

Special Transmission Workstream Minutes
Trades and Transfer Workshop 1
Tuesday 30 October 2007
Ofgem, 9 Millbank, London SW1P 3GE

Attendees

Tim Davis (Chairman)	TD	Joint Office
Alex Barnes	AB	BG Group
Andrew Fox	AF	National Grid NTS
Andrew Pearce	AP1	BP Gas
Andrew Pester	AP2	Ofgem
Andy Simpson	AS	xoserve
Andy Way	AW	CC
Angela Love	AL	Pöyry
Bogdan Kowalewicz	BK	Ofgem
Christiane Sykes	CS	Statoil
Claire Dykta	CD	National Grid NTS
Clive Woodland	CW	British Gas Trading
Craig Lowrey	CL	EIC
Fergus Healey	FH	National Grid NTS
Ibrahim Ali-Salem	IAS	Gaselys
Indra Thillainathan	IT	Ofgem
John Baldwin	JB1	CNG Services
John Bradley	JB2	Joint Office
Jeff Chandler*	JC2	Scottish and Southern Energy
Lorna Dupont	LD	Joint Office
Michael Doherty	MD	British Gas Trading
Martin Watson	MW	National Grid NTS
Richard Fairholme	RF	E.ON UK
Richard Miller	RM1	Ofgem
Roddy Monroe	RM2	Centrica Storage
Stefan Leedham	SL	EDF Energy
Steve Gordon	SG	ScottishPower
Tom Jesshop	TJ	ConocoPhillips
Yasmin Sufi	YS	ENI UK
* by telephone		

1. Introduction

TD welcomed all attendees to the meeting.

2. Entry Capacity and Trade - Ofgem

BK gave this presentation. He was pleased that arrangements had been developed for this Winter. Ofgem were encouraged by both the level of participation and outcome of the TTSEC auction, but believed there was room for improvement. Ofgem published a direction on 29 October requiring National Grid NTS to have an agreed methodology statement in place by 2 July 2008. The date had been chosen to provide sufficient time for the methodology to be consulted on and approved, and for other aspects of trades and transfers to be defined.

RM2 expressed concern about the exchange rates applied in the first TTSEC auction and enquired how much Ofgem would be monitoring this. BK shared concerns about

lack of transparency and invited Users' views on what level of scrutiny might be required by the industry. RM2 stated that intra-zone transfers did not occur - this was disappointing and should be reviewed by Ofgem. BK acknowledged the point and stated that it would welcome views of this nature. CS supported the view that an external/independent audit should take place and most shippers present concurred that Ofgem should sponsor this. BK agreed to consider this but had some concerns that the scope should be clearly defined and limited. RM2 and AB responded that concentration on the assumptions was key.

TT1/001: Ofgem to consider sponsorship of an audit into the Transfer and Trades auctions that took place this winter.

Ofgem indicated they were monitoring the release of entry capacity by National Grid NTS and had requested weekly reports. TD asked whether Ofgem had any concerns with the information received to date. Ofgem attendees confirmed that they were not aware of any.

SG stated that when formulating enduring arrangements, costs to Users should be considered as well as costs to National Grid NTS. He was concerned with the inefficiency of high capacity costs followed by large-scale redistribution as a result of over-recovery. BK acknowledged the specific points but felt this was adequately covered by considering the objective of facilitating development of competition. RM2 referred to a perception that TTSEC development had been assisted by Ofgem taking an active role and asked whether this would continue. BK responded that Ofgem would take as active a role as was required to see the enduring regime develop satisfactorily.

3. Enduring Trades and Transfers – National Grid NTS

MW gave this presentation. National Grid NTS intended to raise a UNC Proposal by the end of November 2007, prior to which there would be two or three workshops of which this would be the first. MW pointed out that it should be borne in mind that the previous methodology statement was developed to fit the original Modification.

In answer to a question from JB1, MW stated that £13m was raised in the auctions, which would be redistributed to Users.

