Transmission Workstream Minutes

Entry Capacity Baseline (2)

Friday 17 August 2007

Elexon, 350 Euston Road, London NW1 3AW

Attendees

Tim Davis (Chair)	TD	Joint Office
Alex Barnes	AB	BG Group
Angela Love	AL	Poyry Energy Consulting
Andrew Pearce	AP	BP Gas
Andrew Pester	AP2	Ofgem
Chris Bennett	CB	National Grid NTS
Colin Dickens	CD	ExxonMobil
Charles Ruffell	CR	RWE Npower
David Odling	DO	Oil and Gas UK
Elaine Calvert	EC	National Grid NTS
Graeme Thorne	GT	Canatxx Shipping Ltd
John Bradley	JB	Joint Office
Kirsten Elliott-Smith	KES	CononcoPhillips
Karen Stockdale	KS	PX Ltd
Leigh Bolton	LB	Cornwall Energy Associates
Matt Golding	MG	National Grid LNG
Martin Watson	MW	National Grid NTS
Phil Broom	PB	Gaz de France
Peter Dickinson	PD	Ofgem
Paul O'Donovan	PO	Ofgem
Richard Fairholme	RF	EON UK
Roddy Monroe	RM	Centrica Storage
Richard Street	RS	Statoil
Sofia Fernandez Avendaño	SFA	Total
Stefan Leedham	SL	EDF Energy

1. Introduction and Status Review

TD welcomed all attendees to the meeting.

2. Previous Meeting

2.1 Minutes

These minutes were accepted.

2.2 Matters Arising

National Grid NTS had concluded that using 2007 TBE based information could be useful and would be prepared to accommodate this within the option analysis.

It was noted that Ofgem's presentation had referred to allocating 90% of the free increment, but others had understood that 100% was allocated. PD agreed that he thought 100% had been used, but would check and confirm this.

3. Methodology for setting Baselines

CB began by indicating that National Grid NTS was open to the views of the meeting in terms of the options to be developed– the suggestions to be presented were thoughts rather than a firm way forward.

EC provided an overview of the analysis which had been presented at the previous meeting. She outlined three maximisation examples (Global LNG Easington, Transit UK, St Fergus and Auctions + St Fergus). This demonstrated the reductions required elsewhere in order to maximise potential throughput at a single point and identify the "free increment". A free increment had been calculated as the additional flow capability at an ASEP (offset by a reduction elsewhere) that does not cause a network constraint.

AB asked whether the incremental obligated capacity of 1300 GWh/d was in addition to the 8814 GWh/d baseline capacity in Ofgem's final proposals. EC confirmed that it was. RM believed that the 8814 GWh/d should be open to debate. Ofgem confirmed that the total was part of the consultation process. RM believed that the debate would be better informed if it included sensitivity analysis quantifying the anticipated increase in buy-back risk associated with increasing the baselines. PD pointed out that this would not necessarily increase – National Grid NTS could invest. CB agreed this was possible but suggested there would need to be a sufficient investment signal to underpin any investment.

In response to questions, Ofgem were unable to explain the logic followed which ultimately led to reductions in baselines from those initially proposed, but suggested it was a complex process involving both National Grid NTS and Ofgem.

EC then summarised three ways Ofgem had suggested of allocating to ASEPs an 8814 GWh/d total baseline quantity. EC defined unallocated capacity, for the Ofgem methodology, as that in excess of projected base case flows. National Grid NTS clarified that on occasions sales of capacity may have exceeded both the base flow and the free increments at a zonal level leading to a "negative" free increment at certain ASEPs . AB stated that he struggled with this concept. . It was explained that there was a difference between physical capability and commercial capacity which can lead to apparently anomalous effects, and that sales of incremental (above baseline) capacity effectively absorb, and can be greater than, the modelled free increment.

EC suggested firm capacity sales should be allocated first within the 8814 GWh/d total, leaving 1554 GWh/d available for allocation. CB stated that National Grid NTS believed that it was reasonable when "rationing" capacity that there should be a cap at previous obligations and TD asked whether the meeting agreed.

