

Review Group 0291 Minutes
Monday 19 July 2010
Energy Networks Association, Dean Bradley House, 52 Horseferry Road, London
SW1P 2AF

Attendees		
Tim Davis (Chair)	(TD)	Joint Office
Lorna Dupont (Secretary)	(LD)	Joint Office
Alan Raper	(AR)	National Grid Distribution
Amar Singh*	(AS)	ExxonMobil
Ben Woodside	(BW)	Ofgem
Bethan Winter	(BWr)	Wales & West Utilities
Charles Ruffell	(CR)	RWE npower
Chris Aldridge	(CA)	National Grid NTS
Chris Wright	(CW)	Centrica
Darren Lond	(DL)	National Grid NTS
Jacopo Vignola	(JV)	Centrica Storage Ltd
Jamie Black	(JB)	Ofgem
Jeff Chandler*	(JC)	SSE
Julie Cox	(JCx)	AEP
Rekha Theaker	(RT)	WatersWye
Richard Fairholme	(RF)	E.ON UK
Ritchard Hewitt	(RH)	National Grid NTS
Shelley Rouse	(SR)	Statoil
Simon Trivella	(ST)	Wales & West Utilities
Stefan Leedham	(SL)	EDF Energy
Steve Pownall	(SP)	National Grid NTS
Timothy Wyndham	(TW)	Ofgem
* via teleconference		

1. Introduction

TD welcomed attendees to the meeting.

1.1 Minutes from previous meeting (21 June 2010)

Subject to a clarification, the revised minutes were accepted.

1.2 Review of actions from previous meeting(s)

Action RG0291/003: National Grid NTS (SP) to assess and confirm the maximum quantity which could consistently be made available through a linepack product.

Update: This was addressed in the presentations made at this meeting. **Action closed**

Action RG0291/006: Analyse potential misallocation of costs due to build up of linepack variations over a period of days.

and

Action RG0291/007: Review trend of linepack on continuous days where no residual balancing actions are taken, and clarify details (when/where/why) of instances where actions were taken.

Update: Covering both actions, material was submitted in advance of the meeting. This is due to be discussed at the next meeting. **Action carried forward**

Action RG0291/008: Refine compressor costs option.

Update: To be presented at the next meeting. **Action carried forward**

Action RG0291/009: Review and collate Hornsea figures based on current methodology for years 2002 – 2009 inclusive and report to next meeting.

Update: To be presented at the next meeting. **Action carried forward**

Action 0291/010: Analyse system length (tightness) versus SAP correlations and report to next meeting.

Update: To be presented at the next meeting. **Action carried forward**

Action 0291/011: Option 4b – Update table to reflect all sources and flexibility options and report to next meeting.

Update: To be presented at the next meeting. **Action carried forward**

2. Review Group Discussions

2.1 Linepack Product

2.1.1 Linepack ‘Park and Loan’ Quantity – Influencing Factors

A presentation describing the influencing factors and limits on Linepack ‘Park and Loan’ quantity was given by CA, illustrating the operational range of linepack, system flexibilities and flow pattern volatility.

CA explained that the NTS had been constructed to transport gas efficiently, based on flat profiles of supply and demand, and within a certain range of operating pressures, and that system flexibility was inherently a “by-product” of operating the NTS within the range of these pressure limits. The current flexibility “limits” were entirely dependent on the daily NTS setup and the supply/demand pattern, and it was therefore quite complex to define and model a minima and maxima of available flexibility.

CA concluded that a ‘park and loan’ product should be seen in this context and would have to compete with the other requirements for flexibility and contingency, as well as varying conditions day to day. Hence the release should be discretionary if the quantity is to be maximised. The risks and rewards inherent in linepack release lend themselves to an incentivised regime, encouraging NTS to release the maximum quantity possible.

JCx asked if NTS would be able to publish forecast availability for the next day. CA believed that would be difficult, and NTS would be more comfortable releasing definite volumes during the day for return the next day (ie overnight storage). RH added that all the uncertainties as presented were on the day, and volumes are even more uncertain on the day ahead – the data would be very volatile.

