

Update: To be progressed when a preferred option has been identified.
Carried forward

1.2 Review of Live Modifications not covered elsewhere on the agenda

The Modifications Register is at: www.gasgovernance.co.uk/mods

Of specific note were:

0426 – Consultation closes on 02 November 2012;

0376S – Implementation date to be confirmed;

0338V – Implementation effective 01 January 2013;

0276 – Implementation date to be confirmed.

TD noted that a response to the consultation on Modification 0415, Revision to the Gas Balancing Alert Arrangements, had suggested that that a suitable lead time should be allowed in order to provide Shippers with sufficient time to ensure the new arrangements could be incorporated in their I&C contracts. TD indicated that National Grid NTS was proposing an implementation date of 01 December 2012, but a notice about this had been delayed in order to gauge the Workgroup's view on what would be an appropriate implementation date. Following a brief discussion, the consensus was that 01 December should be set as the implementation date.

1.3 Ofgem Update

Industry update from Ofgem:

- *R110-T1 (Gas): Further views sought on implementation arrangements relating to the treatment of incremental capacity and constraint management incentives - open letter 30 October.* The letter considers two areas of gas transmission policy - the arrangements for providing incremental capacity funding and the basis of the incentive arrangements for constraint management – where we are seeking

further views to inform policy for RIIO-T1. Consultation closes on 27 November.

- *RIIO-T1 and GD1: Draft licence conditions – Second informal licence drafting consultation – 30 October.* The document sets out our current thinking as to how the licences of the transmission companies and GDNs may be amended to implement the RIIO-T1 and GD1 price controls. Consultation closes on 27 November.
- *Retail Market Review (RMR) Updated Domestic Proposals, and Updated Proposals for Businesses – both published on 26 October.* These documents set out our updated proposals to ensure the domestic retail energy market and the small business retail energy market is simpler, clearer and fairer. The consultation on both documents closes on 21 December 2012.
- *Uniform Network Code (UNC) 415: Revision of the Gas Balancing Alert Arrangements – directed for implementation on 25 October.* The proposal introduced revisions to the Gas Balancing Alert (GBA) arrangements which should provide an improved signal to the industry, for timely market response, on days where a Supply/Demand deficit is forecast.
- *Decision on measures to mitigate network charging volatility arising from the price control settlement – 17 October.* The decision includes increased onus on information provision; restriction on intra-year charging changes; and decision to lag revenue impact of incentive penalty/rewards by two years.
- *Final decision on Ofgem's consultation on licensing policy for Gas Traders – 12 October.* The letter sets out why gas traders who are not shipping gas on the Great Britain network but only trading gas as a commodity should not be required to hold a gas shipper licence.
- *Uniform Network Code (UNC) 338V: Remove the UNC requirement for a 'gas trader' User to hold a Gas Shipper Licence – directed for implementation on 12 October.* The modification will allow Users who do not convey gas to become signatory to the Uniform Network Code (UNC) without holding a licence.
- *Open Letter: Call for evidence on the use of the gas interconnectors on Great Britain's (GB's) borders and on possible barriers to trade – 01 October.* The letter launches a review of gas flows on interconnectors between GB and the Continent, seeking stakeholders' views on issues that need to be considered when seeking to remove potential barriers to cross border trade. Responses are due by 31 December 2012. There will be a public workshop in London on 21 November 2012 and parties interested in attending should register their interest with Arina Cosac (Arina.Cosac@Ofgem.gov.uk) by 07 November.

European Issues Update Table

Workstream	Status
Capacity Allocation	On 4th Oct, ACER sent its recommendation to the Commission asking the latter to adopt the CAM NC on its own initiative, as there are 4 outstanding areas which are not in line with the FG. Plan is still for the code to go to Comitology at the end 2012.
Tariffs	Draft Framework Guideline published on 5th September. Consultation closes on 5th November.
Congestion Management	Text was published in the European Official Journal on 28 Aug. Ofgem intends to consult on how to implement Congestion Management Principles. CMP implementation is on the agenda for the DECC/Ofgem stakeholder meeting on 14 November where more detail will be provided.
Gas Balancing	ENTSOG published NC on 26 October 2012. ACER reasoned opinion is due on 26 January. It is then up to the Commission to initiate Comitology procedure.
Interoperability	Framework guideline has been finalised. ENTSOG has begun work on developing NC.
Incremental Capacity	CEER consultation paper published on 28 June 2012. Next steps include publication of an "Evaluation of Responses + Next Steps" paper by the end of the year (2012); and development of new rules on incremental capacity in 2013.

