

Minutes of Review Group 0221

Thursday 25 September 2008

held at

Elaxon, 350, Euston Road, London NW1 3AW

Attendees

John Bradley (Chair)	(JB)	Joint Office of Gas Transporters
Bob Fletcher (Secretary)	(BF)	Joint Office of Gas Transporters
Andrew Fox	(AF)	National Grid NTS
Charles Ruffell	(CR)	RWE npower
Chris Wright	(CW)	Centrica
Craig Purdie	(CP)	Centrica Storage Ltd
John Baldwin	(JB1)	CNG Services
Paul O'Donovan	(POD)	Ofgem
Phil Broom	(PB)	GdF
Richard Fairholme	(RF)	E.ON
Ritchard Hewitt	(RH)	National Grid NTS

Apologies

David Linden	(DL)	BP Gas
Lorna DuPont	(LD)	Joint Office of Gas Transporters

1. Introduction

JB welcomed attendees to the second meeting of Review Group 0221 and reported that the UNC Modification Panel had returned the draft Terms of Reference to the Review Group because there was a query raised concerning the current version listed on the web site. The draft Terms of Reference will be re-presented for consideration at the October UNC Modification Panel meeting and the current version can be found in the Terms of Reference Section listed against Review Group 0221.

2. Review of Minutes and Actions from the previous meeting (11 September 2008)

2.1 Minutes

The minutes of the previous meeting were agreed.

2.2 Actions

RG0221/001: National Grid NTS to arrange for a presentation on CAP131 to be made at the next meeting; if internal CAP131 expert unavailable National Grid NTS to contact CR who has offered to give a high level presentation.

Update: See 3.4 below

Closed.

RG0221/002: National Grid NTS to produce a timeline describing and explaining the changes that have happened to risks that have triggered the bringing forward of this Review Proposal.

Update: See 3.2 below.

Closed.

RG0221/003: Work Plan: Joint Office to liaise with the Proposer and review the draft Work Programme, and produce an appropriate Work Plan for the next meeting.

Update: See item 3.1 below.

Closed

3. Work Plan

3.1 Agree Work Plan

A draft work plan was discussed. CR advised that there may be some interest in other relevant electricity modification proposals and will provide an update for session 3.

The group agreed the draft work plan subject to clarification from CR.

Action RG0021 001 was closed.

Action RG0221 004 RWE (CR) to provide an update on other modification proposals that may be relevant to Proposal 0221.

3.2 Question to be addressed 1

“Do the current Default/Termination rules operate effectively and equitably and incentivise appropriate behaviour at the company group level?”

The above question was discussed. AF gave a presentation on the review of entry capacity and the appropriate allocation of financial risk.

CW asked whether the term non-incremental obligated entry capacity was used in the licence to denote non-funded capacity. AF confirmed that it was but agreed to check.

[Post meeting note: the term “non-incremental obligated entry capacity” is defined in Special Condition C8A 1 (a)]

JB asked if the incremental obligated entry capacity rules apply to both new and existing entry points, RH confirmed that it applied to both.

JB asked if AF was going to deal with IAEs in the presentation, AF said he was not. JB pointed to the section in the minutes of the previous meeting that confirmed that the Transporter licence permitted Shippers to seek an IAE review from the Authority.

JB1 asked when you could request a review, at the time of the event or when you know it is likely to happen. It was concluded that this level of detail was not included in the licence.

RH confirmed that National Grid NTS was not proposing any changes that would affect the Transporter's risk as this was a matter for the Transporter Licence. The current rules keep the Transporter whole.

JB1 asked if additional incremental capacity was sold by auction, as a result of a new ASEP and a Shipper had defaulted, would the capacity be released and the trigger/signal removed. RH advised that the rules were flexible enough to manage this process, though there may still be the need for a trigger event and commitment to make capacity available.

RH also asked if members believed there should be a surrender mechanism for ASEPs and if so, how would incentives be managed?

DH asked if capacity at the relevant ASEP would be removed if the User were found to be in breach of its Shipper licence. AF responded that if a User ceases to be a Shipper, National Grid NTS would revoke the capacity request and costs would be recovered through the TO charges.

JB1 suggested that there should be discussion in the Review Group on the commercial consequences if National Grid NTS terminated a User. For example, would this generate an Income Adjusting Event?

JB asked what would happen if Termination occurred due to other reasons, such as non-payment of energy balancing charges. RH said that capacity would to be released.

JB1 asked if the Shipper could ask National Grid NTS to build connecting pipelines (e.g. between an LNG terminal and NTS) as connecting pipelines do not need to be built by National Grid NTS. Any deterrents against default would be more significant.

RF asked if the group agreed that the Termination rules do not work equitably at group level. CW agreed that they do not work equitably; the existing arrangements do not prevent the formation of shell companies to buy entry capacity. This would add to the risk facing Users.

