

Transmission Workstream Minutes

Thursday 02 April 2009

Elexon, 350 Euston Road, London NW1 3AW

Attendees

John Bradley (Chair)	JB	Joint Office
Lorna Dupont (Secretary)	LD	Joint Office
Alison Chamberlain	AC	National Grid Distribution
Amrik Bal	AB	Shell
Andrew Fox	AF	National Grid NTS
Chris Shanley	CS	National Grid NTS
Chris Wright	CW	Centrica
David Linden	DL	BP Gas
Emma Hayes	EH	BG Group
Graham Thorne	GT	Canatxx
Harvey Beck	HB	Ofgem
Jeff Chandler*	JC	Scottish and Southern Energy
Joanna Ferguson	JF	Northern Gas Networks
John Baldwin	JB1	CNG Services
Joy Chadwick	JC1	ExxonMobil
Julie Cox	JC2	AEP
Kirsten Elliott-Smith	KES	ConocoPhillips
Lesley Ramsey	LR	National Grid NTS
Martin Watson	MW	National Grid NTS
Paul O'Donovan	POD	Ofgem
Phil Broom	PB	GDF Suez
Rekha Patel	RP	Waters Wye Associates
Richard Fairholme	RF	E.ON UK
Richard Street	RS	Corona Energy
Roddy Monroe	RM	Centrica Storage Ltd
Shelley Rouse	SR	Statoil (UK)
Simon Trivella	ST	Wales & West Utilities
Sofia Avendano	SA	Total Gas and Power
Stefan Leedham	SL	EDF Energy
Steve Pownall	SP	National Grid NTS
Steve Rose	SR1	RWE Npower
Steven Sherwood*	SS	Scotia Gas Networks
Tim Davis	TD	Joint Office
* by teleconference		

1. Introduction

JB welcomed the attendees to the meeting.

1.1 Minutes from the previous Workstream Meeting (05 March 2009)

The minutes of the previous Workstream meeting were approved.

1.2 Review of Outstanding Actions

1.2.1 Actions from the Workstream

Action TR1085: Provide updates to the Workstream on Ofgem and BERR's progress with The Gas (Calculation of Thermal Energy) Regulations and the Gas Safety (Management) Regulations.

Update: POD had consulted with his colleagues and had been advised that there was no active work taking place in this area at the present time.

CS reported that a Review Group proposal had been discussed at the March Distribution Workstream that may have a bearing in this area; a Review Group would be formed and any interested parties should contact National Grid. **Action closed**

Action TR1097: Ofgem to consider and report back whether they would wish to encourage the establishment of a group involving all stakeholders, both Government and industry, to look holistically at gas emergency arrangements.

Update: POD had spoken with relevant colleagues and a meeting was not expected to happen in the immediate future. **Action carried forward**

Action TR1102: Rationalisation of Maintenance Planning Dates and Timescales - National Grid NTS to produce a revised draft Proposal for discussion at the next Workstream meeting.

Update: CS reported that more work was being done, but National Grid NTS was not in a position to present until the next Workstream meeting. **Action carried forward**

1.3 Review of Workstream's Modification Proposals and Topics

1.3.1 Modification Status Report (Modification Proposals Register¹)

JB gave an update on the current status of each of the Live Modification Proposals.

1.3.2 Topic Status Report

The Topic Status Report for the Transmission Workstream is located on the Joint Office website at: <http://www.gasgovernance.com/Code/Modifications/>.

It was agreed that Topic 015TR Constraint management should be closed (see 3.2.2, below).

Other than agenda items, there were no further changes to report.

1.4 Related Meetings and Review Groups

1.4.1 Gas Operational Forum

JB reported that there were no matters requiring the attention of the Workstream.

1.4.2 Review Group 0221

JB reported that the Review Group Report would be presented at the Modification Panel meeting on 16 April 2009.

1.4.3 Ofgem Consultations Update

POD reported the Exit Licence Drafting consultation closed on Tuesday, and that a direction was expected within the next week. In line with that, there would be a further consultation regarding the addition of Exit Points to the Licence. The meeting was

¹ <http://www.gasgovernance.com/Code/Modifications/>

encouraged to make National Grid NTS and Ofgem aware of any additional Exit points as soon as possible.