CS asked about the definition of materiality in the methodology statement. National Grid NTS had developed a working definition which relied upon Network failures occurring on several days within the winter due to the change in supply patterns following a redistribution of capacity bookings.

National Grid NTS identified the two approaches 'ex ante' and 'ex post' in determination of exchange rates. MW felt use of ex ante rates may have prevented the most efficient outcome, not least the 1:1 exchange rate within the Easington zone. One approach would be to develop ranges rather than single rates beforehand, but these ranges would be very large. AB stated that these complications emphasised the value of an audit or review being carried out by experts in this field. RM2 acknowledged that 1:1 exchange rates had prevented transfers but he suggested that National Grid NTS should have identified this potential issue whilst the Proposal was being developed. MW acknowledged the point but responded that National Grid NTS had identified constraints at the Easington Zone at an early stage. On the other hand, this approach had been more successful at Teesside.

SG made the point that the methodology statement had been developed late and that as this made the process essentially retrospective, it had reduced its transparency. MW acknowledged the point but referred to the industry view that these auctions should take place this winter rather than wait for next winter. AB recognised that the process was complex but was concerned that the enduring solution would be even more complex. MW responded that the enduring solution could be simpler and he would refer to this later. AB asked about the interaction with discretionary release of interruptible capacity.

MW responded that discretionary interruption tends to be treated with a more system wide focus so he did not anticipate too many issues. As yet no demand for the discretionary product had been seen.

CS asked about systems implications. MW believed that delivery of a system for Winter 2008/09 would be feasible if a Proposal was approved early in 2008. MW also said the intention was that the Modification Proposal and methodology statement, needed to define systems requirements, would be taken forward in parallel.

After discussing the transfer and trades that had taken place, MW moved onto the enduring regime. JB1 agreed with MW that unintended consequences could easily occur; for example exchange rates might undermine the investment signals that are reflected in reserve prices. AB also referred to the work going on with baselines and the potential for substitution to undermine these. SG believed there was a danger that capacity prices at all ASEPs could approach the capacity price associated with the most constrained ASEP as a result of potential substitution and TTSEC. MW acknowledged that trading might encourage purchase of capacity at one ASEP to use elsewhere and this could undermine investment signals - the right behaviours needed to be considered and fostered. Too much complexity may provide too many openings for errors and unintended consequences.

In answer to questions on “sterilised” or “unsold” capacity, MW expressed the view that a monthly process is better than an annual process in moving capacity that is unsold – and hence sterilised - in the RMSEC auctions to where it is valued most (MW defined “sterilised” as being unsold capacity at the month-ahead stage, after RMSEC). AB understood Ofgem’s desire for an efficient network but suggested there was increased uncertainty of flows and misleading behaviour should not be encouraged; on the other hand the regime should not be so tight that there is no room for manoeuvre. A more holistic approach should be considered. SG expressed the view that a mechanism is needed for capacity that cannot be moved/sold and he would identify this also as sterilised capacity. There was concern at misleading signals and the price of capacity everywhere then becoming effectively the price at the constraint. BK stated that Ofgem has a broader definition, which is related to economic and efficient operation of the Network - capacity that is there but cannot be used. This would undermine efficiency and so should be viewed as sterilised.

MW asked for views on the aims set out for the enduring regime. RM2 suggested including an aim of facilitating competition. CS suggested that pricing should also be considered.

MW then went onto outline the National Grid NTS “strawman”. RM2 suggested that an annual process might usefully precede the monthly process that was associated with the RMSEC auction. MW responded that there would be much more certainty of exchange rates if it was done monthly. An annual process would be less efficient. JB1 saw merit in the concentration on a monthly or even daily process to bring on additional supplies where problems arise elsewhere. RF did not disagree with doing things at day-ahead stage but believed that a monthly auction would still be valuable.

AB did not necessarily agree with the principle that surrendered capacity should be capped at the reserve price. This might prevent legitimate purchases of capacity in the AMSEC auctions. MW responded that this was to reduce the incentive for purchases at one ASEP being made for transfer elsewhere. CW asked whether the combination of RMSEC and Transfer and Trades raised any issues about withdrawal or amendment of bids. MW responded that National Grid NTS saw no reason for bringing in any new opportunities for withdrawal or amendment. RM2 saw no particular reason to limit exchange rates.

