

## Transmission Workstream Minutes

### Entry Capacity Baseline (1)

Tuesday 14 August 2007

Elaxon, 350 Euston Road, London NW1 3AW

#### Attendees

|                          |     |                                 |
|--------------------------|-----|---------------------------------|
| Tim Davis (Chair)        | TD  | Joint Office                    |
| Lorna Dupont             | LD  | Joint Office                    |
| Amrik Bal                | AB  | Shell                           |
| Andrea Webster           | AW  | BG Group                        |
| Andrew May               | AM  | Statoil                         |
| Andrew Pearce            | AP  | BP Gas                          |
| Angela Love              | AL  | Poyry Energy Consulting         |
| Angus Paxton             | AP1 | Poyry Energy Consulting         |
| Bogdan Kowalewicz        | BK  | Ofgem                           |
| Chris Bennett            | CB  | National Grid NTS               |
| Chris Wright             | CW  | BGT Centrica                    |
| Elaine Calvert           | EC  | National Grid NTS               |
| Gerry Hoggan             | GH  | ScottishPower Energy Management |
| John Baldwin             | JB  | CNG Services                    |
| Julian Majdanski         | JM  | Joint Office                    |
| Karen Stockdale          | KS  | PX Ltd                          |
| Leigh Bolton             | LB  | Cornwall Energy Associates      |
| Mark Rigby               | MR  | Stag Energy                     |
| Martin Watson            | MW  | National Grid NTS               |
| Matt Golding             | MG  | LNG Storage National Grid       |
| Nienke Hendriks          | NH  | Ofgem                           |
| Peter Dickinson          | PD  | Ofgem                           |
| Phil Broom               | PB  | Gaz de France                   |
| Rekha Patel              | RP  | Waters Wye Associates           |
| Richard Fairholme        | RF  | EON UK                          |
| Richard Robinson         | RR  | TPA Solutions                   |
| Richard Street           | RS  | Statoil                         |
| Roddy Monroe             | RM  | Centrica Storage                |
| Sebastian Eyre           | SE  | EDF Energy                      |
| Sofia Fernandez Avendano | SFA | Total Gas and Power             |
| Stefan Leedham           | SL  | EDF Energy                      |
| Stuart Waudby            | SW  | Centrica Storage                |
| Yannick Chaussepied      | YC  | Gaselys                         |
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#### 1. Introduction and Status Review

TD welcomed all attendees to the meeting. TD gave a small demonstration, pointing out that care needed to be taken with what was meant when referring to “capacity”.

## 2. Approach taken to set the current Baselines

### 2.1 National Grid NTS Presentation

CB (National Grid NTS) gave a short introduction and said that today's meeting was focused on bringing everyone to a common understanding of the history of the topic.

EC (National Grid NTS) gave a presentation on the "Background to National Grid's Baseline analysis", which described: how the present baselines were set; perceived problems with the current arrangements; the modelling undertaken as part of the 2007 TPCR; Ofgem's initial proposals; National Grid's proposed principles for setting baselines; National Grid's suggested zonal and ASEP specific baselines; and Ofgem's final proposals.

National Grid had recognised that the baselines in aggregate (9755 GWh/d) were in excess of the physical capabilities of the network and had debated various issues throughout the TPCR. Two modelling options were considered for increments, load absorption and supply substitution, and modelling and analysis were carried out in accordance with Ofgem's requests. Ofgem put forward its initial proposals on baselines which National Grid NTS believed were too high, being in excess of the physical capability of the system.

EC observed that entry points cannot be looked at in isolation and National Grid NTS proposed carrying out zonal analysis. The maximisation of capability in any one zone was modelled by reducing supply at other entry points.

JB asked how the reductions were decided. EC responded that the modelling sought to identify the limit of possibilities, using the example where taking gas off at Teesside gave most capability elsewhere, while the least helpful node was Milford Haven. RR suggested that St Fergus could have been reduced instead and gas transported north from Easington. TD brought attention to the definition problem again – should an assessment of capability ignore offshore capability?

Moving on to slide 11 "Zonal High/Low Capabilities" EC explained that the figures showed the range of capabilities; the upper ranges showed the best capabilities, i.e. what the network can deliver if supplies are favourable. EC observed that for a new entry point to gain access to the network, the required commitment was inconsistent with supplies at existing entry points, which could be regarded as discriminatory.

