Minutes of Review Group 0221
Wednesday 10 December 2008
held at
Elexon, 350 Euston Road, London NW1 3AW

Attendees

John Bradley (Chair)	(JB)	Joint Office
Bogdan Kowalewicz	(BK)	Ofgem
Chris Shanley	(CS)	National Grid NTS
Chris Wright	(CW)	Centrica
David Linden	(DL)	BP Gas
Fergus Healey	(FH)	National Grid NTS
Jeff Chandler	(JC)	SSE
John Baldwin	(JB2)	Canatxx Shipping
Richard Fairholme	(RF)	EON UK
Ritchard Hewitt	(RH)	National Grid NTS
Shelley Rouse	(SR)	Statoil (UK)
Tim Davis	(TD)	Joint Office

1. Introduction

JB welcomed attendees to the seventh meeting of Review Group 0221.

2. Review of Minutes and Actions from the previous meetings

2.1 Minutes (27 November 2008)

The minutes of the previous meeting were then approved.

2.2 Actions from previous sessions

Action RG0221/007: National Grid NTS to report on the outcome of novation discussions to this Review Group.

Update: See below. **Action closed.**

Action RG0221/015: National Grid NTS (CT) to confirm whether the 2% of RAV unsecured credit limit applied to security providers as well as Users

Update: RH reported that this was still being ascertained. **Action carried forward.**

Action RG0221/016: National Grid NTS (RH) to develop a spreadsheet summarising the impact of some scenarios for discussion at a subsequent meeting

Update: National Grid NTS had provided some graphs to inform discussion as part of the meeting. **Action closed.**

3. National Grid NTS Strawman

National Grid NTS had produced a strawman to elucidate the issues and this was used to structure discussion.

JB asked whether there was any support for including AMSEC or this could be excluded from any proposal. National Grid NTS felt excluding AMSEC simplified the way forward and did not materially impact the outcome. CW argued that there was little logical reason why risk was greater under QSEC rather than AMSEC, but RH felt the issue was the amount of revenue which National Grid was allowed to collect, such that there would be no risk to the community as a whole. JB2 accepted this point about aggregate risk. However, if prices were not stable, for example there was an expectation of rising prices, behaviour could change and trading encouraged and risk would be potentially increased. RH suggested the group look at the balance between the increased complexity were

AMSEC included relative to the value involved. In terms of complexity, CS explained that credit could be assessed and provided within the QSEC timeline, but the AMSEC timetable was more constrained at present.

It was recognised that changing the credit arrangements, but excluding AMSEC, could of itself encourage capacity bookings to be moved from QSEC to AMSEC, and that the materiality may vary over time. It was therefore concluded that the inclusion of AMSEC and its implications should be considered further as part of the development of options.

Looking at the time when security should be provided – ahead of, during or after the allocation process, discussion focussed on the impact of any failure to post suitable security. BK indicated that Ofgem would have a concern if there was any implication for lead times, and especially if the treatment of new entrants was any different to that of incumbents. RF asked whether the options could be combined, such that a minimum credit was provided in advance and any supplementary credit was provided in light of the auction outcome.

JB2 suggested that references to incremental capacity were irrelevant in the National Grid NTS strawman, and it was accepted that the issue related to all capacity offered in the QSEC process, irrespective of whether or not it was incremental. He felt that a stepped approach would be appropriate which related to actual investment profiles, and credit requirements would only be triggered if and when substantial investment was undertaken. This then created the real issue of SO incentive revenue being collected from others despite investment not being needed and not going ahead. RH argued that not investing was a risk for which there should be some compensation.

JB asked if there was consensus that credit ahead of the auction was agreed? JC was very uncomfortable with this since it required predicting the outcome of the QSEC process and if prices rose higher than predicted, it may not be possible to provide additional credit during the process. However, dependent on materiality, it was generally felt that Option 1, credit provision in advance, was likely to be preferred.

Discussion followed regarding flexibility, for example if a Shipper entered bids which marginally exceeded the value of credit provided in advance. RF asked if the kind of approach adopted by EBCC was possible seeking additional credit in light of circumstances, or if termination was envisaged. RH felt the situation was very different when looking, effectively, at the provision of a deposit ahead of a purchase as opposed to non-payment of bills. The Group had previously agreed that rules should be specific rather than requiring an EBCC style approach, and this was reaffirmed. Allowing people to adjust their credit position would open difficulties, through mistake or deliberate action, such that a firm commitment ahead of the process emerged as a front runner – again with caveats dependent on the level of commitment required (not £ for £ credit).