TD then asked if the group agreed with CA’s conclusion that this product ought to be subject to an incentive regime. RF said that Shippers would want a product designed for them to use rather than designed to fit within an incentive framework. JCx suggested evidence would be needed that the cost of any incentive scheme would deliver sufficient benefit to justify it. SP asked what behaviours would such a scheme want to change; was it, for example, about

developing the flexibility of the system. BW suggested it was worth ensuring the regime encouraged efficient use of the available flexibility.

RH commented that the flexibility helps to facilitate a liquid market; within day flex on the NTS is supporting markets, so starting to use flexibility for other purposes may adversely affect the within day energy balancing market. Where should the emphasis or priority be placed? A balance needs to be achieved to avoid damaging current positions.

JCx asked what happens to linepack when National Grid NTS does not take balancing actions for a period of time. Does the system remain in balance or does linepack consistently either deplete or build day by day? BW noted that sometimes it might be more efficient to let linepack vary from day to day rather than for National Grid NTS to take balancing actions. SP mused whether this implied there was a case for removing the current linepack incentive.

SL asked how early in the day a reliable indication could be published of how much linepack could be offered. CA replied that around 13:00 – 14:00, one would have a better idea as to how much could be released, but between 20:00 and midnight there would be a lot more confidence regarding the closing level of the system. Availability would be evident more obviously later in the day.

'Park and Loan' Scenario Analysis

This had been carried out by National Grid NTS to attempt to obtain some idea of the quantity of linepack that it may be possible to release. The results indicate that a potential range of 'park and loan' is between 2 and 10 mcm on days when anything can be released.

RF questioned whether the suggested service might be undercutting storage, and be offered on different terms. RH indicated that what the service might look like and the cost to market needed to be developed; any impacts on storage would depend on how and when a service was offered and at what price.

TD asked if the view remained, as expressed at an earlier meeting, that the volumes were not particularly significant. SL remarked that it did seem a lot of work for a rather small quantity. JCx sought clarification that the minimum quantity would be zero, which is clearly of no value. CA confirmed the range would be 2 – 10mcm *when available* and that he would not expect linepack to be available every day.

CA suggested there was some value in the service for Shippers who were looking to take advantage of price differences from one day to the next. SL countered that if release of the product involved a complex regime, the benefits may not exceed the costs. JCx asked what benefits were expected for the consumer. RH suggested it might lead to a reduction in fuel costs, to the extent that Shipper savings are passed through. SL added that Shippers would be doing their best to avoid cash out anyway, and would only use a linepack service if it was cheaper.

2.1.2 Linepack 'Park and Loan' – Inter-day Energy Transfer Product - Opportunity and Risk

CA gave a presentation centred on the inter-day energy transfer product, the associated commercial opportunities, and the interactions with residual balancing. Graphs demonstrating the commercial opportunities were presented, looking at day ahead assessment and theoretical maximum.

The possible day ahead benefit was estimated as £2.3m per annum. RF asked how this revenue would be treated. CA said that it represented a potential

decrease in costs and he would expect any incentive arrangement to share this saving between Shippers and National Grid NTS. RF pointed out that if there was barely any benefit for Shippers there was unlikely to be any interest. RH responded that the structure of the product needed to be looked at so that the outcome would benefit all sufficiently to warrant interest from all parties.

Referring to the slide illustrating the theoretical maximum, CA explained that this had been based on 'perfect foresight', in an attempt to establish the theoretical maximum value of releasing 2mcm of linepack every day. This gave an indicative theoretical maximum of £5.5m per annum. Responding to a question from TD, CA confirmed that using 2mcm was more realistic than using 10mcm to establish the maximum potential value.

CW raised a concern that if gas was parked, and redemption was then blocked because the system would be short, there was a risk that no gas would be returned, and questioned whether trades would still be honoured. SL supported CW that there was uncertainty and risk with the discretionary approach as described, not just on the day park and loan was initiated but also on the day of release. RF suggested that if gas was not released from the arrangement, then it might be necessary to have some form of compensation in place, for the days when it may otherwise be necessary to take unforeseen balancing actions. However, this additional complexity and unforeseen/uncertain costs further reduce the attractiveness of the product.

