

Special Transmission Workstream Minutes
Thursday 22 November 2007
Ofgem, 9 Millbank, London SW1P 3GE

Attendees

John Bradley (Chairman)	JB	Joint Office
Alex Barnes	AB	BG Group
Andrew Pearce	AP	BP Gas
Charles Ruffell	CR	RWE Npower
Chris Bennett	CB	National Grid NTS
Chris Wright	CW	Centrica
Christiane Sykes	CS	Statoil (UK)
Dave Adlam	DA	National Grid LNG
Jeff Chandler*	JC	Scottish and Southern Energy
Jenny Boothe	JB1	Ofgem
Jim Ward	JW	National Grid NTS
John Costa	JC1	EDF Energy
Lorna Dupont	LD	Joint Office
Martin Watson	MW	National Grid NTS
Paul O'Donovan	POD	Ofgem
Philip Davies	PD	Ofgem
Rekha Patel	RP	Waters Wye Associates
Richard Fairholme	RF	E.ON UK
Ruth Ashworth	RA	Ofgem
Stuart Cook	SC	Ofgem
Yasmin Sufi	YS	ENI UK
* by telephone		

1. Introduction

JB welcomed all attendees to the meeting.

2. "Facilitating release of non-obligated Entry Capacity" – presentation by National Grid NTS

MW gave a presentation on a potential new short term access entry capacity product. The idea for the new product had been put to National Grid NTS by a User.

The new product would allow National Grid NTS to make more firm capacity available while still being able to manage any physical/financial risk.

The current methods of acquiring access to short term capacity were described, with Transfer and Trades being included from April 2008. However, from a User's perspective, at a sold out ASEP, these access methods to acquire capacity were extremely limited and generally at short notice. National Grid NTS reported that judging by the views it had received prior to the meeting, there was an argument to suggest that the secondary market was illiquid. Many Shippers present disagreed with this view and National Grid NTS acknowledged that this should be reassessed.

The potential new product was then described. CW asked how far in advance the product could be released. MW responded that it may be several weeks, depending on how it would fit in with the existing products. There may be impacts on interruptible

release (discretionary) and also the problem of Users who bought Interruptible being interrupted, but it should not affect UIOLI. MW stated that, if the equation could be balanced correctly, it should not affect the buyback risk for Shippers.

RF asked if there was an agreed price. MW said that would depend on how the product was taken forward; there were a number of different complexities depending on requests. There would need to be a price that covers the buyback request. If National Grid NTS looked to release the product it would do a market test to see if the product would be valued at a higher rate by another User.

The advantages and disadvantages were then described and discussed. There were many concerns that this potential new product could undermine the secondary market. The extent to which the product would remove a barrier to entry for some Users was questionable in CW's view. MW commented that the product was really about creating short term access. AB observed that fields would not be developed on the basis of this, and CS commented that LNG was not favourable by this means. The general view was that the new product did not solve all the issues that had been discussed at other fora, but that it might help to alleviate some minor difficulties.

In response to a question from CS, MW stated that the product does clearly differentiate interruptible and could demonstrate whether a User valued it more highly. JW commented that it was a way of trying to facilitate an extra release. The market test to release such a product would provide a high degree of transparency.

CW commented that whether the product complements Transfer and Trades depends on where the User is coming from – it would undermine the surrender of capacity and the certainty of maximum flows. AB was concerned about the effect on the exchange rates related to Transfer and Trades and possible incentives based on potential interactions. MW agreed that the interaction with all other products would need to be carefully assessed.

The discussion then focused on the disadvantages - the key point being the perception that it devalued the existing interruptible product. MW acknowledged CS's concern that it could take flexibility out of the short term market and agreed that there could be an interaction and potential impact. CR and JC1 thought that it could have a positive effect on the liquidity of the secondary market. MW understood how undermining the interruptible product may be an issue at the Easington Entry Point but not at others.

MW stated that this product would leave the obligation with the Shipper who bought the product, and the risk would therefore have to be passed on or absorbed. JB1 wondered if transfers that would lead to a negative position could be blocked.

CS observed that potential urgent modifications are a big concern to the industry and undermines the need for a period of stability and certainty. AB agreed, and commented that the industry was being moved from what had been a reasonably straightforward regime to what was fast becoming an exceedingly complex regime. Many changes over the past year or so had generated very big problems, much of which this potential product does not address. Both CS and AB were very concerned that this was presenting very complex arrangements that may have a lot of associated impacts that in turn would generate many unintended consequences. CS pointed out that much had already been done to make capacity available this winter. MW responded that there may be a concern that gas would not come to the UK market if we were not seen to be flexible enough, and observed that the Shippers who had approached National Grid NTS with this idea would like to see this product for this winter. National Grid NTS was obligated to present the potential product to the industry and seek its views.