POD also reported that additional consultations on Revenue Drivers and Storage could be expected over the next few days.

2. UNC Modification Proposals

2.1 Modification Proposal 0246: “Quarterly NTS Entry Capacity User Commitment”

This Modification Proposal had been referred to the Workstream for development. CS recommended that interested parties read the Review Group 0221 Report which captured the debates that had taken place. CS then presented on behalf of National Grid NTS, and was of the view that 0246 is an improvement on the current position.

JC2 pointed out that this Modification Proposal is an outcome from National Grid’s perspective, as there was no Review Group consensus; alternative Proposals should be expected as this is a complex topic. RM added that 5 different options had been considered, and that Ofgem had confirmed that the anticipated impact assessment would consider all these options. CS acknowledged that there were some issues associated with the Proposal, and pointed out that an Ofgem impact assessment would affect timescales.

Concerns were raised relating to the security tools envisaged in the Proposal. The Review Group had decided that Letters of Credit (LoC) and Deposit Deeds (DD) were the most appropriate tools to enable a draw down of cash. JC1 (supported by others) thought that a Parent Company Guarantee (PCG) could be a stronger tool than a LoC. MW argued that LoCs spread the risk across two parties. RM stated that the aim was to try to affect behavioural incentives and avoid speculative positions. SL observed that there were two types of User default: User failure and project failure.

CS acknowledged the potential strength of a PCG but added that advice from the National Grid Credit department had pointed to LoCs and DDs because these could be drawn down. This was different to the normal transportation credit process, and would only apply to this particular process. JC2 suggested that perhaps cost versus risk needed closer consideration.

CS reiterated that views from today’s meeting were sought on the level that was proposed. MW pointed out that the Modification Proposal was not just about project risk. RM added that the Modification Proposal was trying to address company failure and/or project risk. The level of securitisation was discussed at length under Review Group 0221, with the extreme case being to secure £1.3 billion (the total value of all QSEC auction allocations).

JC1 asked CS to elaborate on the concept of cancellation fees. CS responded that this was a means of creating an invoice such that, if unpaid, the security could be drawn upon. The Modification Proposal would effectively give the right to cancel capacity at a cost; the legal view was that this cancellation fee should be calculated on the same basis for all parties.

RS questioned if this concept was linked to any loss. CS responded that it was trying to protect the community from a default. MW added that any remaining amount not recovered from the defaulting party gets smeared back across the other Users. RS questioned whether loss was being covered, as would be expected in the event of default, or if a cancellation fee was being charged, which was a different concept. TD commented that this would provide a mechanism to ensure monies collected were properly accounted for; National Grid NTS would be able to call on the security rather than recover this amount from other Users. JC2 wondered if there was an easier to accomplish this, such as a licence change to amend allowed revenue.

SL asked if cancellation would apply across all ASEPs. CS said that failure to maintain sufficient credit to cover potential allocations during a QSEC would lead to all bids across all ASEPs being removed. Similarly a failure to maintain credit on an ongoing basis would lead to all entry capacity holdings being cancelled.

Graphs were presented to illustrate the security tools, the operating costs and the security required. CS asked whether the meeting felt that an appropriate balance between risk and benefit had been reached. JC2 believed that the problems were being looked at the wrong way round, and that more work should be done on the £20 million figure suggested as the amount at risk – a justification for this should be provided, as it was hard to see any cost/benefit analysis backing up this figure. The question was how to quantify the risk. CS agreed that it was very difficult to analyse this and get the balance right. MW asked if there were different values in mind. RM responded that there is an SO and a TO risk; there was not much benefit on TO risk and the community was not heavily exposed. It would not affect TO behaviour; it is an attempt to mitigate risks on the SO side – i.e. from incremental capacity. CS said that £20 million was the potential impact on the SO revenue but this is difficult to quantify definitively.