JB summarised the discussion. In response to the question posed, the current Default/Termination rules do not operate effectively and equitably and incentivise appropriate behaviour at the company group level. The Review Group agreed with this statement.

3.3 Question to be addressed 2

“In the context of the regulatory and licensing regime, under Default/Termination conditions is the balance of risk shared between the Transporter, new and existing Users, large and small portfolio players and the wider community appropriate?”

The perceived balance of risk was discussed in depth and AF explained an example scenario where a project collapsed and National Grid NTS did not build the capacity, it could be put at risk if another fast track project commenced not allowing time for National Grid NTS time to build sufficient capacity. JB1 thought this was an unlikely scenario as projects of this scale require significant planning time.

AF included a timeline in the presentation as requested.

Action RG0021 002 was closed.

CR agreed with JB1 that risk is associated with the cost of construction and the impact these costs have on the regulated asset base. The capacity is available to all who share in its cost.

JB1 asked if the issue could be broken down into component parts and rules set to manage different scenarios and potential gaming risks. CW asked if parent company guarantees would help, though RH thought this is unlikely as these risks are associated with Shippers not part of a group of companies currently participating as Users under the UNC.

JB asked if the rules should mirror the electricity industry and have a number of hurdles for requesters to cross. DH had mixed views due to the potential impacts on new users/entrants.

RH thought scenarios could be talked through in more detail at a later session, though this would require a change to Work Plan.

Action RG0221 005 National Grid NTS (RH) to develop and present alternative principles for requiring security from capacity holders.

Joint Office (JB) agreed to modify Work Plan to allow scenario review in session 4.

[Post meeting note: completed and on the Joint Office website]

CW asked what happens if a party does not commit to sufficient capacity 12 months prior to project commencement. RH thought that each scenario is different and cannot be answered simply.

JB1 asked how this process links into the Network Entry Agreements. Is there a benefit in reviewing these agreements in respect of how default is controlled.

Action: RG0221 006 National Grid NTS (RH) to review Network Entry Agreements from the standpoint of revising default arrangements.

3.4 CUSC Code

CR gave a presentation on entry rights and how the electricity market compares to the gas market as set out in CAP131.

RF asked what Ofgem's view is on CAP131. POD advised that Ofgem still have concerns with the proposal. There is an interim solution that addresses the issues and Ofgem was unconvinced that CAP131 was an improvement on this. There may also be issues that the Proposal did not treat all connectors equally.

JB asked if the existing arrangements have a sunset clause. CR advised that there was no sunset clause and whilst termed "interim", the current arrangements would apply until new rules were approved by Ofgem.

JB asked if it would be worth reviewing CAP165 once the report was published. A list of working groups etc is listed on the National Grid web site under electricity codes.

<http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/workingstandinggroups/wg165-166/>

CR agreed to come to provide an update to the next meeting under existing action RG0221 004.

Action RG0021 001 was closed.

RH thought it would be useful to consider risk based assessment options and this should be picked up in the forthcoming sessions.

4. Any Other Business

JB1 asked if a Shipper wants to sell entry capacity to a new party; if that new party fails to complete does the liability comes back to original Shipper and if so, does this change if security arrangement change. JB pointed out that in respect of NTS Exit, this was addressed in Modification Proposals 0116V, 0195 and some of their alternatives..

5. Diary Planning for Review Group

Next meetings (all at Elexon, 350 Euston Road, London NW1 3AW.):

Monday 13th October – 10.00

Tuesday 28th October – 10.00

Monday 10th November - 13.30

Thursday 28th November – 13.20

Wednesday 10th December - 10.00

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 001	11/09/08	2.0	National Grid NTS to arrange for a presentation on CAP131 to be made at the next meeting; if internal CAP131 expert unavailable National Grid NTS to contact CR who has offered to give a high level presentation.	National Grid NTS (RH)	Closed
RG0221 002	11/09/08	3.0	National Grid NTS to produce a timeline describing and explaining the changes that have happened to risks that have triggered the bringing forward of this Review Proposal.	National Grid NTS (RH)	Closed
RG0221 003	11/09/08	3.0	Work Plan: Joint Office to liaise with the Proposer and review the draft Work Programme, and produce an appropriate Work Plan for the next meeting.	Joint Office (JB) and National Grid NTS (RH)	Closed
RG0221 004	25/09/08	3.1 and 3.4	Provide an update on other modification proposals that may be relevant to Proposal 0221.	RWE (CR)	
RG0221 005	25/09/08	3.2	Develop and present alternative principles for requiring security from capacity holders	National Grid NTS (RH)	
RG0221 006	25/09/08	3.2	Review Network Entry Agreements from the standpoint of revising default arrangements.	National Grid NTS (RH)	

* Key to action owners

RH – Ritchard Hewitt, JB – John Bradley