TD welcomed the table summarising progress regarding European Issues and it was agreed that this, or an equivalent, should be included in future European Developments presentations by National Grid NTS.

1.4 European Developments

National Grid NTS presented on the following areas.

1.4.1 EU Interoperability and Data Exchange Network Code

PH gave an update on the current position, providing an overview of ENTSOG's initial thoughts on the various topics, together with an indication of potential impacts for GB.

ENTSOG is drafting business rules on each of the topics that are to be contained in the Code and these will be used for stakeholder engagement sessions (SJWS) in November and December. National Grid NTS is actively

involved in this drafting process.

PH reported that ENTSOG continued to work on the assumption that Capacity Calculation will be dealt with in the comitology stage of the CAM (as yet, this has not been confirmed by the Commission).

Topics included in drafting were:

- Interconnection agreements
MD asked if the proposed capacity rules require the bundling of bookings by TSOs on interconnectors. PH advised that this is not the case but TSOs need to be aware of bookings across interconnectors so that they can consider potential impacts.

MD asked if real time flows can be published, he thought they should be now and if not, they should be considered as part of the new process. PH agreed to raise this as part of the review process.

MD asked if the exceptional events notification process should be part of the existing REMIT process. PH was not aware it should as REMIT was aimed at preventing insider trading. RHe advised that the proposed process was how TSOs communicate with each other to manage an exceptional event and not how they communicate with the wider industry.

JC asked if the proposed rules would consider how the costs of the options would be recovered. PH felt that the rules won't specify how costs are recovered but that it would expect them to set a consistent framework to allow costs to be recovered on a National basis. RH felt the question was pertinent as he was unsure if the framework for cost recovery should be set out on a National or European basis.

GJ asked if the code intends to harmonise close out periods. PH did not think so as reconciliation is out of scope.

- Common Units
- Gas Quality
- Odourisation
- Data Exchange

The Interoperability Code development process was illustrated, and dates for the SJWSs were confirmed.

For further information in this area please contact:
philip.hobbins@nationalgrid.com

1.4.2 REMIT – Central Collection and Publication Service

PH outlined the background, the proposed service, and next steps.

In December 2011, the new EU REMIT regulation placed an obligation on gas market participants to notify access to 'inside information' with the aim of helping to prevent market manipulation and insider trading. Earlier this year market participants proposed that National Grid NTS provide a REMIT Central Collection and Publication service.

National Grid NTS will provide a GB Central Platform, free of any transaction charges, available to REMIT notification providers and wider market participants. This is a voluntary service available 24/7 with business support during normal business hours. Users are not required to publish elsewhere (unless the platform is unavailable, and they wish to trade). Input will be via manual entry or direct from a Twitter feed; outgoing notification will be via web site (primary) supported by Twitter and email subscription. Publication will be close to real time (Twitter feed according to Twitter service levels). The Provider service is secured via username and password, and a full archive and audit trail will be kept. Whilst the solution is scalable (at a cost), a fair use policy forms part of the terms and conditions to protect the service.

There is no obligation to use the service. National Grid NTS will set up Provider access on receipt of a registration form from the Local Security Officer (LSO) as confirmation of authority. Providers are invited to register and further information can be found at <http://www.nationalgrid.com/uk/Gas/Data/News/GB+REMIT+Launch.htm>

There will be a complete testing and set up of the service, with go live week commencing 29 October 2012.

Parties were encouraged to contact remit@nationalgrid.com if they have any questions or require more help.

1.4.3 EU CAM Network Code and CMP Guideline – Update

EU CAM Network Code

MW reported that ACER had provided its final 'qualified recommendation' on the CAM Code to the EU Commission in October:
http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Pages/Recommendations.aspx

ACER had decided not to change its opinion on the four outstanding issues. ENTSOG remained firm in choosing not to amend the CAM Code covering these issues.

In addition ACER has recommended an implementation timeline of 18 months after the Code comes into force, rather than ENTSOG's 27 months (9 months for Code changes and 18 months for IT system delivery). The ENTSOG timeline had been in the Code throughout the process and not been challenged until this stage.