CA acknowledged the concerns but pointed out that there was no obvious panacea at present. RH believed that the development of appropriate business rules could clarify and address these concerns, including where any costs should be allocated.

TW pointed out that movement away from a firm product immediately reduces the value considerably; the challenge is finding a balance between having a risk averse seller of a product and setting an appropriate price. RF observed that he was not even sure if the scale and product was sufficiently attractive for parties to consider using it. TW believed the product needed to have sufficient value irrespective of volumes for the day of offer and return.

2.1.3 Linepack – Commercial Considerations and Options

SP gave a presentation outlining a potential park and loan product and the assumptions made concerning its characteristics, together with key measures for establishing its fitness for purpose.

Responding to a question from JCx, SP said that the product was aimed at providing an additional tool for balancing late in the day. RH added that the cash out defaults effectively place a value on linepack. TD reminded that, at the previous meeting, it was suggested that this was the other way round with valuing linepack being one means of establishing cash out defaults.

Concerns were expressed that there should be no adverse impact on any current commercial arrangements already in place, eg NExAs. CW added that less flexible terms may be offered in new Nexus if this product was in place. RH noted these concerns existed and agreed that all impacts should be given consideration during the development process. SP added that discussions would take place with the HSE if any safety implications were identified, but no potential change would be discounted if benefits were recognised as significant, and this would not stop amendments from being made to other areas if that was appropriate.

Following these discussions it was agreed that SP should add further key measures in respect of residual balancing, environmental issues, and make clear

that the product should not unduly undermine commercial arrangements, such as Entry and Exit flexibility, nor discourage market developments, notably of storage facilities and products

Action RG0291/012: Linepack Product - Add further key measures in respect of residual balancing, environmental issues.

The discourse then moved on to a closer consideration of the EoD Linepack product assumptions. TD suggested that it might be bidirectional, ie Park and Loan and Park, and JCx suggested that 'Firm product' might be a key assumption. SP noted these points.

Action RG0291/013: Linepack Product – Revise key assumptions to include firm status and bidirectional capability.

Pricing mechanism options were then discussed and SP sought views on how complex this might be. RT believed that the frequency and volume of release might affect views on the degree of complexity that may be acceptable. RF suggested a simple approach was essential if the product was to be attractive, which would indicate a single release window. However, the price ought to be set within the market, which implies use of an auction type mechanism. SL agreed with the view that if the service was complicated, no one would take it up. RH raised the possibility of adopting an OCM type product, and various trading options/suggestions were then discussed. RH concluded from these discussions that a market mechanism seemed to be the preferred route, but that this did not feel very comfortable. SL added that time periods to clear down need to be carefully considered to enable parties to adjust their closing positions if unsuccessful.

Different options for product availability were then presented.

Option 1a) End of Day (EoD) Linepack made available within day: single release

This was described as a discretionary single product release within business hours. Consideration would need to be given to the most appropriate time of release.

SP confirmed that the last demand forecast was at 21:00 within day, and asked how much time would be required by Shippers to adjust their position following that information since this could determine the best time to release the product. RT pointed out that not every party had 24 hour operations desks, or employed a User Agent to carry out 'out of hours' activities. RF suggested adopting specific release times and information requirements, including a notification of a zero quantity release. This would give more certainty - at least parties would then know that a release was/had been made.

RH explained that the system position changes throughout the day, and asked if the industry would want NTS to move either side of the market or just in one direction. SL asked how would Shippers know which way it should go? The expectation was that opposite steers would be addressed in existing markets. If it was an efficient market, positions will be traded out. It was pointed out that cash out prices were different.

Option 1b) End of Day (EoD) Linepack made available within day: multiple release

This was described as discretionary multiple product releases within business hours. Considerations would need to be given to how much quantity is made available in each release.