AB reiterated his concern that the industry increasingly had to use a 'sticking plaster on top of a sticking plaster' approach because of unintended consequences, and that this reactive approach needed to be stopped.

CR pointed out that investments were undermined by a lack of capacity products with less certainty, and he had imagined that this was going to be a much firmer product.

Why could this not be backed off against an option product on the other side? An option for the capacity buyer to use it if they needed it but if you cannot honour obligation to sell back – could be used by another User. JW commented that this sounded like a secondary product that may end up sterilised for fixed periods. MW recognised that this may warrant further exploration to understand any drawbacks and exposures.

AB asked if there would be any guidance on how likely National Grid NTS would be to use buyback as some transparency would be needed here.

The discussion moved on to consider options for a possible development process, on the assumption that the advantages of the product were such that the industry would support its further development.

Formal adoption of the product would require changes to the Uniform Network Code and inclusion in the charging methodology. To address the former, either an Urgent Modification Proposal could be raised to target implementation for this winter or a normal Modification Proposal under standard timescales could be raised for implementation next winter.

Ofgem was asked for its thoughts on changes to the charging methodology. PD responded that the proposal would be considered once developed and it may be a question of balancing the legalities of what could be done and the needs of the customer/market. The arrangements continue to develop for this winter to make sure more capacity is made available. Potentially more firm capacity is available to market and this has to be balanced out with benefits for customers. CS remarked that she did not believe this was a way of facilitating this for this winter.

CW thought that Users would require some idea of how the calculation would be made. A published methodology document might help to allay fears of constraint in other areas of the market. MW commented that the more something was codified the less flexibility there would be.

MW then outlined the areas that in National Grid NTS' view would require further development should the Urgent UNC Modification Proposal option be agreed to. MW stressed the complexity of this option and pointed out that a lot of development work would be required to reach a state of readiness where a Modification Proposal could be put forward. Views were sought as to whether there was any value or market interest for this. JB suggested that Ofgem would be likely to require some detailed analysis in order to make a decision and PD did not disagree. AB remarked that from a practical point of view one could not get an Urgent Modification Proposal through unless it was very 'plain'. This potential Proposal would be really complex, and would not be fully developed within the timescales, and would therefore be unlikely to pass through.

Turning to the second option, UNC Modification Proposal following normal timescales, MW said that the process would not be codified for this winter but this would give time for more thorough development involving the industry and would also give time for more consideration to be given to potential impacts. There would also be sufficient time to consider the charging implications and address changes required to the charging methodology. However, systems support for next winter would remain a big challenge. In the interim manual workarounds may have to be used and where possible existing functionality would also have to be utilised.

MW introduced a third option – an ad hoc process to facilitate the release of the described non-obligated product outside of the standard processes. National Grid NTS had identified what was thought to be a viable process which would require Ofgem's consent under UNC TPD Section B1.10, and under Standard Special Condition A4

under the Licence. This could be used in the interim, until a more permanent solution could be developed.

The Shippers highlighted several concerns in relation to this option. There would be no standard process or associated governance in place; it would not be covered in the charging methodology; it could expose Users to potentially more risk. In response, MW said that National Grid NTS would try and carry out a market test to give more comfort. AB asked what would be the quickest time it could be in place and MW answered potentially 10 days in terms of a release. For this ad hoc process, a Modification Proposal would not be required, as UNC TPD B1.10 allows consent to do a capacity release, and Ofgem would have to judge whether this would be in the interests of UK consumers. RP pointed out that a 10 day process has wider implications because of adjacent ASEPs, and AB underlined that the governance issues would be great. Addressing these concerns, RA responded that Ofgem's consent would only be given in a very unusual and narrow set of circumstances, and this option should not be viewed as being on the same footing as other two options presented.

When asked if the meeting could offer its broad support, RP maintained that there were still strong concerns and AB commented that more exploration and details were needed. There were concerns relating to baselines and lots of products associated with National Grid NTS' discretion – Shippers find it very hard to fully understand 'discretion'. There was, however, broad support for the principle of the product.

When asked if an Urgent Modification Proposal should be developed, CS pointed out that the majority of circumstances worked against this. RP said that it would need all the analysis to be in place, and there were concerns regarding the bilateral implications for everyone else in the industry. An ad hoc process was not favoured either. AB observed that the industry was in this position because the regime had changed so much, and accepting an ad hoc process would not enhance the standard processes – too many unintended consequences may result and lead to many more problems. Parties had already been caught out by the new regime and there had to be a trade off against the market being substantially short of gas and the short term and long term development of the markets. It could give the wrong signals.

3. Any Other Business

None raised.

4. Close

Attendees were asked to provide individual views to MW if appropriate.

JB thanked all attendees for their contributions.