The EU Commission held a CAM Stakeholder Workshop in October, presenting new text on Capacity Calculation and the Sunset Clause. ACER's qualified recommendations and the issues surrounding them were also

discussed. The CAM Code therefore enters the next stage with open issues still outstanding and is expected to enter Comitology in late December, with a timeline expected to follow a similar path to CMP. The first Comitology meeting is to take place in January 2013, with a second meeting in April 2013; adoption is likely to be 4-5 months later.

JCx asked if the 4 issues would be resolved by the commission or Comitology group. RH advised that either could address some or all of the issues but at this time it was unknown what was intended.

For any further information in this area please contact:
matthew.hatch@nationalgrid.com

Constraint Management Principles (CMP) Guidelines

MW reiterated that GB has to be compliant by 01 October 2013 (July 2016 for Firm Day Ahead UIOLI), and that National Grid NTS continues to discuss Compliance/Impact Assessment with Ofgem.

Ofgem is also discussing compliance with GB Interconnector Operators.

For any further information in this area please contact:
matthew.hatch@nationalgrid.com

1.4.4 EU Gas Balancing Code – Update

The progress timeline was illustrated together with a bar chart demonstrating the level of support received from Stakeholders in respect of various areas.

RH reported that ACER and the EC raised a number of concerns on the revised code. Some further changes had been made by ENTSOG, and these were detailed.

The final draft code and Analysis of Decision (AoD) document will be submitted to ACER in early November 2012, and ACER is expected to provide its formal opinion by 04 February 2013. If the code is in line with the ACER framework guidelines it will be sent to the Commission for it to conduct the Comitology process, which will result in the code entering into UK law (6-12 months). National Grid NTS will then have 12 months to comply with the EU code once it has been adopted into UK law but anticipates utilising an option to approach our National Regulatory Authority (NRA) for an additional 12 months to enable changes to be made to existing contracts, the UNC and associated IT systems.

National Grid NTS is to undertake a detailed impact assessment of the code – the outcome of which will be expected to inform any implementation plan to be developed by National Grid NTS and the gas industry.

1.4.5 European Updates Timetable

The programme of updates to be given to the Transmission Workgroup over the next few months is detailed below:

Topic	Workgroup Date
<ul style="list-style-type: none"> • ENTSOG Winter Outlook Report 	06 December 2012
<ul style="list-style-type: none"> • CAM update – Comitology • Tariffs update – Framework Guidelines 	10 January 2013
<ul style="list-style-type: none"> • To be confirmed 	07 February 2013
<ul style="list-style-type: none"> • Balancing update – ACER opinion 	07 March 2013

2. Workgroups

The following individual Workgroup meeting took place:

2.1 0435 – Arrangements to better secure firm gas supplies for GB customers

Minutes for this meeting are at www.gasgovernance.co.uk/0435/011112

3. Issues

3.1 Aligning the connections and capacity processes

3.1.1 Long term non-firm capacity

RA provided an overview of the long term non-firm options provided in the summary document.

TD asked what an annual release is likely to consist of, is it a defined quantity. MW advised that it should be linked to the firm incremental release signal. JCx asked what happens after September, if the customer has capacity delivery, say, in November, is the interruptible capacity still available until the firm is brought online. MW thought it would be provided on a month by month basis. TD did not think this was appropriate, if the firm date is set, the interruptible capacity should be available for the remainder of the required period.

There was a general discussion on option costs and that the least cost option for Shippers is Option 1 if there are no changes to existing tariffs.

JCx asked if the interruptible capacity is available to the whole market – is it available to any shipper or just those booking capacity at the particular offtake. RA advised that it is open to any party. JCx did not agree with this, as it should be restricted to those requesting firm capacity to support the new connection.

MW agreed with JCx that Option 4 is similar to Option 1, as it allows National Grid NTS to make a judgment on a risk/reward basis as to whether to offer the capacity on a short-term contract. However, options 1 & 4 were not

considered viable by Workgroup participants for future development as they appear to offer insufficient certainty to the customer.

GJ asked what level of system functionality is being considered for this process, it should not be gold plated. MW agreed - it would be basic but fit for purpose.

When asked if there were any options that Ofgem regard as unacceptable, or a strong favourite, LH advised that Ofgem had no particular view on the options at this stage and was willing to take views from the industry.