JB questioned if this was based on new Entry Points or all Entry Points – he felt the risk was mostly on new Entry Points. CS said that the Proposal was an attempt to make the costs proportional and sensible. JC2 pointed out that it was difficult to support any type of figure unless the detail behind it was known and example scenarios had been provided. CS said that the figures were based on the current risk quantified as far as possible; poorer credit ratings would give a bigger 'hit'.

DL asked, given there was an indication that Ofgem was likely to initiate an impact assessment in relation to this Modification Proposal, was there any possibility that some preparatory work could be done beforehand. POD said that Ofgem had asked National Grid NTS to produce some information within the Review Group, but some of it may have to be 'best guess' as it was trying to predict the future. DL thought this was quite worrying and asked how credit profiles were worked out together with their effect. POD said there was a financial analysis team at Ofgem, and potentially external assistance may also be required to support the impact assessment

RM commented on the need to insure against default and prevent speculative behaviours. JC2 questioned again if 0246 was the best solution rather than a licence change, especially when no investment is made to support capacity release. RM observed that the link between Revenue Driver and exposure had been broken and this may need to be reinstated.

The timeline demonstrating the effect of Options 1-5 was presented, and was followed by a short discussion about the different arrangements at existing and new entry terminals, and when the security for capacity needed to be lodged.

JB1 pointed out that this Modification Proposal will probably stop some independent Projects; to resolve the difficulties properly the Licence needs to be reviewed and adjusted appropriately. JC2 believed that something pragmatic was required in the short term, while something more appropriate could be addressed for the long term through the Licence.

CS then explained the advantages and disadvantages of Options 1 and 3 as discussed by the Review Group, and the issues identified and addressed; supporting graphs were explained. JC2 asked if the £20 million at risk could be defined and potentially how much of a cost would feed through to end users. JC1 felt there was still obscurity around the values and RP thought justifications needed to be included relating to the proportion of value to be covered by security. CS agreed to address these points.

SR1 was concerned that similar arrangements may be introduced at Exit. It would be sensible if this is mooted for Ofgem to carry out an impact assessment on both together. CW asked if Ofgem could carry out an impact assessment while the Modification

Proposal was being progressed as the options had been thoroughly discussed and assessed at Review Group 0221.

SL suggested there may be more support if this Modification Proposal was to be split into two separate Proposals. CS countered that the intention was not to end up in a worse position by divorcing certain elements; by lodging a deposit it was felt that parties would be less likely to default.

SL pointed out some anomalies within the Modification Proposal in relation to User Pays splits, and asked what the charging mechanisms to Shippers would be. CS said that the anomalies would be addressed, and further information on costs was expected from xoserve.

Summarising, JB said that the meeting appeared to be unclear on two aspects. These were how the £20 million at risk was derived, and whether securing 5% or 10% of the value of capacity sales is the right figure - more analysis was required in support of these; and the ROM and consequential User Pays implications. If these aspects were to be clarified in time for the Modification Panel, then a revised version would need to be ready for Monday. MW pointed out that it may be difficult to address the ROM within this timeframe. When asked, POD confirmed that Ofgem would be happy for the Modification Proposal to proceed to consultation without any further analysis being undertaken to inform the Modification Report.

There was a short discussion relating to the production of legal text. ST said that it would be useful to see Suggested Text as soon as possible since credit arrangements were currently being reviewed. It was agreed that the legal text would be produced during the consultation period if the Modification Panel agreed that consultation was appropriate.

JB said that a Workstream Report had been produced and would be published on the Joint Office website. The recommendation to the Modification Panel was agreed, and all were asked to provide any further comments on the Report to the Joint Office.

Action TR0401: Modification Proposal 0246 - National Grid NTS to provide further details and example scenarios to support the figures alluded to.

2.2 Draft Modification Proposal: “Introduction of Code Contingency Guidelines”

SP gave a presentation on behalf of National Grid NTS, explaining the background and the outcome of the deliberations of Review Group 0217. National Grid’s review of these recommendations had identified potential governance issues. It was therefore believed appropriate for the Code Contingency Guidelines to be annexed to the UK Link Manual, and for changes to the Guidelines to be effected through the UNC Committee. The draft Modification Proposal would be formalised and sent to the April UNC Modification Panel. Further discussion may take place at May’s Workstream, and it was hoped that the Guidelines would be published in June or July on the Joint Office web site. A Class 1 UK Link change would need to be raised to link the Guidelines to the UK Link Manual.