Turning to potential options for establishing the value of credit to be provided, CS ran through the options in the National Grid NTS strawman and then the decision tree diagram for when credit might be sought, together with indicative amounts.

The decision tree differentiates between new and existing ASEPs. While it was recognised as being potentially discriminatory, RH suggested that the risk was different and hence there was a justification for this. BK indicated that Ofgem were concerned about the outcome rather than the steps used to reach it - the level of credit sought should not discriminate between parties. RH questioned whether the Group accepted that there was higher risk for new ASEPs? JB2 felt there was a difference between general reinforcement and a dedicated pipeline which may never be used – the difference in risk was in the connection pipeline not the reinforcements. DL did not see any distinction, for example at Milford Haven where opportunities were provided and multiple Shippers were expected to operate at Milford Haven.

JB2 was concerned that the proposed solutions may not be addressing the right problem. A simple requirement to put up a significant but not unduly large sum would be simple and would discourage speculative behaviour. CW agreed that there was a risk of creating undue complexity and that, while the National Grid NTS work was worthy and informative, it was possible to conclude that a simple, fit for purpose, solution would be a significant step in the right direction and worth implementing relative to the status quo.

CS then presented the values which would be implied by each of the auctions given the quantities of entry capacity to which Shippers have already committed. The range was between 100% of the value of bids and 7% (status quo) with option 3 (30%) requiring roughly double the amount of option 4 to potentially be secured.

JB2 asked what happens if capacity is not paid for. RH said that under the current regime, the capacity is taken away from the Shipper and offered for sale to others. JB2 felt that introducing a change of regime could therefore create a perverse incentive and that implementation arrangements would be needed to ensure a single ASEP Shipper did not walk away from capacity and then reappear as a new Shipper able to operate without the same degree of commitment. All agreed that any option would need to be carefully assessed to avoid unintended consequences.

CS drew attention to National Grid NTS's strawman conclusions on the way forward and invited views – being keen to narrow down the options while emphasising that the strawman had been prepared to encourage debate rather than necessarily being the final position which National Grid NTS felt was appropriate.

SR ask for clarification regarding whether credit was being sought for individual ASEPs or in aggregate, and what would happen if credit was not provided. RH said that individual ASEPs would be considered with security then requested for the aggregate amount identified across all ASEPs for each Shipper. If insufficient credit was provided, all capacity holdings could be withdrawn. CW asked if there could be a process about the capacity to be lost in order to bring the level of liability within the total credit available, for example if circumstances changed such that additional credit needed to be provided. RH agreed that this needed to be covered in the monitoring section of the strawman.

4. Allocation of actions for next Session (7 January 2009)

Action 017: National Grid NTS to rework the strawman taking account of Review Group discussions to date

RH emphasised he would welcome others tabling an alternative strawman if they were unhappy with the National Grid NTS approach. JB2 felt we should be clear about what we were trying to solve before seeing if an alternative solution was appropriate.

5. Any Other Business

FH presented on assignment – the transfer of financial liability as well as capacity entitlement. xoserve had provided a Rom (Rough Order of Magnitude) estimate for providing a systematised solution. National Grid NTS regarded this as relatively high cost and lower than other priorities for progression.

FH concluded that National Grid NTS is not planning to raise a Modification Proposal relating to assignment at present, although it would be willing to support the development process if any other party wished to bring forward a Proposal in this respect.

CW indicated that he had raised this issue since he felt it could be addressed as part of the outcome from the Group's discussions, for implementation along with any identified changes to credit requirements. However, FH confirmed that National Grid NTS did not wish to sponsor any inclusion of assignment within the scope of Review Group 0221.

6. Diary Planning for Review Group

The next meeting of the Review Group will be held following the Substitution Workshop on 7 January 2009, at Elexon, 4th Floor, 350 Euston Road, London NW1 3AW.

Subsequent meetings will be arranged as the progress of the work of the group dictates.

ACTION LOG – Review Group 0221

Action Ref	Meeting Date	Minute Ref	Action	Owner*	Status Update
RG0221 015	27/11/08	4.1	Confirm whether the 2% of RAV unsecured credit limit applied to security providers as well as Users	National Grid NTS (CT)	Carried forward to 7 January meeting
RG0221 016	27/11/08	4.1	Develop a spreadsheet summarising the impact of some scenarios for discussion at a subsequent meeting	National Grid NTS (RH)	Covered in strawman presentation **Closed**
RG0221 017	10/12/08	4	Refine the strawman taking account of discussions to date	National Grid NTS (CS)	

* Key to action owners

RH – Ritchard Hewitt

CT – Claire Thorneywork

CS – Chris Shanley