When considering which option was preferable, MW suggested Options 1 & 4 could be fallbacks until one of the remaining options was chosen and implemented.

JCx asked if existing option contracts are systematised. MW confirmed they were. TD asked if it would be possible to implement both options 2 and 5 since these appeared to have industry support, and either may be preferable in given circumstances. NW thought this would be possible but costs would need to be understood.

MW advised that, in light of the discussion, he would prepare a draft modification for discussion at a future meeting.

Action TR1101: MW to draft a modification

3.1.2 Draft NTS Generic Revenue Driver Methodology Statement – Initial Consultation

RA gave a presentation on the generic Revenue Driver Methodology, outlining the background and giving an overview of the principle steps that National Grid NTS will seek to follow for each Revenue Driver. The Revenue Driver calculation/recalculation triggers were then detailed.

TD asked how a party would understand if a revenue driver input had been materially changed and so would drive a change to the revenue drivers. RA advised that information would be available as it is likely to be driven by licence requirements. LH asked if there would be visibility of the impacts on designs and assumptions, which change the costs of the build and so therefore change the revenue driver. RA agreed to consider these impacts.

LH thought it likely that the revenue driver reviews would be a requirement and that these would be on a regular basis rather than because of RIIO.

Attention was drawn to the consultation, through which National Grid NTS was seeking views on a number of specific aspects and Workgroup participants were encouraged to contribute their views. The consultation closes on 29 November 2012.

3.2 Changing the Gas Day

PH gave a presentation regarding the proposed definition of the “Gas Day” in EU Codes - 05:00 to 05:00 based on Coordinated Universal Time (UTC). The presentation considered the impacts there might be on the UNC, upstream and downstream, from a National Grid perspective.

National Grid NTS was reviewing time-specific processes across the UNC and identifying references that may require alteration. From National Grid NTS’ perspective a number of areas relating to the Transmission system had been identified that may be impacted. By extension, wider impacts across other parts of the industry were anticipated and PH strongly emphasised that these and any others that were identified would need to be considered by relevant GB stakeholders.

AP asked about the timeframe for implementation. PH advised that this is to be agreed and would be clarified as soon as possible given the extent of potential systems work and the associated lead time.

FG asked if the time would change in line with BST/GMT changes each year. This was confirmed as so, such that it will remain a 5.00am start in each country. FG advised that a significant amount of notice is required, at least 12 months for their own system development, testing and implementation.

JC asked if CAM is likely to provide an implementation date, which coincides with a notable date such as 01 April or 01 October so an applicable regime can be in place at the time of implementation.

MW agreed to feedback the views of the Workgroup back to CAM.

3.3 Gas Security of Supply Significant Code Review (SCR)

MC said that Ofgem has been clear that it considers credit arrangements outside the scope of its review. However, as indicated at the previous Workgroup meeting, there were reasons to support a strong belief that the SCR proposal has a significant impact on the community’s credit arrangements.

Having given close consideration to the potential effects, the Energy Balancing Credit Committee believed, given the existing UNC rules, Ofgem’s proposed approach is likely to perpetuate a Gas Deficit Emergency (GDE) or exacerbate User failure across the GB market. There is a risk that financial institutions will not be able to provide the level of security required and the credit requirements have the potential to be a major barrier to new market entrants.

MC gave a presentation setting out the credit implications for the GB market. Key areas of impact had been identified and these were detailed in turn.

TD asked why the calculation is based on VoLL. MC advised that the suggested £10.8b credit requirement was based on the existing UNC rules and therefore real exposure at VoLL/peak has to be anticipated as the maximum – the rules require this.

NW challenged whether there should be a probability of risk applied rather than using VoLL. MC explained that the credit rules require actual risk to be identified and this drives the requirement for the level of security required.

NW was concerned that this level of risk indicates that the level of VoLL proposed is not sustainable by the industry.

MC advised that, given the implied exposure, changes to the credit rules will be required should the SCR proposal be put in place, in order to allow the credit process to be managed by Transporters and EBCC members.

JC asked if a Shipper fails but the Supplier continues, as they are a different company, would they be responsible for the compensation exposure and fund DSR payments. CT advised that this is still being discussed and the credit exposure would be against the Shipper and not the Supplier. Any under recovery would be passed on to long shippers as a socialised cost. AM confirmed that Ofgem are considering the exposure of long shippers due to failure of short Shippers and encouraged participants to make their views known by responding to the consultation.