There were comments that the UK Link Manual itself required significant updating, that it and any associated documents should be readily accessible and preferably held in one easy to find location.

2.3 Draft Modification Proposal: “Alignment of Interruption Application Rules for Annual and Ad-Hoc Applications”

This had since been raised as formal Modification Proposal 0247, and following discussion at today’s UNC Modification Panel meeting was agreed to be issued for consultation. Responses should be submitted by 17:00 on Thursday 09 April 2009 to the Joint Office at: Enquiries@gasgovernance.com.

2.4 Flow Weighted Average CV regime Review Proposal

CS reported that this was discussed at the March Distribution Workstream, and may be able to be included within the scope of the proposed Review Group. Interested parties should contact National Grid NTS.

RS questioned if a UNC Review Group was the appropriate place for it to be discussed and ST commented that it would not be able to effect a change to any of the statutory instruments; he wondered why this was not being taken up by BERR and Ofgem? SL pointed out that there were also issues in relation to Supply Licence requirements and billing and potentially wider industry impacts; it was a large piece of work that required the involvement of BERR, Ofgem and ERA. MW observed that National Grid NTS needed to find the best way to obtain industry input. JC2 suggested it should be an Ofgem/DECC initiative and the industry would then attend the meetings. The view of the meeting was that National Grid NTS needed to find a more appropriate forum for this area of work.

3. Topics

3.1 003TR Review of NTS Exit Capacity Arrangements

3.1.1 Exit Capacity User Commitment - Strawman

Objections were received in respect of the lateness of the provision of the associated presentation. It was felt that information to be presented should be provided well in advance to enable attendees adequate preparation time, especially when internal consultation may be required if a representative is to give a view of any value, and also as not everyone was in a position to be able to access documents submitted late the night before a meeting. These views were noted by National Grid NTS.

In response to a question from RS, MW confirmed that the Terms of Reference of Review Group 0221 did not include Exit.

CS, presenting on behalf of National Grid NTS, explained the background and gave a summary of the Proposal which was similar to 0246. A short discussion ensued.

ST commented that 0195AV has changed the definitions and this suggests that it was not a wise thing to do that. He questioned whether the credit arrangements were to be revisited by another Modification Proposal or would be covered by this one.

RS thought there were issues of discrimination that disadvantaged end users; concerns in this area were raised under 0195AV but were submerged and overlaid by the bigger picture. He was not sure what the problem was that this was trying to resolve. MW said that it was fair to expect National Grid NTS to show the costs/benefits that are associated with this Modification Proposal.

SL did not feel entry was a good model for exit. In particular, while some Shippers are active at a single entry point and this had been identified as the area of highest potential risk, he did not believe Shippers were active at a single exit point. However, ST stated that Wales & West Utilities have customers who are Shippers at single Exit Points.

SL pointed out that the DNs are not a risk for the NTS, so how would it be any different for a Power Station, as these in practice are always bought up by other parties and used despite a default. Why should the DNs be treated differently because they have pipelines that were static? SL suggested that once a CCGT has been built/exists it should be treated the same as a DN and he questioned the actual risk. RS commented that all the costs would end up with Users and the end users; treating subsets of Users differently will exacerbate the problem, as they will have to secure against the risk of going bankrupt in order to obtain capacity.

Acknowledging the comments of the meeting MW agreed that a better explanation of the risks associated with different parties was required; and costs/benefits needed to be

more clearly demonstrated to enable a better understanding of what would constitute a proportionate response.

RS asked where the benefit was if costs were being forced onto the end user and not the Shipper; Shippers were already having a difficult time trying to get their customers to pick up some kind of commitment. SL suggested that National Grid NTS needed to think about impacts on parties who were not Networks. MW pointed out that care would need to be taken not to create a real incentive that would force parties into using the Ad-Hoc and not the Annual process; however JC2 thought this trend already existed.