JB1 asked whether the concept of inter zone priority would be discarded. MW responded that it would, but the exchange rate cap would tend to prevent transfers from distant ASEPs.

RM2 asked National Grid NTS to work out what that this model would produce based on the bids received this winter. MW agreed to consider this but identified that a considerable amount of analysis would be required and asked that RM2 should identify more precisely the part of the data set where analysis would be most useful. Whilst seeing the value of this approach, SG stated that User behaviour tended to reflect the process in place and therefore relating this to a different process would limit its value.

TT1/002: Centrica Storage to define a more compact analysis request based on the Transfer and Trade bids and send this to Joint Office to inform other participants.

TT1/003: National Grid NTS to consider demonstrating the potential outcome of its enduring proposal for Transfer and Trade using data from the Winter 2007/08 TTSEC auction.

RM2 asked about the possibility of the calculation producing more capacity than the Nodal Maximum. MW responded that in these circumstances the cap would apply. JB referred to test scenarios and the lack of knowledge in the industry on the flows that cause constraints. MW responded that, in general, high East Coast scenarios caused the most problems with constraints.

Summarising the presentation MW, suggested that the proposal met the aims and some additional aims suggested within the discussion.

RM2 suggested that the issue of ex ante exchange rates should be resolved, particularly as Ofgem had previously held these to be important. BK agreed that Ofgem did prefer ex ante exchange rates as they gave certainty but was prepared to listen to the views of the industry on this. Ofgem would review the outcome of this meeting prior to reaching a decision on whether a solution that did not include ex ante exchange rates would be acceptable. MW suggested that ex ante exchange rates lead to a sub-optimal solution and monthly auctions would lead to a similar outcome.

Issues identified as needing further clarification and/or consideration:

- Pricing
- Trading mechanism allowed
- Shorter or longer timeframes.

MW suggested that the next meeting could take feedback on the material already presented and go into further levels of detail.

TD suggested that attendees concentrate on any drawbacks and that Ofgem identify any overriding principles, such as ex ante exchange rates, which might influence development.

TT1/004: Ofgem to confirm whether the exclusion of ex-ante exchange rates, or other over-riding principles, was likely to mean that the National Grid NTS proposal was unlikely to be accepted.

RM2 requested a revised timeline indicating any critical paths/deadlines that needed to be taken into account.

TT1/005: National Grid NTS to provide a revised timeline indicating any critical paths/deadlines that needed to be taken into account.

4. Any Other Business

None raised.

5. Diary Planning

The next Special Transmission Workstream meeting (Trades and Transfer Workshop 2) has been arranged for 10:00hrs on Tuesday 06 November 2007 at Ofgem, 9 Millbank, London SW1P 3GE.

Action Log:**UNC Transmission Workstream (Trades and Transfer Workshop 1) 30 October 2007**

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
TT1/001	30/10/07	2	Ofgem to consider sponsorship of an audit into the Transfer and Trades auctions that took place this winter.	Ofgem (BK)	
TT1/002	30/10/07	3	Centrica Storage to define a more compact analysis request based on the Transfer and Trade bids and send this to Joint Office to inform other participants.	Centrica Storage (RM2)	
TT1/003	30/10/07	3	National Grid NTS to consider demonstrating the potential outcome of its enduring proposal for Transfer and Trade using data from the Winter 2007/08 TTSEC auction.	National Grid NTS (MW)	
TT1/004	30/10/07	3	Ofgem to confirm whether the exclusion of ex-ante exchange rates, or other over-riding principles, was likely to mean that the National Grid NTS proposal was unlikely to be accepted	Ofgem (BK)	
TT1/005	30/10/07	3	National Grid NTS to provide a revised timeline indicating any critical paths/deadlines that needed to be taken into account	National Grid NTS (MW)	