MC asked if the Workgroup would want further updates as thoughts are developed? RF advised that the EBCC can amend the credit rules but wider changes to UNC should be discussed in this or a similar forum to get wider participation.

NW felt the updates show that the proposed SCR changes are un-securable and that Ofgem should seriously consider these impacts on the industry. MC concurred that, within the present environment of downgrading financial institutions, it will be difficult to obtain the level of security implied by the SCR.

AMi asked if VoLL were not a set value, would it change these impacts. MC felt this would not help, as the market would want to see the actual value to understand the risk.

MA advised that the next pronouncement from Ofgem would be after the review of consultation responses, and is likely to be early in 2013. JC asked if Ofgem have any views on targeting shortfalls on short shippers and thereafter on neutrality. AM advised that this was being considered but may place perverse incentives on all shippers to decrease throughput as any cost passed through neutrality will impact the shippers with the greatest system throughput.

GJ asked if the SCR scope should be widened to include a review of the credit issues raised to ensure they are discussed in detail and suggested that Ofgem's senior management should be made aware. AM confirmed that any responses will be flagged to senior management in Ofgem.

3.4 Consequential changes to the UNC resulting from RIIO

TD drew attention to the draft modification and invited comments. No issues were raised.

3.5 New Issues

None raised.

4. Any Other Business

4.1 EU Tariffs Framework Guidelines

DH provided an overview of the proposed National Grid NTS response to the framework guidelines and advised that the slides presented to the Workgroup should be available on the Joint Office website following this meeting. DH advised participants that they should be considering their own responses to the consultation.

MD advised that, in Europe, capacity charges are reviewed on an annual basis and everyone pays the same. This is not the same as in GB. One advantage is that there are very few cases of under recovery and perhaps this should be considered as a potential option in GB. This is one of the reasons why European companies don't see a need for a commodity charge.

JC asked if storage discounts should be considered reasonable. DH felt that storage should either be out of scope or treated the same as any other connection. RM advised that there was a recent report that set out why storage should be treated differently and this should be considered in the National Grid NTS response. DH advised that their view is still open to influence, but time is running out. However, this does not preclude other parties making responses. She did not think storage was a European issue and should be resolved domestically.

NW asked if the view presented is that the GB pricing structure should be the preferred structure. DH felt that National Grid NTS were willing to consider alternative methods but they also needed to be aware that whatever is agreed needs to be implementable in GB.

RH commented that parties should always consider their own responses as it is not always possible for National Grid NTS to represent the views of all parties.

AMi asked, if the model was changed to a capacity model, would charges increase. DH confirmed that capacity charges would have to increase, though there is concern that charging models are being set by Europe rather than domestically.

5. Diary Planning

As noted at 3.1 above, an Issues meeting will take place at 10:30 on Friday 09 November 2012, at the Energy Networks Association (ENA), 6th Floor, Dean Bradley House, 52 Horseferry Road, London SW1P 2AF.

The next Transmission Workgroup meeting will take place at 10:00 on Thursday 06 December 2012, at ELEXON, 350 Euston Road, London NW1 3AW.

The January 2013 Transmission Workgroup will take place at 10:00, on Thursday 10 January 2013, at ELEXON, 350 Euston Road, London NW1 3AW.

Action Log – UNC Transmission Workgroup: 01 November 2012

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
TR0801	02/08/12	3.2.2	<i>Development of the capacity and connection processes – Planning and Advanced Reservation of Capacity Agreement (PARCA) – Provide worked examples of the PARCA approach under differing scenarios.</i>	National Grid NTS (MW)	Carried forward
TR0902	18/09/12	2.1.1	<i>Long term non-firm capacity: Produce a draft discussion paper setting out the options for review/comment.</i>	National Grid NTS (MW)	Completed
TR0903	18/09/12	2.1.4	<i>Capacity and Connections: Produce an expanded document (based on a modification proposal template) to clearly demonstrate the need for change, how this might be achieved, and giving consideration to wide ranging industry impacts.</i>	National Grid NTS (MW/SP)	Carried forward
TR1101	01/11/12	3.1.1	Draft a new modification.	National Grid NTS (MW)	Pending