It was asked if there was a baseline number that was trying to be secured against, and was the attempt being made to secure against what was in effect a negligible risk. The investment signal not taking place is the issue to be dealt with, and this does not help that; it just increases costs to customers and is not in their interests. It was commented that for a number of the smaller customers this was yet another piece to panic about, that may or may not happen. This may be one Proposal among many options.

MW observed that there was a need to demonstrate the risk and if this cannot be done then the Proposal needed to be reviewed and amended. SR2 did not believe it could be done in time for implementation this July, but agreed the issues needed to be flushed out and discussed so that the problems if any could be perceived more clearly. CS emphasised that this was a strawman and views would be welcome and further development considered.

It was suggested that the Proposal should also be discussed at the Gas Customer Forum.

3.2 008TR Entry Capacity

3.2.1 Trade and Transfer Annual Review

LR, presenting on behalf of National Grid NTS, brought the meeting up to date with the current position, and compared the results for Winter 08/09 with the previous Winter 07/08. The picture was agreed to be fairly positive.

DL questioned the 1:1 exchange rate. MW responded that it was due to investments made in the system to underpin the baseline at Aldborough and Easington; the baseline does not get lifted until next winter, at which time exchange rates may be different. RM asked if the 1:1 rates could not be satisfied locally the exchange rates could have increased. MW responded that it was difficult to say because of the effects of a number of factors, eg flow assumptions, sold levels, etc. DL requested that further detail be included in any further updates and MW noted this. Once National Grid NTS knows what is requested, it can assess the best rates; the results should be better than the old methodology.

MW pointed out that no changes were being proposed to the methodology statement, but if any party thought there was a need for change it should contact National Grid NTS as soon as possible, otherwise the same methodology was being put forward.

3.2.2 015TR Constraint Management – Entry Overrun Calculation

MW, presenting on behalf of National Grid NTS, explained the background to the rejected Modification Proposal 0119. In National Grid NTS' view the original issues remained unresolved and a cause for concern. A comprehensive review of overruns since July 2006 had been made and limited evidence of these situations occurring had been identified. It is difficult to address abuse of the process and if increased evidence of the problems are seen then a Modification Proposal will be brought forward. It was noted that Modification Proposal 0119 would have addressed the gaps and almost the same Modification Proposal would be brought forward should circumstances warrant it.

The meeting agreed that the Topic should be closed and National Grid NTS will continue to monitor the situation.

3.3 020TR Gas Quality

3.3.1 Ofgem Update

There was no further update.

4. Any Other Business

4.1 0195AV Clarification

A statement in the recent Ofgem Decision letter for Modification 0195AV had given rise to some confusion and POD clarified that it was 2 years from 2012, and not 2 years from 01 April 2009.

5. Diary Planning

The next Transmission Workstream will be held at 10:00 on 07 May 2009 at Elexon, 350 Euston Road, London NW1 3AW. Details of future meetings may be found on the Joint Office website at: www.gasgovernance.com/Diary).

Action Log – UNC Transmission Workstream: 02 April 2009

Action Ref	Meeting Date(s)	Minute Ref	Action	Owner	Status Update
TR 1085	03/04/08	1.2	Provide updates to the Workstream on Ofgem and BERR's progress with The Gas (Calculation of Thermal Energy) Regulations and the Gas Safety (Management) Regulations.	Ofgem (POD)	Action expanded 05/02/09 Closed
TR 1097	03/07/08	2.2.3	Ofgem to consider and report back whether they would wish to encourage the establishment of a group involving all stakeholders, both Government and industry, to look holistically at gas emergency arrangements.	Ofgem (POD)	Meeting to be confirmed Carried Forward
TR 1102	02/10/08	3.1.1	Rationalisation of Maintenance Planning Dates and Timescales - National Grid NTS to produce a revised draft Proposal for discussion at the next Workstream meeting.	National Grid NTS (RH)	Carried Forward
TR 0401	02/04/09	2.1	Modification Proposal 0246: National Grid NTS to provide further details and example scenarios to support the figures alluded to.	National Grid NTS (CS)	