RM questioned the methodology underpinning the nodal maximum, and AP1 answered that the modelling was consistent with that which underpinned the maximum physical entry capacity used when setting the 2002 baselines. The modelling reflected 1:20 peak conditions and was based on the 2008 network. EC confirmed that a check was not done between the resulting baselines and physical flows as opposed to capacity bookings.

MR asked whether any thought had been given to going back to 'load absorption'. EC responded that it did not seem to make sense to do that. AP1 supported this and observed that whether a certain investment is exit or entry capacity driven became less and less clear. CB commented that supply substitution was more logical.

RS asked, having talked about optimising particular zones, had optimisation of the whole network been considered. EC confirmed that this check had been done, but optimising the network as a whole would lead to lower aggregate baselines.

JB questioned the assumptions made and was surprised by the capability figure in the Northern Triangle – did this take into account the pipes/physical network as well as auction signals? He suggested that updated calculations based on 2007 TBE outcomes may indicate less demand for capacity in certain areas - and that supply assumptions at Bacton and St Fergus were the keys that drove the results. EC commented that she had presented national Grid's suggested methodology, not the final approach adopted by Ofgem. JB responded that it was necessarily an arbitrary decision as to how to

balance supply and demand in any model, and that parties needed to understand how these arbitrary decisions were going to be taken.

MR asked if gas quality and blending was taken into account. EC thought not directly, but that calorific value was included. RM observed that the network model was very complicated and questioned what level of independent audit had been applied. TD suggested this raised two issues: was the model validated, and were the inputs robust. AP1 explained that detailed audit would be onerous. For example, thermal conductivity of soil figures were included in the model, and these could only be validated by physical examination of soil conditions along every pipeline. However, the network analysis tools were previously audited in 2002.

JB commented that it was the assumptions that make the key differences, e.g. at Bacton and St Fergus, and questioned whether National Grid would have had a commercial incentive when making supply assumptions. CB said that for National Grid the issue was about national capability and how this could be divided up - baselines should equate to physical capability. The suggested methodology only provided one among a range of options for doing this, and the modelling did not seek to maximise National Grid's commercial position.

## **2.2 Ofgem Presentation**

NH (Ofgem) gave a presentation on "Further Consultation on NTS entry baselines", covering the reasons for revising the baselines, Ofgem's modelling requests, the history of the various consultation documents, the different supply scenarios, Ofgem's final proposals and the treatment of 'free increments', and the TCPR package.

NH advised that Ofgem was now reconsulting on the baseline figures and would issue an Impact Assessment. The reasons for revising the baselines were explained as was the modelling request to National Grid NTS. Three supply scenarios were described, together with the treatment of 'free increments'. NH explained that a simple average of the three supply scenarios had been taken along with the free increments; these were added together to give the baselines. National Grid NTS had pointed out that the network was highly unlikely to be able to meet demands for that capacity at any one time, and identified double counting issues. Ofgem had then produced final proposals (different to the June initial proposals) which sought to avoid the double counting issue. The smearing of the free increment was based on the Ten Year statement (TYS).

NH observed that baselines also had revenue driver implications - Ofgem had to separate obligated baseline capacity from obligated incremental capacity to avoid National Grid receiving double remuneration. Unlike the 2002 approach, Ofgem expected that the baselines would not be static numbers, and would be shaped by transfers, trades and capacity substitution. The baselines needed to be seen as part of the wider package which Ofgem had proposed.

## **2.3 Discussion**

RR asked whether the averaging approach had any impact on the outcome. NH responded that Ofgem took the view that it was appropriate to take a straightforward average of the scenarios.

AL asked why the TYS approach was used for smearing. NH said that the TYS was public and had been extensively consulted on by National Grid.

MR asked how much was up for debate. NH confirmed the scope was as in the open letter – fundamentally a review of the baselines and the existing methodology, not of the whole TPCR package. It was noted that the baselines set part of the framework for the Price Control, and the more these changed the greater the effect would be on various components of the TPCR.

CW asked if there would be an opportunity to bid against the old baselines in a long term auction. NH responded that the September auctions will be based on the TPCR baselines unless a UNC Modification Proposal to delay the auctions is implemented. For the auction next year to be on pre-TPCR baselines, these would have to be put back in National Grid's licence, and it was very unlikely that that would happen. Ofgem is consulting on the TPCR baselines to apply from next year, not those for this Winter.

RS welcomed the baseline review and sought to clarify on what elements the Impact Assessment would cover – just the baselines or all the elements in the open letter. NH confirmed that the IA would be carried out on the baselines only, and stressed that Transfer and Trades, including enduring arrangements, are part of the TPCR outcome and not up for debate.