The main advantages were that it facilitated opportunities to adjust User imbalance positions throughout the day, and additional releases could be available closer to EoD when the view of actual available quantities may be clearer. However, multiple releases may mean that less product quantity would be available in each release. Also, it was possibly a more complex option to administer.

RF observed that, as for the previous option, a structure for release was needed to give certainty. SP asked if a fixed time structure was preferred by all? JCX asked if, to aid transparency, an announcement could be made prior to release—perhaps 30 minutes – 1 hour beforehand. SP said that NTS did publish Shipper nominations and RH acknowledged that it was a fair point that Shippers should know approximately what NTS was considering releasing. He also suggested that perhaps an ‘after the event’ information release was also required.

Option 2 - End of Day (EoD) Linepack made available late in the day through a single release (ie out of hours)

This was described as being a discretionary single product release at potentially 00:00hrs; further consideration may be needed in respect of the time of release

SP said this option had more advantages, including an increased confidence of flexibility being available. It would mitigate the impact on physical operation and flexibility management, and the After Hours release may reduce potential conflicts with Residual Balancing obligations. The only disadvantage identified was that it might exclude Users that do not operate out of hours.

RF observed that NTS might take a ‘risk-averse’ approach to release because it is a single release and the time of it. SL believed that fewer parties would want the product at this time rather than if it was released earlier in day; even those with 24 hour trading desks might be reluctant to use this product because internal factors might come into play (eg trading limits and approvals).

TW commented that the approach might reduce the number of NTS actions over a period of time, meaning that smaller parties are exposed to high cash out prices on fewer occasions. JCx pointed out that the between-day cost misallocation issue might be shown to be a ‘red herring’ through the analysis that has been requested for the next meeting; while the taking of fewer actions by NTS was broadly positive, there was a balance to be struck between creating a product to solve something and that product creating a fresh set of complexities and issues. TW remained to be convinced that improvements could be made to the current position.

RF stated that none of the options appeared attractive, However, if NTS have to have a starting point and he had to choose at this point, Option 1a might be viewed as the least worse.

RT stated that she would be reluctant to suggest a preferred option until she knew the charging exposures, the funding arrangements and the cost targeting arrangements: however, Option 2 seemed best at first glance. SL also preferred Option 2. SR pointed out that the volumes suggested were too small to make any approach worth pursuing but, if having to choose at this point, her instinct was to prefer a release as late in the day as possible.

Taking these initial responses into account, RH and SP suggested that National Grid NTS develop a ‘straw man’ based on Option 2. JCx suggested that this should include a commercial assessment of the viability/value of the product, and RT suggested that it include some clarity on what the NTS incentives would look like. SP agreed to develop some high level principles and then fill out more costing details following further discussions.

Action RG0291/014: Linepack Product – Develop a ‘straw man’ based on Option 2.

Option 3 - Hybrid Model

This was described as a hybrid of SMP default cash out and the C27 Linepack product. It seeks to value linepack through applying a charge, or cash out differential, to a User’s EoD imbalance position which reflects the cost of using linepack to absorb the imbalance.

Application of the price differential for short, long or balanced positions may be different depending on whether or not the User’s imbalance position was in line with the movement in linepack position for the Day. National Grid NTS would enable linepack to move more between days to accommodate the service, such that linepack incentive revisions would be required.

It was noted that this hybrid option does not fit with the assumptions made in respect of the EoD Linepack product; SP explained this Option was a regime change rather than a new product - it is not a Park and Loan service but rather charging Users for linepack swing on an EoD basis, and could replace SMP defaults. The approach avoids the issue of what quantity to release and when, and with more work might also address information uncertainties. RH added that this was akin to an automated release of linepack.