Without disagreeing, RF suggested that capacity bookings may be lower than they would if Shippers had understood that this approach would be used to establishing baselines. TD asked whether this meant a better starting point would include the outcome of the September 2007 QSEC Auctions? It was agreed that this could be covered in consultation responses, along with comments on all the other assumptions that led to the 1554 GWh/d availability conclusion and suggestions for alternative approaches to establishing appropriate baseline capacities, in terms of both the total and the allocation of that total between ASEPs.

4. Treatment of Spare/Sterilised Capacity

MW gave this presentation covering trades, transfers, substitution and capacity held back for shorter term auctions. In response to questions about what Ofgem meant when referring to sterilised/spare capacity, PD stated that capacity was potentially sterilised when demand for capacity was signalled in the vicinity of ASEPs where capacity was unsold. The incremental demand could utilise the network capability associated with that unsold capacity but it was sterilised if National Grid was not relieved of its obligations with respect to that unsold capacity. Hence Ofgem believed baselines should reflect physical capability and transfers, trades and substitution were a key part of the TPCR outcome.

MW then developed a number of options for capacity substitution. On Option 1 (fast and furious), capacity would be available for substitution following the 2008 QSEC auction, and would broadly be transferred on request. 10% of baseline capacity would be retained for short term auctions but all other unsold capacity would be available for

substitution. RS asked for clarification on how this would work and whether the 10% would be adjusted in light of substitution, trades and transfers. MW suggested looking at all the options at a high level first before developing the necessary detail on any preferred options – National Grid NTS had not at this stage specifically considered the appropriateness, or practicality, of including or excluding an additional 10% for short term auctions when any substitution is undertaken.

At the other extreme, Option 5 (Driving Miss Daisy), substitution would occur only every five years to coincide with the price control – which could be regarded as the existing approach with a quinquennial review. Between the extremes, Option 2 differed from Option 1 in that the prospect of substitution would be limited by an NPV test (albeit less stringent than to access incremental capacity) and a limit on acceptable exchange rates (potentially avoiding unintended capacity destruction). Option 3 would further limit capacity available for substitution as a general rule for all ASEPs. Option 4 would have the same NPV test as incremental capacity, and substitution would only be available from Y+4.

National Grid NTS raised the issue of whether the amount of capacity potentially available for substitution should reflect short term commitments, and provided an example of a test which could be applied. AB pointed out that some of the suggested criteria might be acceptable if the regime had been more stable – including a knowledge that current baseline capacity would be available in the future. It is more difficult to develop suitable user commitment criteria when baselines exhibit major changes from one price review period to another. Further, AB suggested that the availability of capacity for substitution could be linked to the volume of capacity held back, and that rather than the reduction from 20% to 10% that had been implemented, an increase to 30% might be more appropriate given a flexible substitution mechanism. TD pointed out that these percentages applied to different baselines and hence 30% under the present regime could be less than 20% in the 2002-07 price control period.

TD asked whether National Grid NTS had a preliminary view on which of the options it preferred. MW responded that it had not yet reached a view and welcomed the feedback received during the meeting and requested written comments by 31 August, providing scope for National Grid to reflect these views and produce some options for consideration ahead of the next planned meeting.

5. Any Other Business

TD asked attendees if they had any options to propose beyond those put forward by National Grid, but none were forthcoming. Ofgem confirmed that they were happy with the range of options being considered and had no further issues they wished to bring to the table.

SFA asked why the AMSEC auctions might be deferred but the QSEC auctions would still continue. EC responded that National Grid felt it important to hold QSEC auctions as these gave Shippers an opportunity to provide investment signals.

AB indicated that John Baldwin had provided some issues in writing, but that those not covered elsewhere could be pursued outside the meeting.

6. Diary Planning

The next Transmission Workstream Entry Capacity Baseline meeting has been arranged for Tuesday 12 September 2007, 10:00 – 12:45, at Elexon, 350 Euston Road, London NW1 3AW.