MR asked if it would not have been better, before putting long term capacity bookings (with legal obligations) in place through transfers and trades, to see if the system worked reasonably well in the first place, as more problems/issues may emerge. NH thought that a gradual approach was what was already proposed. Substitution was highly unlikely until next year's winter. National Grid NTS was developing Transfer and Trades for this winter and would be looking at enduring arrangements next. The Transfer and Trade methodology sits within the licence and also within the Uniform Network Code going forward. The community can raise Modification Proposals while National Grid NTS will keep the methodology under review and can resubmit for reconsideration if appropriate. RS commented that Statoil can see flaws, with impacts on various markets in which Statoil have an interest, and that he was not comforted by the exclusion of transfers and trades from any Impact Assessment. NH acknowledged that some persons did not agree with everything that was currently extant, but underlined that all should be very clear that Ofgem wanted to see Transfer and Trades from this winter.

RF raised the issue of buyback costs. NH was concerned with buyback risk in respect of consumers. National Grid Gas faced a degree of buyback risk subject to a collar. When the collar gets hit this affects Shippers and ultimately consumers; the issue was how to protect consumers. One way around this was not to have a collar but this would not be accepted by National Grid Gas; another way was to make it less likely that National Grid Gas would reach the collar. If baselines are well in excess of network capabilities the risks are greater of the collar being hit, and that is a risk for consumers.

JB asked whether the 2007 TBE data would be used for the analysis – since this was no longer influenceable by parties outside National Grid. Ofgem had provided the (locked) spreadsheet showing baseline derivation based on the 2005 TBE process – will this be updated using 2007 TBE data, since supply scenarios are the major driver of the numbers. NH suggested an issue with using 2007 TBE would be that it would not be in time for the issue of a document in November (there would be no time to redo the work between September and November. It might be possible to use the 2006 TBE, but this would only include the one scenario, not the three, and so would be very different, and the revenue drivers would have to be reworked, though this may not give very different numbers in NH's view. JB reiterated that the new numbers could simply be input into the existing spreadsheet - there were likely to be many significant differences in the flows and this could easily be put into the public domain now, giving the community two years worth of better information to help people's understanding. CB accepted that it might be possible to update for TYS 2006 and potentially TYS 2007, depending on the workload, and he would be able to confirm this at Friday's meeting. TD commented that any change of baselines could have implications for aspects of the TPCR outcome irrespective of the base date used. PD observed that there was a direct relationship between each entry point, the revenue drivers and the baselines, and this would need to be looked at.

JB pointed out that the TYS was not consulted on. The Bacton number was not agreed and there was no mechanism for agreement; it was the result of a process. NH said that from the second and third consultation documents it was clear that Ofgem would

focus on the three scenarios in the TYS. JB referred to the assessment of the free increments and the 2005 TYS and remarked that if it had been known what the baselines were to be predicated on, different market responses may have been seen.

NH said that the Ofgem Executive would have to decide if the updated data should be used, as there were impacts for TPCR, and then if appropriate decide on either 2006 or 2007. It was possible that the resulting baselines but could be lower as a result of using the more recent data. She asked if others supported JB's view that the most recent data should be used and the methodology should roll forward, but no firm view in favour or in opposition was expressed.

CW asked whether data from the 2007 QSEC auction could be included in the modelling. RM was concerned about the potential impacts on the rest of the TPCR - it would be good to use the most recent data, but there may be resource issues and other difficulties; an analysis of the true impact of any changes would be a key input.

NH emphasised to the meeting that for Ofgem a key issue was reducing the risk of sterilised capacity. Ofgem was ultimately there to protect the interests of the consumer and this would guide all its decisions.

### **3. Timeline for reviewing associated issues**

#### **3.1 Baseline Reconsultation Timeline**

MW (National Grid NTS) presented the proposed timeline for the reconsultation process. He pointed out that it was intended to raise a Modification Proposal in November to delay AMSEC until the revised baselines were implemented; the new AMSEC might take place in April/May 2008. Trade and transfer auctions could be held in the last week in September, first week in October.

The timeline was discussed and, following comments and suggestions from those present, would be reviewed at the next meeting.

#### **4. Any Other Business**

None raised.

#### **5. Diary Planning**

The next Transmission Workstream Entry Capacity Baseline meeting has been arranged for 10:00 – 13:00 on Friday 17 August 2007 at Elexon, 350 Euston Road, London NW1 3AW, with a further meeting arranged for Tuesday 12 September 2007 10:00 – 12:45, also at Elexon.