RF asked what this would achieve. BW responded that it might generate efficient use of available linepack and reduce the need for NTS balancing actions. JCx suggested that it would need working up and testing to avoid creating adverse incentives, for example on storage. SP added that a similar approach is used in Australia, and some European markets, and asked if there was any interest in pursuing further development of this option. However, it does not strictly adhere to the C27 drafting and this would require further discussion. TD asked whether, if it would not meet the Licence obligation, it should be discounted. BW indicated that National Grid NTS would need to discuss this with Ofgem; the aim was to have the best and most efficient arrangements in place. However, BW did not see the approach as being in conflict with the intent of the obligations, which was to explore options for more efficient use of linepack. JC suggested changing the incentive scheme to encourage more efficient use of linepack might also be an option.

Recommendations

Following discussion of the options, RH concluded that there was maximum potential to develop the Park and loan product under Option 2, as it addresses some of the concerns regarding multiple releases and having to ‘unwind’ arrangements, and reduce balancing actions. It could also support/complement the default SMP developments.

SP added that National Grid NTS would also like to revisit Option 3 and suggested that this be discussed at the next meeting, in conjunction with the SMP Default cash out discussions.

2.2 Default Cash out

SP reported that this would be covered at the next meeting.

3. Any Other Business

None raised.

4. Diary Planning for Review Group

The remaining tasks were briefly discussed and meeting dates agreed. SP requested that the Chair seek agreement from the Modification Panel to extend the deadline for producing a Review Group Report.

It was confirmed that the focus of the next meeting would be on default cash out, including discussion of Option 3.

The next meeting has been arranged for Wednesday 11 August 2010 at 10:30 at the Energy Network Association's Offices, 6th Floor Dean Bradley House, 52 Horseferry Road, London SW1P 2AF.

Further meetings have been scheduled as follows, to facilitate completion of the work of the Review Group.

Date	Venue	Time	Focus
Wednesday 11 August 2010	ENA, 6 th Floor Dean Bradley House, 52 Horseferry Road, London SW1P 2AF	10:30 – 15:30	Default cash out (agree Review Group conclusions); discussion of Option 3.
Friday 10 September 2010	31 Homer Road, Solihull B91 3LT	10:30 – 15:30	Linepack product (agree Review Group conclusions); agree content of Review Group Report
Monday 20 September 2010	ENA, 6 th Floor Dean Bradley House, 52 Horseferry Road, London SW1P 2AF	10:30 – 15:30	Finalise and approve Review Group Report

ACTION LOG - Review Group 0291

Action Ref	Meeting Date	Minute Ref	Action	Owner	Status Update
RG0291 003	21/05/2010	2.2	Assess and confirm the maximum quantity that could consistently be made available through a linepack product.	National Grid NTS (SP)	Closed
RG0291 006	21/06/10	2.1	Analyse potential misallocation of costs due to build up of linepack variations over a period of days.	National Grid NTS (NR)	Carried forward
RG0291 007	21/06/10	2.1	Review trend of linepack on continuous days where no residual balancing actions are taken, and clarify details (when/where/why) of instances where actions were taken.	National Grid NTS (NR)	Carried forward
RG0291 008	21/06/10	2.2	Refine compressor costs option.	National Grid NTS (NR)	Carried forward
RG0291 009	21/06/10	2.2	Review and collate Hornsea figures based on current methodology for years 2002 – 2009 inclusive and report to next meeting.	National Grid NTS (NR)	Carried forward
RG0291 010	21/06/10	2.2	Analyse system length (tightness) versus SAP correlations and report to next meeting.	National Grid NTS (NR)	Carried forward
RG0291 011	21/06/10	2.2	Option 4b – Update table to reflect all sources and flexibility options and report to next meeting.	National Grid NTS (NR)	Carried forward
RG0291 012	19/07/10	2.1.3	Linepack Product - Add further key measures in respect of residual balancing, environmental issues.	National Grid NTS (SP)	Update due 10 September
RG0291 013	19/07/10	2.1.3	Linepack Product – Revise key assumptions to include firm status and bidirectional capability.	National Grid NTS (SP)	Update due 10 September
RG0291 014	19/07/10	2.1.3	Linepack Product – Develop a 'straw man' based on Option 2.	National Grid NTS (SP)	Update due 10 September

